Primary Energy Recycling Corporation

Initial Annual Information Form

March 30, 2006

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Primary Energy Recycling Corporation

GENERAL

The information, including any financial information, disclosed in this Annual Information Form is stated as at December 31, 2005 or for the year ended December 31, 2005, as applicable, unless otherwise indicated. Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars and references to "$", "US$" and "U.S. dollars" are to the lawful currency of the United States. References in this Annual Information Form to "we", "us" or "our" refer to Primary Energy Recycling Corporation (the "Issuer") and all of its direct or indirect subsidiaries. References to "management" in this Annual Information Form are to management of Primary Energy Ventures LLC ("Ventures" or the "Manager")

Certain statements in this Annual Information Form are "forward-looking statements", which reflect the expectations of management regarding future growth, results of operations, performance and business prospects and opportunities of the Issuer. Such forward-looking statements reflect current expectations regarding future events and operating performance and speak only as of the date of this Annual Information Form. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors". Although the forward-looking statements contained in this Annual Information Form are based upon what are believed to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. These forward-looking statements are made as of the date of this Annual Information Form and the Issuer assumes no obligation to update or revise them to reflect new events or circumstances.

CORPORATE STRUCTURE

The Issuer

The Issuer is a corporation established under the laws of Ontario on June 10, 2005 and continued under the laws of British Columbia on August 5, 2005. The registered office of the Issuer is located at Suite 1600, Cathedral Place, 925 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3L2 and the head office of the Issuer is located at Suite 3000, 79 Wellington Street West, Toronto, Ontario M5K 1N2. The registered and head office addresses of the Issuer are that of its external legal counsel and the Issuer has no employees or assets in Canada.

The Issuer holds an 83.2% interest in Primary Energy Recycling Holdings LLC ("Primary Energy") through its Class A Preferred and Class A Common Interests.

Primary Energy

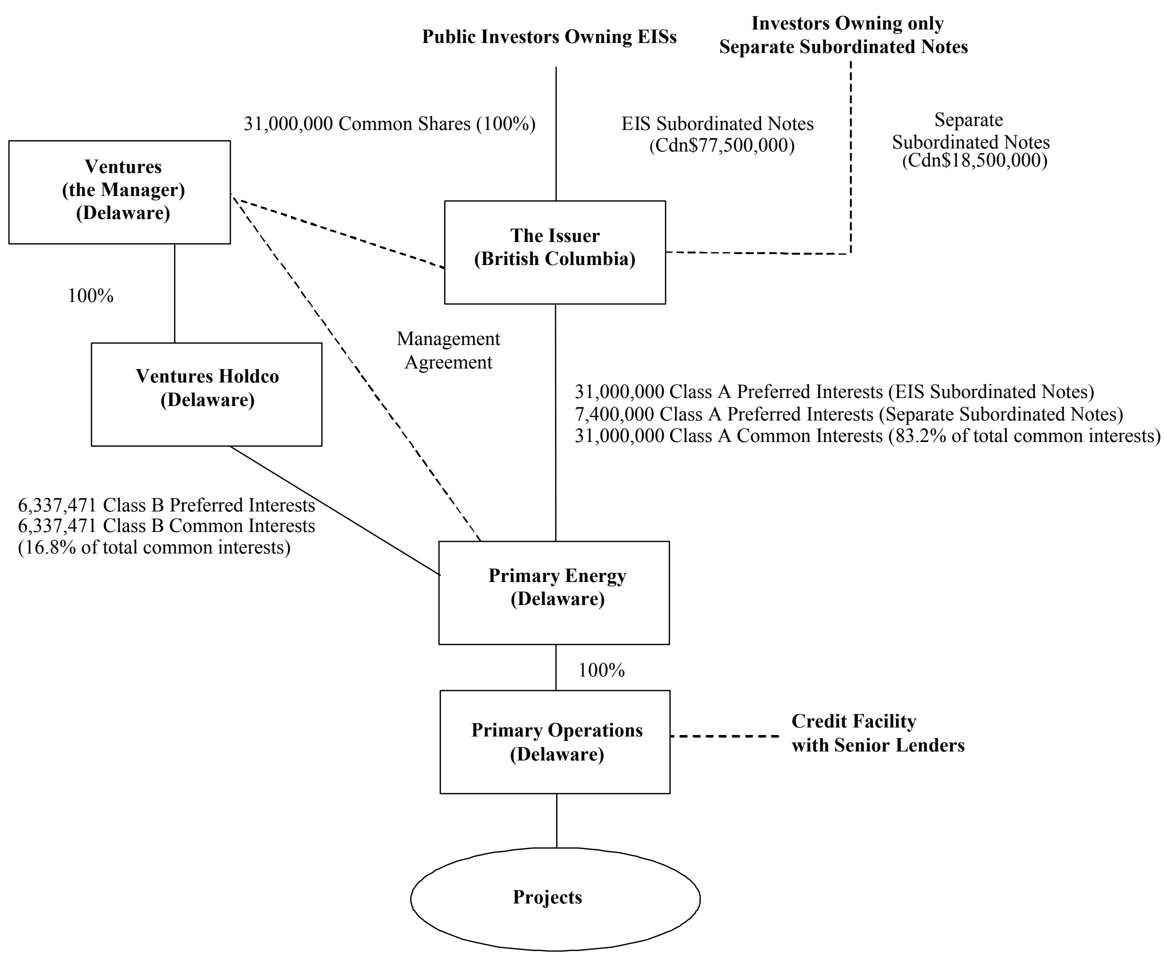
Primary Energy is a limited liability company formed under the laws of Delaware on May 23, 2005 with its registered and head office located at 2000 York Road, Suite 129, Oak Brook, Illinois 60523. Primary Energy owns 100% of Primary Energy Operations LLC ("Primary Operations"), which in turn owns, through its subsidiaries, four wholly-owned Recycled Energy Projects and a 50% interest in a pulverized coal facility (collectively, the "Projects"). Primary Operations is a limited liability company formed under the laws of Delaware on June 26, 2003 with its registered and head office located at 2000 York Road, Suite 129, Oak Brook, Illinois 60523.

Primary Energy Ventures LLC

The Manager is a limited liability company established under the laws of Delaware on December 9, 2004 with its registered and head office located at 2000 York Road, Suite 129, Oak Brook, Illinois 60523. The Manager provides management and administrative services to the Issuer, Primary Energy and their subsidiaries pursuant to the terms of a management agreement (the "Management Agreement"). The Manager manages the businesses with the objective of providing holders of EISs with stable and sustainable cash distributions in the form of interest payments on the subordinated notes of the Issuer and distributions on the common shares of the Issuer. The Manager also seeks to identify additional acquisitions and investments for the Issuer and Primary Energy including acquisitions of, or investments in, recycled energy and other energy generation assets in the United States and Canada. In this Annual Information Form, references to the beliefs and opinions of management refer to the management of Ventures.

Ventures indirectly holds, through Primary Energy Holdings LLC ("Ventures Holdco"), a 16.8% interest in Primary Energy through its Class B Preferred and Class B Common Interests.

Ownership Structure



GENERAL DEVELOPMENT OF THE BUSINESS

The Issuer completed an initial public offering (the "EIS Offering") on August 24, 2005 of 28.5 million enhanced income securities ("EISs") for net proceeds of approximately Cdn$264 million. Each EIS consists of one common share of the Issuer (the "Common Shares") and Cdn$2.50 aggregate principal amount of 11.75% subordinated notes of the Issuer (the "Subordinated Notes"). Concurrent with the closing of the EIS Offering, the Issuer issued, on a private placement basis, Cdn$18.5 million aggregate principal amount of separate 11.75% subordinated notes (the "Separate Subordinated Notes" and together with the Subordinated Notes, the "Notes") and the Issuer, through a subsidiary, entered into bank credit facilities with a syndicate of lenders initially consisting of a four-year term loan for $135 million and a three-year revolving credit facility for $15 million (the "Credit Facility", and together with the EIS Offering, the "EIS Transactions"). On September 27, 2005, the underwriters of the EIS Offering exercised an over-allotment option granted in connection with the EIS Offering. As part of the exercise of the over-allotment option, the Issuer completed a subsequent issuance of 2.5 million EISs for net proceeds of Cdn$23.7 million.

The Issuer used the net proceeds from the EIS Offering, together with the net proceeds of approximately Cdn$17.95 million from the sale of the Separate Subordinated Notes and the net proceeds of Cdn$23.7 million from the exercise of the over-allotment option, to acquire an 83.2% interest in Primary Energy. The remaining 16.8% interest in Primary Energy is indirectly held by Ventures.

In connection with the EIS Offering, the Issuer filed a Business Acquisition report dated November 7, 2005. A copy of the Business Acquisition Report can be found on SEDAR at www.sedar.com.

PRIMARY ENERGY OVERVIEW

Introduction

Primary Energy, headquartered in Oak Brook, Illinois, owns and operates, through Primary Operations, four wholly-owned Recycled Energy Projects and a 50% interest in a pulverized coal facility (collectively, the "Projects"). The Projects have a combined electrical generating capacity of 283 megawatts and a combined steam generating capacity of 1,851 Mlbs/hour. Primary Energy creates value for its customers by capturing and recycling waste energy from industrial processes and converting it into reliable and economical electricity and thermal energy for its customers' use.

Potential to Recycle Energy

Recycling waste energy streams is accomplished by Primary Energy in two ways:

- converting industrial waste energy streams into heat and power with on-site generation plants; and
- building combined heat and power ("CHP") facilities near thermal users to enable thermal energy normally wasted from the production of electric power to displace host boiler fuel.

Industrial Waste Energy Recycling

Many industrial processes produce byproduct energy streams such as (i) hot exhaust gases, (ii) flare gases and (iii) high pressure gases. Hot exhaust gases are generated by facilities such as coke ovens, glass furnaces, petroleum refineries and hot rolled steel ovens, which all have high temperature exhaust that can be converted into electricity and thermal energy. Flare gases are typically created by blast furnaces, which reduce iron ore to molten iron and produce byproduct gas that must be flared for cleanup. Finally, energy in the form of pressure drop energy is created when gases, including steam and natural gas, flow from high pressure pipes to low pressure points of use. Electric power and thermal energy can be produced by capturing and recycling these forms of waste energy produced by industrial processes.

Recycling with On-site Combined Heat & Power Plants

In a typical electric power generation plant, input fuel is used to create electricity while thermal energy (in the form of steam) is wasted in the process. Many facilities, both commercial and industrial, require a substantial amount of thermal energy for heating, cooling and other low temperature processes. By locating an electric generation plant on-site at a facility that has a significant demand for thermal energy, steam that is typically wasted can be used by the host. Such CHP facilities reduce their hosts' energy costs and reduce emissions as compared to buying power off of the grid and producing steam with boilers.

The Projects, as more fully described below, capture waste energy flows to produce useful heat and power, reducing a host's cost of energy and associated emissions.

DESCRIPTION OF THE BUSINESS

Business of the Issuer

The Issuer was established to acquire an interest in Primary Energy. The Issuer and Primary Energy do not have any ongoing business operations of their own. Primary Energy depends on the operations and assets of its wholly-owned subsidiary, Primary Operations, for cash distributions. The Issuer, in turn, depends on Primary Energy for cash distributions to satisfy the interest obligations of the Subordinated Notes and to make distributions on the Common Shares.

Business of Primary Energy

Primary Energy creates value for its customers by capturing and recycling waste energy from industrial processes and converting it into reliable and economical electricity and thermal energy for its customers' use.

Overview of the Projects

Primary Energy's Recycled Energy Projects recapture large quantities of waste energy in various forms from the steel making and coking operations of their hosts, or from the generation of electricity by their hosts, and convert the waste energy to electricity and thermal energy for use by their host steel mills. Primary Energy's other project is Harbor Coal, a coal pulverizing facility located at a steel mill in Indiana. The Harbor Coal Project purchases, dries and pulverizes raw coal and delivers the pulverized coal to its host for injection into blast furnaces for use in steel production.

The following table lists the Projects and certain key information about each Project.

Primary Energy Projects

Project Name	Location	Electric Capacity	Stream Capacity	Primary Fuel	Host	S&P Rating	% Ownership	Revenue Contact Expiration
North Lake	East Chicago, IN	75 MW	N/A	Blast Furnace Gas from Host	Mittal Steel USA Inc.	BBB/+ watch	100%	2011
Cokenergy	East Chicago, IN	95 MW	896 mlbs/hr	Waste Heat from Host	Mittal Steel USA Inc.	BBB/+ watch	100%	2013
Ironside	East Chicago, IN	50 MW	460 mlbs/hr	Blast Furnace Gas from Host	ISG Indiana (Mittal Steel)	BB/+ watch	100%	2018
Portside	Portage, IN	64 MW	495 mlbs/hr	Natural Gas	United States Steel Corporation	BB/stable	100%	2013
Harbor Coal	East Chicago, IN	N/A	N/A	N/A	Mittal Steel USA Inc.	BBB/+ watch	50%	2013

Objective and Business Strategy

Primary Energy seeks to maintain stability and sustainability of cash distributions to its investors. In order to achieve this objective, Primary Energy focuses on enhancing the financial performance of the Projects, and through the Manager, pursues additional acquisitions and investments with a focus on recycled energy.

Operating Strategy

Primary Energy's strategy is to operate and maintain its own facilities through its ownership of the Projects. The Manager's senior management team averages over 20 years of experience in the energy sector. The Manager's experience includes utility and steel operations, and project and corporate finance. By relying on its expertise, the Manager believes that it can achieve higher efficiencies and Availability than would be possible through contracting the operations to third parties. The Manager also believes that its operating strategy will better enable it to control maintenance schedules and costs. With its operating strategy, the Manager believes that the Projects will be able to provide investors with stable and sustainable cash distributions.

Major Maintenance Program

Primary Energy's facilities have maintenance programs that include scheduled inspections and periodic overhauls. Repairs and maintenance are conducted in accordance with manufacturers' recommendations and are expensed as incurred. Management has budgeted $6.4 million in overhaul expenses from 2006 until 2010. Management believes that adequate cash from operations to fund major maintenance expenditures will be available, and in addition, Primary Operations has a $15 million revolving credit facility.

Acquisition and Investment Strategy

In order to grow cash distributions to investors, Primary Energy intends to expand its operations by making additional investments and acquisitions identified by the Manager either from the Manager or from third parties with a focus on recycled energy and other power generation facilities in the United States and Canada, and such other businesses or activities as may be approved from time to time, including investments and other direct and indirect rights in other forms of energy-related projects. Primary Energy will make additional acquisitions or investments only if it believes that such acquisitions or investments will meet its acquisition and investment guidelines. Such acquisitions or investments may be financed by the issuance of additional EISs or other securities of the Issuer or through additional indebtedness.

Opportunity to Purchase ROFO Projects

The Manager has granted Primary Energy a right of first offer on all ROFO Projects which may provide near and long term, high quality acquisition opportunities. The currently existing ROFO Projects, all of which are wholly-owned by the Manager, are all recycled energy generation facilities and have the capacity to generate an aggregate of approximately 611 megawatts of electricity and approximately 1,878 Mlbs/hr of steam. The following chart lists the currently existing ROFO Projects and certain key information in respect of each. As new projects are developed or acquired by the Manager it expects to be able to present additional ROFO Projects to Primary Energy.

ROFO Project Name	Location	Electric Capacity	Steam Capacity	Primary Fuel	Customer/Product	S&P Ratings	% Ownership	Revenue Contract Expiration
Naval Station	San Diego, CA	47 MW	479 mlbs/hr	Natural Gas	San Diego Gas & Electric Company (power)	A/stable	100%	2019
					United States Navy (thermal)	AAA/stable		
North Island	San Diego, CA	40MW	440 mlbs/hr	Natural Gas	San Diego Gas & Electric Company (power)	A/stable	100%	2019
					United States Navy (thermal)	AAA/stable		
Naval Training Center	San Diego, CA	25 MW	281 mlbs/hr	Natural Gas	San Diego Gas & Electric Company (power)	A/stable	100%	2019
					United States Navy (thermal)	AAA/stable		
Oxnard	Oxnard, CA	49 MW	120 mlbs/hr	Natural Gas	Southern California Edison Company (power)	BBB+/stable	100%	2015
					Boskovitch Farms (thermal)	N/A		
Kenilworth	Kenilworth, NJ	30 MW	78 mlbs/hr	Natural Gas	Jersey Central Power & Light Company (power)	BBB-/ positive	100%	2009
					Schering Plough Corporation (power, thermal)	A-/negative		
Lakeside	Gary, IN	161 MW	N/A	Waste Heat	United States Steel (power, thermal)	BB/stable	100%	2010
Greeley	Greeley, CO	79 MW	120 mlbs/hr	Natural Gas	Public Service Company of Colorado (power)	BBB/stable	100%	2013
					University of Northern Colorado (thermal)			
Roxboro	Roxboro, NC	60 MW	140 mlbs/hr	Coal	Carolina Power & Light Company (power)	BBB	100%	2009
					Collins & Aikman (thermal)	D		
Southport	Southport, NC	120 MW	220 mlbs/hr	Coal	Carolina Power & Light Company (power)	BBB	100%	2009
					Archer Daniels Midland (thermal)	A+		

If and when Ventures decides to sell its interest in any existing or future ROFO Project, it will first provide an offer to Primary Energy in respect of such ROFO Project and follow procedures described under "Directors, Officers and Management — The Manager — Management Agreement — Right of First Offer." If the ROFO Project is not purchased by Primary Energy pursuant to such procedures, then thereafter Ventures may sell the ROFO Project (subject to any changes in form or condition, financial or otherwise, which in the reasonable opinion of Ventures are not material, taken as a whole) to any third party at a price and on terms and conditions that, taken as a whole, in the reasonable opinion of Ventures are not more favourable to the third party than those contained in the offer provided to Primary Energy.

To clarify, financial consideration is not the only criteria; Ventures would be permitted to sell to a third party at a lower price than as set out in its offer provided to Primary Energy if one or more other terms and conditions of the transaction are more attractive than those contained in such offer.

Acquisition and Investment Guidelines

The following guidelines will be used by Primary Energy in its review and evaluation of possible acquisitions and other investments either from the Manager or third parties:

- Each acquisition or investment will be made only if Primary Energy believes that the acquisition or investment will result in an increase in cash available for distribution per EIS to investors;
- In the case of an acquisition of, or investment in, existing facilities, Primary Energy will focus on energy generating facilities that are integral to their customer's operations, have good credit quality, long-term contracted revenue streams or can be improved;
- In the case of an acquisition of, or investment in, an energy generating facility, the acquisition or investment will be subject to prior due diligence and based on an independent engineers' report confirming the condition or development of the facility and the technical assumptions used in the acquisition or investment evaluation;
- In the case of an acquisition of, or investment in, an energy generating facility, the expected useful life of the facility and associated structures will, with regular maintenance and upkeep, be long enough for an investment therein to conform with Primary Energy's objective of providing stable long-term cash distributions to its investors; and
- In the case of acquisitions or investments other than an acquisition of, or investment in, an energy generating facility, Primary Energy will conduct such due diligence review and analysis as it deems necessary on a case-by-case basis.

An acquisition from, or investment in, a project sponsored by the Manager will be reviewed and approved by each of the board of directors of the Issuer and the independent members of the board of managers of Primary Energy who may hire such financial, legal or others advisors as they think necessary to assess such acquisition or investment.

Future Acquisition and Development Target Areas

Management believes that its energy recycling expertise will enable it to identify additional opportunities to capture waste energy streams and grow distributable cash flow. Industries where management believes there are opportunities include:

- primary metals;
- petroleum refining;
- chemicals;
- carbon black manufacturing;
- forest products;
- glass, lime and cement;
- pharmaceuticals;

- food processing; and
- multi-site commercial establishments.

Management intends to pursue a strategy involving the acquisition of existing facilities that are integral to the customers' operations, with long-term contracted revenue streams and which can be improved with additional electricity and thermal energy sales, operational enhancements or equipment modifications. Independent power company divestitures of assets, including Qualifying Facilities, have continued over the past several years. In addition, secondary asset sales have been undertaken, and are expected to continue, as larger assets recently acquired by principally financial investors are rationalized. Industrial owners of "inside the fence" energy projects continue to sell generating assets in order to focus their efforts and capital on core business activities. Management believes that the experience and industry relationships of its management team will enable it to provide Primary Energy with unique access to such acquisition opportunities.

Business Strengths

Predictable, Stable and Sustainable Cash Distributions from Long Term Contracts

The host mills and the Projects enjoy a mutually beneficial relationship. The Projects provide their industrial customers with a combination of thermal and electric energy, environmental services, and in the case of the Harbor Coal Project, coal pulverization services, all on competitive terms. The Projects' revenue is 100% contracted with contract expirations ranging from 2011 to 2018. In many cases, replacing the energy services provided by Primary Energy would require significant capital investments by the hosts. By providing its services, Primary Energy enables its customers to focus their capital investment on their core operations. Because of these factors, management believes that it will continue to enjoy relationships with each of the customers throughout the duration of the Projects' existing contracts and beyond.

The nature of Primary Energy's contracts contributes to the stability of its cash flows. In 2005, Primary Energy earned more than 40% of its revenue from fixed payments that are independent of production volumes. Revenue at the Recycled Energy Projects that is dependent on production volume benefits from First Dispatch Rights, meaning that the host is contractually obligated to use all of the energy produced by the Projects before purchasing electricity from another source. This revenue is also based on long-term contracted prices for electricity and thermal energy. At the Harbor Coal Project, revenue is based on the savings for the blast furnace from using pulverized coal instead of higher price fuels such as coke.

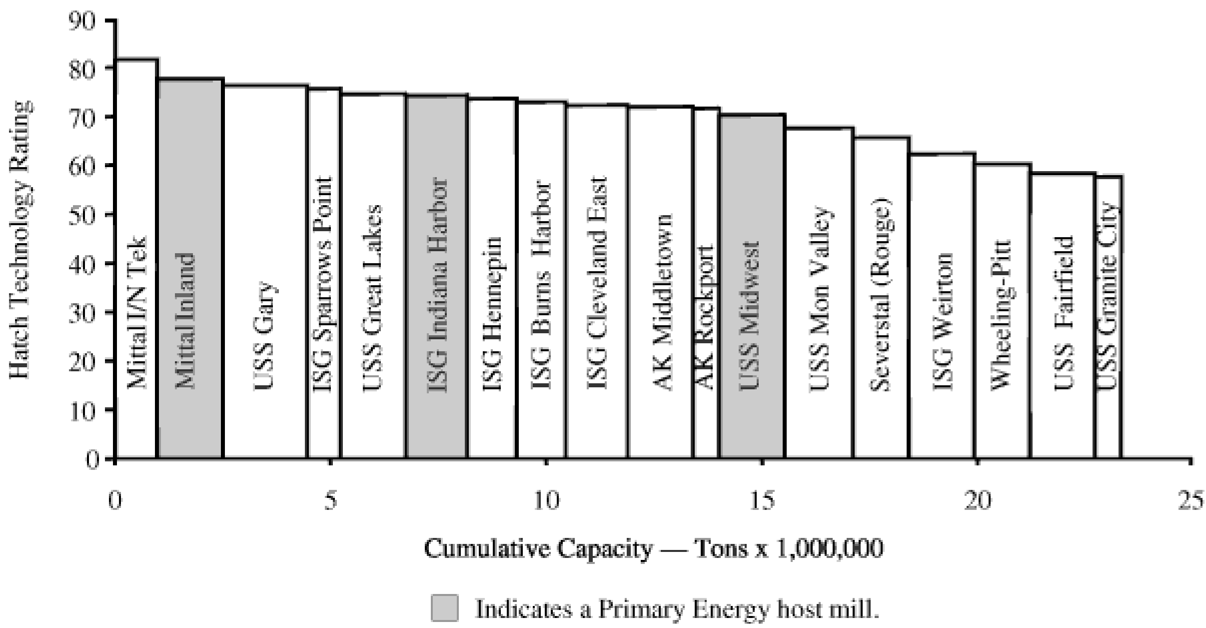
Primary Energy has minimal exposure to fluctuations in fuel prices. Three of the Projects obtain their primary fuel from their hosts' waste thermal energy streams; accordingly, there is no significant fuel price risk associated with this fuel source. The Portside Project converts natural gas purchased by its host into electricity and thermal energy.

Primary Energy's initial portfolio of five Projects is diversified. The Projects variously derive revenue from the delivery of electricity, steam, hot water and pulverized coal. The fuel sources used in generating these products include waste gas, waste heat, natural gas and coal. As such, Primary Energy's cash flows benefit from product and fuel source diversification.

Projects are Located at High Quality Mills

The U.S. Steel and Mittal steel mills at which the Projects are located, and which represent the suppliers and customers for the operations of the Projects, are important components of their respective parent companies, produce low cost, high quality steel and have close relationships with major steel customers. Primary Energy engaged Hatch Associates Consultants, Inc. ("Hatch") to prepare a due diligence examination (the "Hatch Report") in June 2005, of the host mills in connection with the EIS Transactions. As depicted in the following chart, Hatch concluded that the host mills are among the most technically advanced in the industry.

Hatch Technology Ranking System
U.S. Mills Producing Cold Rolled High Quality Products



(1) Refer to the Hatch Report, available on SEDAR at www.sedar.com for a full description of the Hatch Technology Ranking System.

The scope of Hatch's due diligence review encompassed the critical factors relating to the long term continued operation of the Projects and host steel mills over the next decade. These factors include the technological status and condition of the steel facilities at the plants in question, the specific types of facilities to which the Primary Energy assets are directly connected, the competitive cost positions of each of the mills within the United States steel industry, and the roles of the specific facilities and the host mills within the steel company owners' overall business strategies. The outlook for the market requirements for the types of products the host mills produce and the supply sources for the U.S. marketplace were examined to determine the requirements for overall production capacity for flat rolled steel and the integrated iron and steel plants which the Projects serve.

On the basis of Hatch's due diligence review and analysis and other information described in its report, Hatch formed a number of opinions in respect of the host steel mills. Hatch confirmed that the host mills are owned by the two largest U.S. integrated steel producers, Mittal Steel and U.S. Steel, each of which is financially strong and clearly committed to the steel business. Mittal Steel indirectly owns (through its subsidiary Mittal Steel USA Inc.), the plants formerly known as Mittal Inland and ISG Indiana Harbor listed in the chart above. The plant formerly known as Mittal Inland ranked as the technologically best steel plant in the United States, with the Mittal ISG Indiana Harbor plant also in the top 5. The U.S. Steel Midwest finishing plant ranked slightly above average among its competitors. All these facilities ranked in the lower half of all integrated plants from a production cost standpoint and, according to the Hatch Report, they will have productive lives beyond the terms of Primary Energy's contracts. The favourable technological and production cost rankings of the host steel mills help assure the long-term viability of the Projects.

Hatch also anticipated that steel consumption growth will be slow but will support the existing host mills and modest capacity increases. Overall, Hatch did not expect there to be major changes in the domestic supply sources of steel or import penetration in the flatrolled steel markets. The steel companies, specific plants and individual facilities which are the hosts and contractual partners to the Projects are strongly positioned in the U.S. steel business and Hatch had strong confidence in their continued operations over the lengths of the Primary Energy contracts and beyond.

Substantial Economic and Environmental Benefits Accrue to Hosts

The Recycled Energy Projects are critical to the operation of their hosts and provide significant benefits including supplying cost efficient, reliable energy streams required for their operations. To replace any of the Recycled Energy Projects would require the hosts to make significant capital investments for the purchase or construction of replacement sources of energy, as well as to acquire the engineering and operational expertise necessary to construct and operate the Projects in the safest, most economical manner possible. Since the Recycled Energy Projects primarily utilize waste energy from their hosts at zero cost, they produce energy at a cost well below the marginal price of energy from other sources and generate significant cost savings for their hosts.

While certain hosts benefit to a greater extent than others, Management believes that all of the Projects create substantial value for the host companies. Based on Management's best estimate, the host benefits for 2005 amounted to approximately $40 million in the aggregate. These benefits include (i) the difference between the low and fixed rates the hosts pay for electricity from the Projects and the much higher costs of acquiring that power from the local utility, (ii) the avoided boiler fuel that would have been required by the hosts to generate steam supplied by the Projects, (iii) avoided capital and operating costs to install and operate thermal generating equipment and (iv) other ancillary benefits.

The services provided by the Recycled Energy Projects also result in environmental benefits, for which the hosts enjoy significant recognition. Three of the Recycled Energy Projects capture waste energy from industrial processes and convert it into useable forms of electricity and thermal energy, resulting in a more efficient use of the original fuel inputs. The Portside Project uses natural gas as fuel and captures its own waste energy and converts it into additional electricity and thermal energy, resulting in additional fuel efficiency. The Cokenergy Project provides additional environmental benefits through the removal of sulfur dioxide and particulate matter from the exhaust steam of an adjacent coke production facility and is the first non-recovery coke making process with integrated electric, steam and flue gas cleanup.

The added efficiency and environmental benefits of the Recycled Energy Projects have been recognized in the form of awards from a variety of sources. Specifically, the USEPA and the U.S. Department of Energy awarded the Portside Project its ENERGY STAR(R) Combined Heat and Power award. The Portside, Cokenergy and North Lake Projects have all received the Governor of Indiana's award for excellence in Pollution Prevention.

Projects Utilize Reliable, Proven Technology

The Projects utilize reliable and proven technology from recognized equipment providers to deliver energy services to their hosts. The Ironside, North Lake and Cokenergy Projects use steam driven turbine technology that has been in use in the electricity generation industry for over 100 years. Similar to hydro-electric generation technology, when properly maintained, steam turbines have an operating life of over fifty years. Given the durability of steam technology and the free waste fuel sources, Management believes these Projects have the ability to operate profitably well beyond their existing contracts. The Portside Project's natural gas turbine is a conventional GE 6B that is in wide use throughout North America. To produce pulverized coal, the Harbor Coal Project utilizes two proven technology coal pulverizers that are common in the steel and coal power industries and have historically operated without significant issues. As a result of their straightforward technology and management's operating experience, the Recycled Energy Projects have demonstrated a strong reliability track record, having averaged 95% Availability over the past five years.

Substantial Opportunities to Grow Distributable Cash

Opportunity to Purchase ROFO Projects

Primary Energy has been granted a right of first offer on the ROFO Projects which may provide Primary Energy with near term, high quality acquisition opportunities. The existing ROFO Projects, currently wholly-owned by the Manager, are all recycled energy generation facilities and have the capacity to generate approximately 611 megawatts of electricity and approximately 1,878 Mlbs/hr of steam.

Significant Opportunities for Recycled Energy

Management believes there are significant opportunities to profitably recycle energy. A 2004 study commissioned by the USEPA entitled: "Clean Energy Technologies: A Preliminary Inventory of the Potential for Electrical Generation" identified waste energy streams from nineteen industries that have the technical potential to generate 95,696 megawatts of electric generating capacity, saving 19.4% of 2002 electricity consumption in the United States. Management believes that there are only a few specialized companies focused on harnessing this energy. As a result, these industrial waste energy streams have remained largely untapped.

Management also believes that there are significant opportunities to install or acquire CHP facilities near thermal energy users and capture normally wasted heat to displace boiler fuel. The World Alliance for Decentralized Energy's "World Survey of Decentralized Energy for 2005" indicates that in 2005, 7.2% of worldwide generating capacity is expected to be from CHP facilities. Worldwide CHP generation capacity increased by 32,000 megawatts in a two year period from 2003 to 2005, raising the total installed CHP generation capacity to 282,000 megawatts.

Experienced Management Team

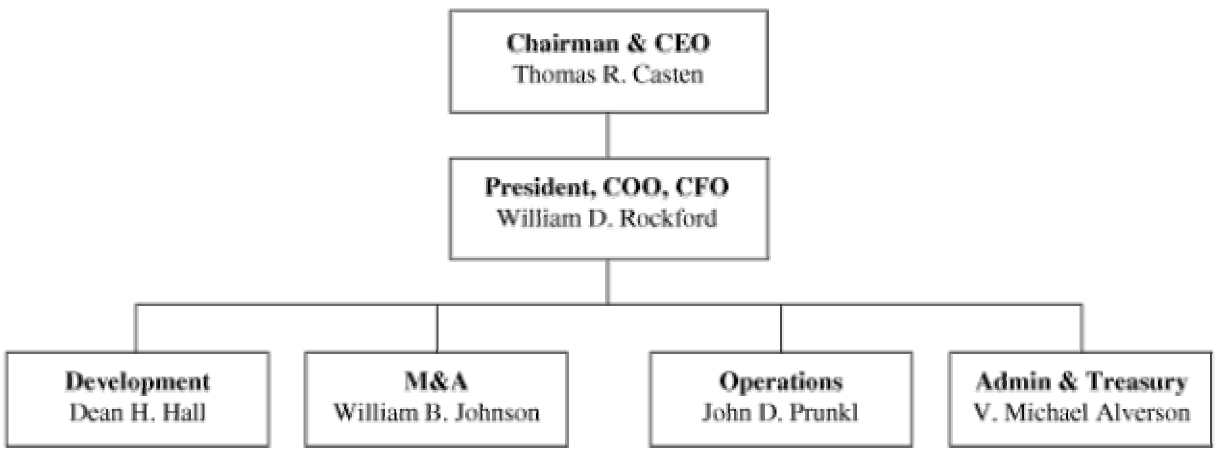
Ventures' management team has deep experience in energy project development and corporate finance, utility, and steel operations. Primary Energy takes a very active role as a hands-on operator of the facilities that it owns. Ventures' senior executives have an average of over 20 years of experience in the energy sector. Thomas Casten, Chairman and CEO, has over 30 years of power generation experience through Cummins Cogeneration Company and as founder and CEO of Trigen Energy Corporation, a NYSE listed company. William Rockford, President, CFO and COO, serves on the board of directors for TECO Energy Inc., and has 28 years of corporate finance experience including heading the Global Power, Project Finance and Environmental Group at The Chase Manhattan Bank for 15 years.

Ventures has an internal mergers, acquisitions and development team, including necessary technical, commercial and legal expertise. On October 20, 2003, this team purchased the Recycled Energy Projects, the Harbor Coal Project and Lakeside from a major regulated utility. On December 31, 2004 it acquired Naval Station, North Island, Naval Training Centre, Oxnard, Kenilworth and Greeley from a private equity firm. On July 18, 2005, it acquired Roxboro and Southport from Cogentrix Energy Inc.

Ventures has a rigorous initial screening process, ranking each opportunity based on financial, contractual and operational criteria. The overall process assures thorough review and input from the entire organization. A dedicated transition team is assigned early in the process to assure proper assimilation of new employees and energy assets.

Mr. Casten and Mr. Rockford are supported by a team of four senior managers working in the areas of Development, Mergers & Acquisitions, Operations, and Administration & Treasury, as depicted in the following organizational chart, along with over twenty other employees:

Ventures Management Team



OVERVIEW OF THE PROJECTS

North Lake

The North Lake Project consists of a 75 megawatt steam turbine generator located within an industrial cogeneration facility at its host, Mittal Steel USA's facility in East Chicago, Indiana.

The North Lake steam turbine generator receives steam that is produced by Mittal boilers with off gas from blast furnace #7. North Lake's turbine-generator then converts this steam to electricity for Mittal's operations. North Lake's services are provided to Mittal pursuant to a long-term Agreement under which North Lake is paid a fee for converting the steam to electricity.

North Lake performed a major overhaul on its turbine during the reline of blast furnace No. 7 in the fall of 2003. North Lake is responsible for performing major maintenance of the Project. Mittal operators monitor the operation of the North Lake steam turbine.

Cokenergy

The Cokenergy Project consists of sixteen heat recovery steam generators ("HRSGs"), one 95 megawatt GE extraction/condensing steam turbine generator, a cooling tower, flue gas treatment system and ancillary equipment located adjacent to four coke batteries owned and operated by the Indiana Harbor Coke Company. Both Cokenergy and the coke batteries are within Mittal Steel USA's East Chicago, Indiana facility.

Cokenergy's HRSGs receive all of the hot exhaust from 268 coking ovens and produce steam that powers Cokenergy's extraction steam turbine generator, producing electricity and process steam for

Mittal. Cokenergy has an electric generating capacity of 95 megawatts and provides a substantial portion of the electric and process steam needs of Mittal's facility.

The Cokenergy Project is driven by the capture of waste heat from coking operations, and its conversion to useful electric and thermal energy with no supplementary firing. Primary Energy operates the Cokenergy facility. Cokenergy was scheduled for a major overhaul in 2005 but the results of analysis of the turbine at the facility were positive and the overhaul was instead conducted in the first quarter of 2006. The overhaul of Cokenergy required an 18-day outage at the facility.

Ironside

The Ironside Project consists of a boiler and 50 megawatt steam turbine generator located at its host, Mittal's ISG Indiana Harbor facility in East Chicago, Indiana. The plant was commissioned in late 2003.

The Ironside boiler produces steam by burning blast furnace gas rejected from the integrated steel mill. Ironside's condensing steam turbine generator then converts a portion of this steam to electricity and provides it to Mittal's operations. The Ironside facility is interconnected with other boilers and steam turbines on site to assure reliability of its host's power and thermal system. Mittal is responsible for all operations and maintenance of the Ironside Project, provides all water and other utilities and services required by the Ironside Project and is responsible for all of its own backup power requirements.

Pursuant to a lease agreement between Ironside and ISG dated September 29, 2003 (the "Ironside Lease"), ISG has an option to purchase the Ironside Project at a purchase price equal to the greater of a price calculated under a formula prescribed in the Ironside Lease or fair market value (the "Purchase Option"). The Purchase Option may be exercised by ISG (i) during the first five years of the term of the Ironside Lease, once per year on the anniversary of the lease commencement date upon 30 days prior notice by ISG; and (ii) following the first five years of the term of the Ironside Lease, at any time upon 30 days prior notice by ISG.

Portside

The Portside Project is a 64 megawatt natural gas fired combined-cycle generating facility located at U.S. Steel's Midwest Finishing Mill in Portage, Indiana. Pursuant to a ground lease U.S. Steel leased the land located in Portage, Indiana to Portside for the purposes of supplying electricity and thermal energy from the natural gas supplied to the facility by U.S. Steel Corporation. Portside produces steam, hot softened water and electricity for delivery to U.S. Steel, pursuant to a long-term Tolling Agreement. Portside's plant includes a 44 megawatt General Electric gas turbine-generator, a once-through heat recovery steam generator and a 19 megawatt back pressure and extraction steam turbine generator set. Two auxiliary boilers provide steam during periods of peak usage or when the gas turbine is not in use.

Portside provides 100% of the thermal energy and a substantial portion of the electricity its host requires. The natural gas and propane fuel required by Portside for its energy production is supplied at no cost by U.S. Steel. Portside must convert the fuel to electricity and useful thermal energy at a heat rate that is at or below agreed levels. U.S. Steel is responsible for supplying or purchasing all of its own backup power in the event the Project is not operating or is dispatched at reduced levels.

Primary Energy is responsible for all operations and maintenance of the Portside project.

Harbor Coal

The Harbor Coal Project is a coal pulverization facility that provides pulverized coal for injection into all three of Mittal Steel USA's Ispat Inland blast furnaces in East Chicago, Indiana. Pursuant to a long-term ground lease and related documentation, Mittal indirectly leases a parcel of land to PCI Associates. The Harbor Coal Project consists of coal pulverization equipment, pneumatic conveyors to Mittal's blast furnace No. 7, three specialized trucks to deliver coal to other blast furnaces, two silos designed to store pulverized coal and two silos for raw coal storage. The facility has been in operation since 1993.

Harbor Coal is wholly owned by Primary Energy and in turn owns a 50% interest in PCI Associates. PCI Associates is an Indiana general partnership formed between Harbor Coal and III/PCI Inc., which is 100% beneficially owned by Mittal. PCI Associates is the owner of the coal pulverization facility. The PCI Associates partnership agreement lists certain actions requiring approval of both partners, default rights and capital contribution rights. The partnership terminates on (i) an election by Harbor Coal to terminate, (ii) the bankruptcy of either partner, (iii) an event of default and the other party elects to terminate, or (iv) the 30th anniversary of the commercial operation date, if the partnership does not renew or repurchase the lease on its expiration. A management committee comprised of two individuals from each partner is provided for in the partnership agreement, which must approve certain decisions unanimously.

The facility pulverizes coal and dries the coal with waste heat from the blast furnace operations. The blast furnace is able to inject pulverized coal to replace more expensive coke, natural gas and oil in making hot metal. Harbor Coal is paid for its services by Mittal based on reductions in specific injectant usage realized by Mittal. Mittal provides operations and maintenance services to Harbor Coal and operates the facility.

THE ISSUER

Share Capital of the Issuer

The authorized share capital of the Issuer consists of an unlimited number of Common Shares. All of the issued and outstanding Common Shares are represented by the EISs sold pursuant to the EIS Offering.

Holders of Common Shares are entitled to receive distributions as and when declared by the board of directors and are entitled to one vote per Common Share on all matters to be voted on at all meetings of shareholders. Upon the voluntary or involuntary liquidation, dissolution or winding-up of the Issuer, the holders of Common Shares are entitled to share ratably in the remaining assets available for distribution, after payment of liabilities.

The Issuer also has issued and outstanding EISs (see "— Description of EISs") and Subordinated Notes (see "— Description of Subordinated Notes").

Limitations on ERISA Plan Ownership

To avoid having the Issuer become subject to the fiduciary and prohibited transaction provisions of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code") or similar law, at no time may the EISs, Subordinated Notes or Common Shares be beneficially owned by any "ERISA Plan" (which term is defined in the "Glossary of Terms" and which also includes plans subject to such statutory provisions, entities that, by regulation, are deemed to hold assets of such plans, and governmental plans organized in a jurisdiction within the United States that are subject to laws that are substantially similar to the foregoing statutory provisions). Any transferee of beneficial ownership of EISs, Subordinated Notes or Common Shares (whether by initial purchase or subsequent transfer) will be deemed to represent to the Issuer that it is not an ERISA Plan. Any purported transfer (whether or not the result of a transaction entered into through the facilities of the Toronto Stock Exchange) that, if effective, would result in any ERISA Plan beneficially owning any EISs, Subordinated Notes or Common Shares will be void from the date of the purported transfer, and the ERISA Plan that pursuant thereto would purport to have beneficial ownership of the EISs, Subordinated Notes or Common Shares will not acquire any interest in the EISs, Subordinated Notes or Common Shares. The Issuer may require any person who attempts to acquire EISs, Subordinated Notes or Common Shares or who otherwise is purported to beneficially own EISs, Subordinated Notes or Common Shares, to provide a written statement or affidavit to the Issuer stating such information as the Issuer may request in order to determine whether such person is an ERISA Plan or not.

The Indenture contains substantively identical provisions concerning prohibitions on ERISA Plan ownership of the Subordinated Notes as described above.

Limitation on U.S. Resident Ownership

The articles of incorporation of the Issuer provide that at no time may more than 100 persons resident in the U.S. (as determined by the Issuer) be the beneficial owners of the Issuer's securities, nor may any person resident in the U.S. be the beneficial owner of more than 10% of the EISs, the Subordinated Notes or the Common Shares. The Issuer may require declarations as to the jurisdictions in which beneficial owners of the Issuer's securities are resident. If the Issuer becomes aware that either of the foregoing limitations may be contravened, the transfer agent and registrar of the Issuer will make a public announcement and will not accept a subscription for the Issuer's securities from or issue or register a transfer of the Issuer's securities to a person unless the person provides a declaration that the person is not a person resident in the U.S. If, notwithstanding the foregoing, the Issuer determines that more than 100 persons resident in the U.S. are beneficial owners of any class of the Issuer's securities (on either a non-diluted or fully-diluted basis), the Issuer may send a notice to the U.S. holders of such securities, chosen in inverse order to the order of acquisition or registration or in any manner as the Issuer may consider equitable and practicable, requiring them to sell their securities or a portion of their securities within a specified period of not less than 10 days. If the holders of the Issuer's securities receiving the notice have not sold the specified number of securities, or provided the Issuer with satisfactory evidence that they are not persons resident in the U.S. within that period, the Issuer may, on behalf of those holders of the Issuer's securities, sell those securities, and, in the interim, will suspend the voting and distribution rights attached to those securities. Upon that sale, the affected holders will cease to be holders of the securities, and their rights will be limited to receiving the net proceeds of the sale.

Limitation on Ownership by Electric Utilities and Others

The Projects include Qualifying Facilities under the United States Federal Energy Regulatory Commission's ("FERC") rules implementing the United States Public Utility Regulatory Policies Act of 1978, as amended ("PURPA"), and may in the future include EWGs under the *Public Utility Holding Company Act of 2005* ("PUHCA 2005") with market-based rate authority from the FERC pursuant to the *Federal Power Act* ("FPA"). Ownership of the Issuer must be restricted in order to provide the Qualifying Facilities with the greatest freedom from regulation and ensure that the Projects with market-based rate authority continue to qualify for such authority. Such restrictions generally relate to owners and operators of U.S. electric utilities or electric utility holding companies and their subsidiaries, to owners and operators of certain utility facilities, and to the affiliates of any of them. As a result, the articles of incorporation of the Issuer provide that no U.S. entity may own or hold with the power to vote 10% or more of the EISs or Common Shares, or may otherwise exercise control over the Issuer. In addition, should any entity wish to own or hold with the power to vote 5% but less than 10% of the EISs or Common Shares, and should the Issuer agree to permit such ownership or holding, that entity must cooperate with the Issuer and provide information necessary to make any filings with and secure any authorizations or approvals that may be necessary or convenient to the Issuer under applicable laws and regulations. Further, the articles of incorporation of the Issuer provide that no person may own or hold with the power to vote EISs or Common Shares if such person: (i) is a "public-utility company" or a "holding company" or an "associate company", "affiliate" or "subsidiary company" of a "holding company" as each term is defined in section 2(a) of the Public Utility Holding Company Act of 1935; (ii) is subject to regulation under PUHCA 2005; (iii) is subject to regulation as a "public utility" under the FPA; (iv) is subject to regulation with respect to rates or to financial or organizational matters as an electric utility, public utility, or public service company or corporation under the laws of any state or the District of Columbia, or (v) if such ownership or holding would adversely affect the Projects' eligibility for Qualifying Facility status under FERC's rules implementing PURPA, compliance of the Issuer and the Projects with all orders issued by the FERC with respect to any of the Projects, or any Project's qualification for authority under the FPA to sell power at market-based rates. Determination of such potential adverse effects is at the sole discretion of the Issuer, and the Issuer may at its discretion elect to enforce any or all of the restrictions set forth above. If the Issuer becomes aware that any of the foregoing restrictions may be contravened, the Issuer (the transfer agent and registrar of the Issuer) will make a public announcement and will not to accept a subscription for EISs or Common Shares from or issue or register a transfer of EISs or Common Shares to a person until and unless the Issuer determines to its satisfaction that such restrictions will not be contravened. If, notwithstanding the foregoing, the Issuer determines that any of the foregoing restrictions may be contravened by a particular owner or holder of EISs or Common Shares, the Issuer may send a notice to such owner or holder requiring it to sell or otherwise transfer its EISs or Common Shares within a specified period unless before the expiration of such period the owner or holder satisfies the Issuer that such ownership or holding does not contravene such restrictions. If the EISs or Common Shares are not timely sold or otherwise transferred and the Issuer has not been satisfied that the foregoing restrictions are not contravened, the Issuer may, on behalf of that owner of EISs or Common Shares, sell those EISs or Common Shares, and, in the interim, will suspend the voting and distribution rights attached to those EISs or Common Shares. Upon that sale, the affected owner will cease to be an owner of the EISs or the Common Shares, as applicable, and its rights will be limited to receiving the net proceeds of the sale.

Administration

The Issuer has no executive officers and has engaged the Manager to provide certain services pursuant to the Management Agreement. Under the Management Agreement, the Manager, if requested by the Issuer: (i) assists the Issuer in complying with its continuous disclosure obligations under applicable securities legislation; (ii) provides or causes to be provided to holders of securities of the Issuer, all information to which they are entitled under the constating documents of the Issuer and the Indenture and applicable laws; (iii) monitors compliance of the Issuer with applicable tax laws; (iv) provides for the calculation of interest payments and distributions to holders of EISs and the Separate Subordinated Notes; and (v) assists in the preparation, planning and coordination of meetings of the board of directors of the Issuer and the holders of Common Shares. The Issuer may directly retain professionals and other service providers from time to time to provide advice and other administrative services directly to the Issuer. See "Directors, Officers and Management — The Manager — Management Agreement".

Description of EISs

As of December 31, 2005, there were 31,000,000 EISs issued and outstanding. Each EIS represents:

- one Common Share, subject to adjustment in the event of any stock split, recombination or reclassification; and

- Cdn$2.50 aggregate principal amount of Subordinated Notes.

The ratio of Common Shares to principal amount of Subordinated Notes represented by an EIS is subject to change in the event of a stock split, recombination or reclassification, or upon a partial redemption or repurchase of the Subordinated Notes.

The EISs are available in book-entry form only. See "— Book-Entry Settlement and Clearance".

Voluntary Separation and Recombination

At any time after the 45th day following the date of the original issuance or upon the occurrence of a change of control of the Issuer, Primary Energy or Primary Operations or an asset sale by the Issuer or Primary Energy, holders of EISs may separate their EISs into the Common Shares and Subordinated Notes represented thereby through their broker or other financial institution. Similarly, any holder of Common Shares and Subordinated Notes may, at any time, recombine the applicable number of Common Shares and principal amount of Subordinated Notes to form EISs through their broker or other financial institution. See "— Book-Entry Settlement and Clearance" below for more information on the method by which delivery and surrender of EISs and delivery of Common Shares and Subordinated Notes will be effected.

Automatic Separation

Upon the occurrence of any of the following, the EISs will automatically separate into the Common Shares and Subordinated Notes represented thereby:

- exercise by the Issuer of its right to redeem all or a portion of the Subordinated Notes which may be represented by EISs at the time of such redemption;
- the date on which the outstanding principal amount of the Subordinated Notes becomes due and payable, whether at the stated maturity date or upon acceleration thereof; or
- if CDS is unwilling or unable to continue as securities depository with respect to the EISs and the Issuer is unable to find a successor depository.

Book-Entry Settlement and Clearance

General

CDS acts as securities depository for the EISs, the Subordinated Notes and the Common Shares represented by the EISs, which are referred to collectively as the "Securities". The EISs and the Subordinated Notes and the Common Shares represented by the EISs are represented by one or more global notes and global stock certificates. The global notes and global stock certificates are issued as fully-registered in book-entry only form in the name of CDS or its nominee, CDS & Co. If an investor intends to purchase EISs or Subordinated Notes sold separately, the investor must do so through direct and indirect CDS participants. The participant through which a purchase is made receives a credit for the applicable number of EISs on CDS's records. The ownership interest of each actual purchaser of the applicable security, referred to as a "beneficial owner", is recorded on the participant's records. Beneficial owners do not receive written confirmation from CDS of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the CDS participant through which the beneficial owner entered into the transaction.

All interests in the Securities are subject to the operations and procedures of CDS. The following is a summary of those operations and is provided by the Issuer solely for convenience. The operations and procedures of each settlement system may be changed at any time. The Issuer is not responsible for those operations and procedures.

To facilitate subsequent transfers, all Securities deposited by direct CDS participants are registered in the name of CDS. The deposit of Securities with CDS and their registration in the name of CDS effect no change in beneficial ownership. CDS has no knowledge of the actual beneficial owners of the Securities. CDS's records reflect only the identity of the direct CDS participants to whose accounts such Securities are credited, which may or may not be the beneficial owners. The CDS participants remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of ownership interests in the Securities are effected by entries made on the books of the CDS participants acting on behalf of beneficial owners. Beneficial owners of Securities do not receive certificates representing their ownership interests in the applicable Security except in the event that use of the book-entry only system for the Securities is discontinued.

Conveyance of notices and other communications by CDS to direct participants, by direct participants to indirect CDS participants, and by CDS participants to beneficial owners are governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. CDS does not consent or vote with respect to the Securities. Under its usual procedures, CDS mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns CDS' consent or voting rights to those direct participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the omnibus proxy).

The Issuer and the trustee under the Indenture (defined below) make any payments on the Common Shares and Subordinated Notes to CDS. CDS's practice is to credit direct CDS participants' accounts on the payment date in accordance with their respective holdings shown on CDS's records unless CDS has reason to believe that it will not receive payment on the payment date. Payments by CDS participants to beneficial owners are governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and are the responsibility of such participant and not of CDS, the Issuer or the trustee, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Issuer and the trustee under the Indenture are responsible for the payment of all amounts to CDS. CDS is responsible for the disbursement of those payments to its participants, and the participants are responsible for disbursements of those payments to beneficial owners.

CDS may discontinue providing its service as securities depository with respect to the EISs, the Common Shares or the Subordinated Notes at any time by giving reasonable notice to the Issuer and the trustee under the Indenture. If CDS discontinues providing its service as securities depository with respect to the EISs and the Issuer is unable to obtain a successor securities depository, the beneficial owners will automatically take a position in the Common Shares and Subordinated Notes represented by the EISs and the Issuer will print and deliver certificates representing Common Shares and Subordinated Notes to the beneficial owners or their nominees.

The Issuer has the option of discontinuing the registration of any of the Securities through the book-entry only system at any time. In the event that the Issuer decides to discontinue use of the system of book-entry only system for any of the Securities, the Issuer will print and deliver certificates for the Common Shares and Subordinated Notes to the beneficial owners or their nominees.

The information in this section concerning CDS and CDS' book-entry only system has been obtained from sources that Ventures believes to be reliable, including CDS, but the Issuer takes no responsibility for its accuracy.

Neither the Issuer nor any trustee will have any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to:

- the accuracy of the records of CDS, its nominee, or any participant, as to any ownership interest in the Securities; or
- any payments to, or the providing of notice to, participants or beneficial owners.

Separation and Recombination

Any voluntary or automatic separation of EISs, and any subsequent recombination of EISs from Subordinated Notes and Common Shares, are accomplished by entries made by the CDS participants on behalf of beneficial owners. In any such case, the participant's account through which a separation or recombination is effected are credited and debited for the applicable securities on CDS's records.

Procedures Relating to Subsequent Issuances

The Indenture (defined below) and the agreements with CDS provide that, in the event there is a subsequent issuance of Subordinated Notes, the terms of the newly issued Subordinated Notes (including interest and maturity) will be identical in all material respects to the previously issued Subordinated Notes and all such Subordinated Notes will be traded under the same CUSIP number. Any such subsequently issued Subordinated Notes may be issued at a discount or premium to the stated principal amount.

Ownership Restrictions

There are ownership restrictions on the EISs. See "— Limitations on ERISA Plan Ownership", "— Limitation on U.S. Resident Ownership" and "— Limitation on Ownership by Electric Utilities and Others".

Description of Subordinated Notes

As of December 31, 2005, Cdn$96 million principal amount of Subordinated Notes (including Separate Subordinated Notes) were outstanding. Of these, Cdn$77.5 million principal amount of Subordinated Notes were issued as part of the EISs and the remaining Cdn$18.5 million represent the Separate Subordinated Notes.

The Subordinated Notes have been issued under a trust indenture (the "Indenture") dated August 24, 2005 among the Issuer, Primary Energy, as Guarantor, and the other guarantors party thereto, and Computershare Trust Company of Canada, as trustee (the "Trustee"). The following summary of certain provisions of the Indenture is subject to, and is qualified in its entirety by reference to, all the provisions of the Indenture. A copy of the Indenture is available on SEDAR at www.sedar.com.

Rating of EISs and Subordinated Notes

DBRS has adapted its income funds rating methodology in order to assign stability ratings to EISs. DBRS has assigned a preliminary stability rating of STA-3(low) to the EISs of the Issuer. Similar to units of income funds rated STA-3(low), EISs rated STA-3(low) are considered by DBRS to have good stability and sustainability of distributions per EIS. Ratings categories range from STA-1 to STA-7, with STA-1 being the highest. Ratings take into consideration the following seven main factors: (1) operating and industry characteristics, (2) asset quality, (3) financial flexibility, (4) diversification, (5) size and market position, (6) sponsorship/governance, and (7) growth. A rating is not a recommendation to buy, sell or hold any security and may be subject to revision or withdrawal at any time by DBRS. DBRS stability ratings do not take such factors as pricing or stock market risk into consideration.

In connection with the EIS Offering, DBRS assigned a preliminary rating of BB to the Subordinated Notes. This is a one-time rating that will not be monitored or maintained by DBRS on a going forward basis after the date of the Issuer's prospectus filed in connection with the EIS Offering. This rating is based on a long-term debt rating scale developed by DBRS. Debt rated as BB is defined by DBRS as follows: speculative and non investment-grade, where the degree of protection afforded interest and principle is uncertain, particularly during periods of economic recession. Entities in the BB range typically have limited access to capital markets and additional liquidity support. In many cases, deficiencies in critical mass, diversification, and competitive strength are additional negative considerations.

Market

The Subordinated Notes are registered in book-entry only form. The Subordinated Notes are not and will not be listed or traded on any exchange or market and therefore the holders may not be able to resell them.

Maturity

The Subordinated Notes will mature 12 years after the date of issuance. On maturity, the Issuer will repay the indebtedness represented by the Subordinated Notes by paying the Trustee, on behalf of the Holders, in lawful money of Canada, an amount equal to the principal amount of the outstanding Subordinated Notes, together with accrued and unpaid interest.

Principal Repayment

The Subordinated Notes provide for the payment of interest only until the end of term of the Subordinated Notes, at which time the principal balance will be payable by the Issuer.

Interest

The Subordinated Notes bear interest at a rate per annum of 11.75%. Interest is payable monthly in arrears, in lawful money of Canada, less any tax required to be withheld, on the last day of each month (or the next Business Day, if such day is not a Business Day) to holders of record at the close of business on the last Business Day of the preceding month.

Interest Deferral

Under certain circumstances, prior to August 24, 2010, the Issuer is permitted, at its election, to defer interest payments on the Subordinated Notes for a certain period of time. Any period during which interest payments have been so deferred is referred to as an "Interest Deferral Period". Interest payments on the Subordinated Notes will not be deferred as described above for more than 24 months in the aggregate or beyond August 24, 2010.

In addition, after August 24, 2010, the Issuer may, at its election, defer interest payments on the Subordinated Notes on not more than eight occasions for not more than eight months per occasion but in any event not more than 24 months in the aggregate. No Interest Deferral Period may commence unless and until all interest deferred pursuant to any preceding Interest Deferral Period, together with interest thereon, has been paid in full.

Additional Amounts For U.S. Withholding Tax

All amounts paid or credited by the Issuer under or with respect to the Subordinated Notes or by any Guarantor under or in respect of its Guarantee should be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other government charge (including penalties, interest and any other liabilities or expenses related thereto) imposed or levied by or on behalf of the government of the United States or any government of any political subdivision, state or territory of the United States or any authority or agency therein or thereof having power to tax (hereinafter, "Taxes"), unless the Issuer or such Guarantor is required to withhold or deduct any amount for or on account of Taxes by law or by interpretation or administration of law. If the Issuer or any Guarantor is required to withhold or deduct any amount for or on account of Taxes from any amounts paid or credited under or with respect to the Subordinated Notes or the Guarantees of the Subordinated Notes, the Issuer or such Guarantor will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by each owner of Subordinated Notes (an "owner" for purposes of this "Additional Amounts for U.S. Withholding Tax" section) including Additional Amounts, after such withholding or deduction (including any withholding or deduction in respect of Additional Amounts) is not less than the amount the owner would have received if such Taxes had not been withheld or deducted; provided that Additional Amounts will only be payable with respect to the payment of such interest to a Non-U.S. Holder if:

- interest paid on the Subordinated Notes is not effectively connected with such Non-U.S. Holder's conduct of a trade or business in the United States ("ECI Income"),
- such Non-U.S. Holder does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of Primary Energy entitled to vote within the meaning of section 871(h)(3) of the Code and the regulations thereunder,
- such Non-U.S. Holder is not a controlled foreign corporation that is related to Primary Energy through stock ownership,
- such Non-U.S. Holder is not a bank whose receipt of interest on the Subordinated Notes is described in section 881(c)(3)(A) of the Code, and

the Non-U.S. Holder satisfies certain documentation requirements (generally as described under " Documentation Requirements" below).

The Issuer and any Guarantors also will:

(a) make such withholding or deduction; and

(b) remit the full amount deducted or withheld to the relevant authority;

in accordance with and in the time required under applicable law.

The Issuer and any Guarantors will furnish to the holders of the Subordinated Notes that are outstanding on the date of the withholding or deduction, within 30 days after the date of the payment of any taxes due under applicable law, certified copies of tax receipts or other documentation evidencing such payment by the Issuer or such Guarantor.

At least 30 days or as soon as otherwise practicable prior to each date on which any payment under or with respect to the Subordinated Notes is due and payable, in respect of which the Issuer or any Guarantor will be obligated to pay Additional Amounts, the Issuer or such Guarantor will deliver to the Trustee an officers' certificate stating the fact that such Additional Amounts will be payable and specifying the amounts so payable and will set forth such other information necessary to enable the Trustee to pay such

Additional Amounts to holders of notes or beneficial owners on the payment date. The Trustee may rely on such officer's certificate and shall not be liable for any loss, liability, claim, damage or expense arising from relying on such officer's certificate. Whenever in the Indenture or in this Annual Information Form there is mentioned, in any context, principal, premium, if any, interest or any other amount payable under or with respect to any Subordinated Note, such mention will be considered to include the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Issuer or a Guarantor will pay any present or future stamp, court, documentary or other similar taxes, charges or levies that arise in any taxing jurisdiction from the execution, delivery or registration of, or enforcement of rights under, the Subordinated Notes, the Indenture or any related document ("Documentary Taxes").

The obligation to pay Additional Amounts (and any reimbursement) and Documentary Taxes under the terms and conditions described above will survive any termination, defeasance or discharge of the Indenture.

Documentation Requirements

To satisfy the documentation requirement (referred to above), a Non-U.S. Holder, or a financial institution holding the Subordinated Notes on a Non-U.S. Holder's behalf, must provide, in accordance with specified procedures, the Issuer or the Issuer's paying agent with a statement to the effect that such Non-U.S. Holder is not a U.S. person as defined in the Code. Currently, this requirement should be met if: (1) that Non-U.S. Holder provides his name and address, and certifies, under penalties of perjury, that he is not a U.S. person (which certification may be made on an IRS Form W-8BEN), or (2) a "qualified intermediary" (as defined in applicable Treasury Regulations) holding the Subordinated Notes on his behalf receives documentation under penalties of perjury, upon which it can rely, to treat the Non-U.S. Holder as not a U.S. person and furnishes the Issuer or the Issuer's paying agent with an IRS Form W-8IMY. The statement requirement also may be satisfied with other documentary evidence with respect to a Subordinated Note held in an offshore account or through certain foreign intermediaries.

If a Non-U.S. Holder cannot satisfy the requirements of the portfolio interest exemption (as defined in the Internal Revenue Code and applicable Treasury Regulations), payments of interest made to such Non-U.S. Holder (including payments in respect of any original issue discount ("OID"), if any, on the Subordinated Notes) will be subject to a 30% withholding tax, unless such holder provides the Issuer or the Issuer's paying agent, as the case may be, with a properly executed:

- IRS Form W-8BEN claiming an exemption from or reduction in withholding under the benefit of an applicable income tax treaty,

- IRS Form W-8ECI stating that interest paid on the Subordinated Notes is not subject to withholding tax because it is effectively connected with his conduct of a trade or business in the United States, or

- IRS Form W-8 EXP stating that the interest paid on the Subordinated Notes is not subject to withholding tax because the payee is a foreign government or international tax-exempt organization.

Applicable Treasury regulations provide for the use of alternative documentation in certain situations. Under these Treasury Regulations, in the case of Subordinated Notes held by a foreign intermediary (other than a "qualified intermediary" or a foreign partnership, as the case may be), such foreign intermediary generally must provide an IRS Form W-8IMY and attach thereto an appropriate certification by each beneficial owner or partner. In general, under the Canadian Treaty, Canadian residents are entitled to the reduced U.S. withholding tax rate of 10% on U.S. source interest.

Canadian Withholding Tax

The Issuer will be entitled to deduct and withhold any applicable withholding taxes pursuant to the *Income Tax Act* (Canada) and the regulations thereunder (the "Tax Act") from any payment to be made on the Subordinated Notes and the amount of any such deduction or withholding will be considered an amount paid in satisfaction of the Issuer's obligation under such Subordinated Notes and there is no obligation on the Issuer to gross-up amounts paid to a Holder of the Subordinated Notes in respect of such deductions or withholding.

Optional Redemption

On or after August 24, 2010, the Issuer may redeem the Subordinated Notes, at its option, at any time in whole and from time to time in part, upon not less than 30 nor more than 60 days' notice to Holders, for cash, at a redemption price (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest on the Subordinated Notes redeemed to the applicable redemption date, if redeemed during the 12-month period beginning on the anniversary date of the closing of the EIS Offering during the years indicated below:

Year	Percentage
2010	105%
2011	104%
2012	103%
2013	102%
2014	101%
2015 and thereafter	100%

Any exercise by the Issuer of its option to redeem Subordinated Notes, in whole or in part, will result in an automatic separation of the EIS into a Common Share and a Subordinated Note.

On and after the redemption date, interest will cease to accrue on Subordinated Notes called for redemption, so long as the Issuer has deposited with the depositary funds sufficient to pay the principal of, plus accrued and unpaid interest and the premium (if any) on, the Subordinated Notes to be redeemed.

The Issuer may, at its option, redeem all, but not less than all, of the Subordinated Notes, at any time upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of the Subordinated Notes plus accrued and unpaid interest to the redemption date, during any period that (a) for U.S. federal income tax purposes the Issuer: (i) is not, or would not be, in the opinion of U.S. nationally recognized tax counsel, permitted to deduct all or a substantial portion of the interest payable on the Subordinated Notes from its income; or (ii) is required to withhold or deduct any amount for or on account of U.S. Taxes from any amounts paid or credited under or with respect to the Subordinated Notes and the Issuer is required to pay Additional Amounts or (b) for Canadian federal income tax purposes the Issuer is not, or would not be, in the opinion of Canadian nationally recognized tax counsel, permitted to deduct all or a substantial portion of the interest payable on the Subordinated Notes from its income. See "— Additional Amounts for U.S. Withholding Tax".

Change of Control

Upon the occurrence of a Change of Control (as defined in the Indenture) the Issuer is required to make an offer to repurchase all or any part of a Holder's Subordinated Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). A holder of EISs will not be able to have its Subordinated Notes purchased unless the Holder separates the EISs and receives delivery of the Common Shares and Subordinated Notes represented thereby.

Security and Guarantees

The Subordinated Notes are unsecured obligations of the Issuer, guaranteed by Primary Energy and its direct and indirect subsidiaries on an unsecured basis pursuant to guarantees entered into by each guarantor. The indebtedness evidenced by each guarantee is subordinated in right of payment, as set forth in the Indenture, to all existing and future senior indebtedness of such guarantor, including the senior indebtedness of Primary Energy and certain of its affiliates under the Credit Facility.

Ranking

The Subordinated Notes are subordinated in right of payment, as set forth in the Indenture, to all existing and future senior indebtedness of the Issuer and are senior in right of payment to any subordinated indebtedness of the Issuer, including the Issuer's guarantee of Primary Operations' obligation under the Credit Facility.

Additional Issuances of EISs and Subordinated Notes

Subject to certain covenants on the incurrence of indebtedness, the Indenture provides for the additional issuances of Subordinated Notes. The terms of any additional Subordinated Notes will be identical in all material respects to the Subordinated Notes distributed as part of EISs pursuant to the EIS Offering.

Recombination of Notes and Common Shares Into EISs

The Indenture provides that as long as any Subordinated Notes are outstanding, any Holder of Subordinated Notes and Common Shares may after the 45th day following the closing of the EIS Offering at any time and from time to time prior to an automatic separation of the EISs, recombine these securities to form EISs.

Ownership Restrictions

There are ownership restrictions on the EISs. See "— Limitations on ERISA Plan Ownership", "— Limitation on U.S. Resident Ownership" and "— Limitation on Ownership by Electric Utilities and Others".

Certain Covenants

The Indenture contains the following covenants with respect to the Issuer:

- Limitation on the incurrence of indebtedness and issuance of disqualified stock and preferred stock;
- The entering into of foreign exchange hedging arrangements;
- Limitation on certain restricted payments;
- Limitation on dividend and other payment restrictions affecting subsidiaries;

- Specified asset sales;
- Specified transactions with affiliates;
- Limitation on the creation of liens;
- Reporting obligations with respect to the financial statements at specified times;
- Limitation on the incurrence of indebtedness by restricted subsidiaries;
- Limitation on the ability of the Issuer, Primary Energy and their subsidiaries to engage in any business or activity that is not a similar business;
- Limitation on issuance of subsidiary equity interest; and
- Consolidations, mergers and transfers of all or substantially all of the Issuer's properties or assets in one or more related transactions.

The limitations and prohibitions described above are subject to a number of important qualifications and exceptions. For a more detailed description of the covenant limitations and prohibitions, please refer to the Indenture available on SEDAR at www.sedar.com.

The Trustee

Computershare Trust Company of Canada is the Trustee under the Indenture.

Distribution Policy - Interest Payments and Distributions

The Issuer will pay interest on the Subordinated Notes and distributions on the Common Shares (if declared) on the last business day of each month to holders of record at the close of business on the last business day of the preceding month.

The Issuer intends to pay equal monthly distributions on the Common Shares at a stable and sustainable level, subject to applicable law and the covenants contained in the Credit Facility and the Indenture, after:

- satisfying its debt service obligations under any credit facilities or other agreements with third parties, if any;

- making interest payments at the rate of 11.75% per annum of the aggregate principal amount of the Subordinated Notes outstanding;

- satisfying its other expense obligations, including withholding and other applicable taxes; and

- retaining reasonable reserves for working capital and other expenses.

The Issuer may make additional distributions in excess of monthly distributions during the year, as the board of directors may determine in its sole discretion. Currently, the distribution policy is expected to result in an annual distribution of approximately Cdn$0.8063 (or the equivalent amount in US dollars) per Common Share.

The Indenture and the Credit Facility contain restrictions on the ability of the Issuer to declare and pay distributions on the Common Shares. The board of directors of the Issuer may, in its discretion, modify or repeal the Issuer's distribution policy. No assurances can be made that the Issuer will pay distributions at the level contemplated in the future or at all. Assuming that the Issuer makes the scheduled interest payments on the Subordinated Notes and makes distributions on the Common Shares in the amount contemplated by the distribution policy described above, an investor would receive, in the aggregate, approximately Cdn$1.10 (or the equivalent amount in U.S. dollars) per year per EIS in distributions on the Common Shares and interest on the Subordinated Notes.

Distributions Declared on EISs

On October 31, 2005, the Issuer paid an initial cash distribution of Cdn$0.1153 for the period beginning August 24, 2005 and ending September 30, 2005 to holders of record at the close of business on September 30, 2005. Additional distributions of Cdn$0.0917 were paid on the last business day of each subsequent month (or the next business day, if such day was not a business day) to holders of record at the close of business on the last business day of the preceding month. Total distributions declared for the period ended December 31, 2005 were as follows:

	Distribution Per Common Share	**Interest Payment on EIS Notes**	**Total Distribution Per EIS**
Record Date	*(Cdn$)*	*(Cdn$)*	*(Cdn$)*
September 30, 2005	0.0845	0.0308	0.1153
October 31, 2005	0.0672	0.0245	0.0917
November 30, 2005*	0.0672	0.0245	0.0917
December 30, 2005*	0.0672	0.0245	0.0917
Total Fiscal Year 2005 Distributions Declared	0.2861	0.1043	0.3904

* Declared in 2005 but paid in 2006 and considered 2006 income for unitholders.

PRIMARY ENERGY

Capital of Primary Energy

The authorized capital of Primary Energy consists of an unlimited number of Class A Preferred, Class A Common, Class B Preferred and Class B Common Interests. As at December 31, 2005, 100% of the Class A Preferred and Class A Common Interests of Primary Energy were owned by the Issuer and 100% of the Class B Preferred and Class B Common Interests were indirectly owned by Ventures, through Ventures Holdco. The Class B Preferred and Class B Common Interests represent on a *pro rata* basis at least 10% of the total preferred and common membership interests of Primary Energy outstanding.

Class A Preferred Interests

The Class A Preferred Interests are non-voting membership interests. Each Class A Preferred Interest has a liquidation preference of Cdn$2.50 and is entitled to a fixed cumulative preferred return of 11.75%, plus an amount equal to all of the Issuer's ongoing expenses and costs (the "Class A Preferred Return"). The Class A Preferred Interests are entitled to full payment of any unpaid Class A Preferred Return prior to distributions being made to any other class of membership interests. The Class A Preferred Interests do not have any right to distributions from Primary Energy in excess of their liquidation preference and Class A Preferred Return.

Class B Preferred Interests

The Class B Preferred Interests are non-voting membership interests. Each Class B Preferred Interest has a liquidation preference of Cdn$2.50 and is entitled to a fixed cumulative preferred return of 11.25%, being 0.50% less than the Class A Preferred Return excluding expenses of the Issuer (the "Class B Preferred Return"). The Class B Preferred Interests are entitled to full payment of any unpaid Class B Preferred Return prior to distributions being made on the Class A Common and Class B Common Interests, but only after the Class A Preferred Return has been paid on the Class A Preferred Interests. The

Class B Preferred Interests do not have any right to distributions from Primary Energy in excess of their liquidation preference and Class B Preferred Return.

Class A Common and Class B Common Interests

Each Class A Common and Class B Common Interest carries one vote on all matters to be voted on at all meetings of members. Holders of Class A Common and Class B Common Interests are entitled to receive *pro rata* distributions as and when declared by the board of managers after payment in full of the Class A Preferred Return and Class B Preferred Return, subject to the Enhanced Distribution (defined below). See "— Securityholders' Agreement — Negotiation Right of Ventures". Upon the voluntary or involuntary liquidation, dissolution or winding-up of Primary Energy, the holders of Class A Common and Class B Common Interests are entitled to share ratably in the remaining assets available for distribution, after payment of liabilities and the liquidation preference to which the Class A Preferred and Class B Preferred Interests are entitled.

As at December 31, 2005, all of the outstanding Class B Preferred and Class B Common Interests were indirectly held by Ventures through Ventures Holdco.

Distribution Policy

Primary Energy intends to pay equal monthly distributions on its Class A Common and Class B Common Interests at a stable and sustainable level, subject to applicable law, the covenants contained in the Credit Facility, the Indenture, and the Enhanced Distribution, after:

- satisfying its debt service obligations under the Credit Facility, if any, or other agreements with third parties, if any;
- satisfying its other expense obligations, including management and administration expenses, and withholding and other applicable taxes;
- paying the Class A Preferred Return;
- paying the Class B Preferred Return; and
- retaining reasonable reserves for working capital and other expenses.

Securityholders' Agreement

The Issuer, Primary Energy, Ventures Holdco and Ventures have entered into a Securityholders' Agreement. The following is a summary of certain provisions of the Securityholders' Agreement, which summary is not intended to be complete. Reference is made to the Securityholders' Agreement for a complete description and the full text of its provisions. A copy of the Securityholders' Agreement is available on SEDAR at www.sedar.com.

Negotiation Right of Ventures

The Securityholders' Agreement provides that each holder of Class B Preferred and Class B Common Interests of Primary Energy has the right (the "Negotiation Right"), on one or more occasions (but not more than three times in any twelve month period and subject to the limits described below), to request in writing (a "Request") that Primary Energy enter into good faith negotiations with such holder to purchase for cancellation, on a *pro rata* basis, all or any portion of the Class B Preferred and Class B Common Interests owned by such holder. Upon delivery of a Request by a holder of Class B Preferred and Class B Common Interests, Primary Energy is required to enter into good faith negotiations with such holder to purchase for cancellation, on a *pro rata* basis, all or a portion of such holder's Class B Preferred and Class B Common Interests, at fair market value without regard to any minority interest discount.

The Negotiation Right in respect of the Separate Equity may not be exercised for a period of two years from August 24, 2005. Notwithstanding the foregoing, the obligation of Ventures to hold, indirectly through Ventures Holdco, the Separate Equity for a period of two years from August 24, 2005 does not restrict Ventures from increasing, through Ventures Holdco, its interest in Primary Energy within such two year period, including in connection with additional issuances of EISs by the Issuer. The Negotiation Right may only be exercised if, at the time of its exercise: (i) Primary Operations is not in default under its senior credit facility, and (ii) none of the Subsidiary Guarantors (as defined in the Securityholders' Agreement) is in default under any other indebtedness, except intercompany indebtedness, and the Issuer is not in default under the Indenture and interest on the Subordinated Notes is not being deferred in accordance with the interest deferral provisions in the Indenture related to the Subordinated Notes and no interest deferred during any Interest Deferral Period (including interest thereon) remains unpaid.

If after receipt of a Request, Primary Energy does not complete the purchase for cancellation of the Class B Preferred and Class B Common Interests within 90 days following the Request (such date, the "Enhancement Date"), the holders of the relevant Class B Common Interests (the "Enhanced Class B Common Interests") are entitled to the Enhanced Distribution.

For fiscal quarters ending after the Enhancement Date an additional distribution (the "Enhanced Distribution") will be paid on the Enhanced Class B Common Interests such that the holders of the Enhanced Class B Common Interests will receive, on an annualized basis, aggregate distributions equal to 1.2 times the annualized monthly distributions on the Class A Common Interests. The Enhanced Distribution will be non-cumulative and payable quarterly. The Enhanced Distribution may only be paid to the holders of Enhanced Class B Common Interests in respect of a quarter during which Primary Energy has paid dividends on the Class A Common Interests in an average amount equal to the greater of C$0.0672 per share per month (being the initial monthly amount at August 24, 2005) and the monthly amount paid in the month preceding the start of such quarter.

The Securityholders' Agreement and the terms of the Class B Preferred and Class B Common Interests provide that Primary Energy has the right (the "Redemption Right"), exercisable at any time and from time to time following the Enhancement Date for the Enhanced Class B Common Interests, and subject to the limits described below, to purchase for cancellation from the holders of Enhanced Class B Common Interests, all or any portion of the Enhanced Class B Common Interests and a corresponding number of Class B Preferred Interests. Upon delivery of a notice (the "Redemption Notice") to all of the holders of Enhanced Class B Common Interests requesting the holders to sell to Primary Energy all or a portion of each such holder's Interests pursuant to the Redemption Right, on a *pro rata* basis, the holders are required to sell to Primary Energy such Interests. The repurchase of such Interests will occur on the date as is specified by Primary Energy in the Redemption Notice (provided such date shall not be prior to the 30th day following receipt by the holders of the Redemption Notice).

The Redemption Right may only be exercised if, at the time of its exercise: (i) Primary Operations is not in default under its senior credit facility, and (ii) none of the Subsidiary Guarantors (as defined in the Securityholders' Agreement) is in default under any other indebtedness, except intercompany indebtedness, and the Issuer is not in default under the Indenture, and interest on the Subordinated Notes is not being deferred in accordance with the interest deferral provisions in the Indenture governing the Subordinated Notes and no interest deferred during any Interest Deferral Period (including interest thereon) remains unpaid.

The amount that shall be paid by Primary Energy for the purchase of each Interest pursuant to the Redemption Right will be equal to the fair market value of such Interest at the time of the purchase without regard to any minority interest discount or the amount of any Enhanced Distribution.

Pre-Emptive Rights

The Securityholders' Agreement gives Ventures a pre-emptive right to purchase Class B Preferred and Class B Common Interests of Primary Energy in order to maintain its *pro rata* ownership of Primary Energy in the event that Primary Energy decides to issue additional membership interests or the Issuer authorizes the issuance or sale of any EISs, subject to certain exceptions. Ventures is entitled to purchase such Class B Preferred and Class B Common Interests at a price and on terms determined by the board of managers of Primary Energy in its reasonable discretion and in good faith.

Tag-Along Rights

The Securityholders' Agreement provides that in the event that a person offers to purchase, directly or indirectly, more than 10% of the Class A Preferred and Class A Common Interests in Primary Energy held by the Issuer pursuant to an agreement with the Issuer or, in the case of an indirect purchase, pursuant to a non-exempt take-over bid in respect of which the Issuer proposes to enter into a support agreement with such person, unless Ventures agrees otherwise, then it will be a condition of any such agreement or support agreement that the person will offer to purchase a *pro rata* portion of the Class B Preferred and Class B Common Interests held by Ventures, on the same terms and subject to the same conditions as are applicable to the direct or indirect purchase of the Class A Preferred and Class A Common Interests held by the Issuer, with appropriate adjustments to reflect the liquidation amount payable on the Class B Preferred and Class B Common Interests, in accordance with the formula and restrictions set out in the Securityholders' Agreement.

Drag-Along Rights

At such time as Ventures holds in the aggregate less than 10% of the outstanding common membership interests of Primary Energy, if requested by Primary Energy in connection with the sale by the Issuer of all of its interests in Primary Energy, Ventures must sell its equity interests in Primary Energy *pro rata* on the same terms and subject to the same conditions as are applicable to the Issuer's sale of all of its interests in Primary Energy.

Transfer Restrictions

Transferees of the Class B Preferred and Class B Common Interests held by Ventures will be required to execute a joinder and become bound by the terms of the Securityholders' Agreement. The rights of Ventures, including with respect to board and board committee composition, are transferable only in connection with a Permitted Transfer by Ventures of its Class B Preferred and Class B Common Interests. A Permitted Transfer means any transfer approved by the board of managers of Primary Energy including by a majority of the independent managers, such approval not to be unreasonably delayed or withheld.

Managers

The Securityholders' Agreement also provides for a board of managers of Primary Energy consisting of seven managers. A majority of the managers must be U.S. residents and independent in relation to each of the Issuer, Primary Energy and Ventures. All representatives of Ventures must be U.S. residents. The Issuer is entitled to appoint a majority of the board of managers of Primary Energy. As at December 31, 2005, the board of managers of Primary Energy is comprised as follows:

- four representatives of the Issuer (the three Independent Canadian Directors and one additional independent U.S. resident individual designated by the Issuer); and
- three representatives of Ventures.

The board representation rights of Ventures can be adjusted as Ventures Holdco's aggregate ownership of common membership interests in Primary Energy is reduced. Ventures' board representation rights can be adjusted as follows:

Ownership of Common Membership Interests of Primary Energy	Board Representation Rights
More than or equal to 40%	three representatives
Less than 40% but not less than 20%	two representatives
Less than 20% but not less than 10%	one representative
Less than 10%	no representative

Executives

Pursuant to the terms of the Management Agreement, the Manager has the exclusive authority to manage the business and affairs of Primary Energy, to make all decisions regarding Primary Energy and to bind Primary Energy subject to approval, in certain circumstances, by the board of managers of Primary Energy. See "Directors, Officers and Management — The Manager — Management Agreement". The Manager has appointed a full-time chief executive officer and chief financial officer/chief operating officer and will appoint such other officers as are considered necessary to fulfill its obligations under the Management Agreement. The board of managers of Primary Energy has appointed a corporate governance and compensation committee and an audit committee each of which must meet all regulatory guidelines which would apply if Primary Energy were a listed reporting issuer.

DIRECTORS, OFFICERS AND MANAGEMENT

The Issuer

Directors of the Issuer

The Issuer's articles of incorporation provide for a minimum of three and a maximum of 15 directors, a majority of whom must be residents of Canada and a majority of whom must be independent in relation to each of the Issuer, Primary Energy and Ventures. As at December 31, 2005, the Issuer's board consists of five directors. The directors of the Issuer are A. Michel Lavigne, Christopher H. Pickwoad, Celia M. Cuthbertson (collectively, the "Independent Canadian Directors"), Thomas R. Casten and Michael G. Fisch. Directors are elected at each annual meeting of shareholders of the Issuer. The term of office for each of the directors will expire at the time of the next annual meeting of shareholders of the Issuer. A director may be removed by a resolution passed by a majority of the shareholders or may resign. The vacancy created by the removal of a director must be filled at the shareholder meeting at which he or she was removed. A vacancy not so filled at a shareholder meeting, or created by the resignation of a director, may be filled by a quorum of the remaining directors. A quorum for meetings of directors is a majority of the directors, provided that a majority of directors present (or one director, where a quorum is two directors) must be residents of Canada. If there is no quorum of directors, a special shareholder meeting must be called to fill vacancies.

The directors supervise the activities and manage the affairs of the Issuer, including acting for, voting on behalf of and representing the Issuer as a holder of membership interests in Primary Energy.

Governance of the Issuer

The Issuer has a corporate governance and compensation committee comprised of three directors. As at December 31, 2005, the directors on the corporate governance and compensation committee are Celia M. Cuthbertson, A. Michel Lavigne and Christopher H. Pickwoad. The corporate governance and compensation committee is responsible for developing the Issuer's approach to governance issues, filling vacancies among the directors and periodically reviewing the composition and effectiveness of the directors and the contribution and compensation of individual directors.

The corporate governance and compensation committee is also responsible for adopting and periodically reviewing and updating the written disclosure policy for the Issuer and its subsidiaries. This policy, among other things:

- articulates the legal obligations of the Issuer, its affiliates and their respective directors, managers, officers and employees with respect to confidential information;
- identifies spokespersons of the Issuer, who are the only persons authorized to communicate with third parties such as analysts, media and investors;
- provides guidelines on the disclosure of forward-looking information;
- requires advance review by senior executives of the Issuer or the Manager of any disclosure of financial information to ensure the information is not material, to prevent the selective disclosure of material information, and to ensure that if selective disclosure of material information does occur, a news release is issued immediately; and
- establishes "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes, during which periods the Issuer, its subsidiaries, the Manager and their respective directors, managers, officers, employees and consultants may not purchase or sell EISs, Common Shares or Subordinated Notes or other securities of the Issuer or its subsidiaries (including securities exchangeable for or convertible into EISs, Common Shares or Subordinated Notes).

Audit Committee

The Issuer has an audit committee comprised of three directors. As at December 31, 2005, the directors on the audit committee are A. Michel Lavigne, Christopher H. Pickwoad and Celia M. Cuthbertson, all of whom are independent (for regulatory purposes). The audit committee is responsible for the oversight and supervision of the accounting and financial reporting practices and procedures of the Issuer, the adequacy of internal accounting controls and procedures, and the quality and integrity of financial statements of the Issuer. The independent auditors of the Issuer report directly to the audit committee. In addition, the audit committee is responsible for directing the auditors' examination of specific areas and for recommending to the board of directors the selection of independent auditors of the Issuer.

Remuneration of the Directors

The directors of the Issuer receive no compensation for service in such capacity. Directors are reimbursed for out-of-pocket expenses for attending board meetings. Directors participate in the insurance and indemnification arrangements described below under "Insurance Coverage for Directors and Managers and Indemnification". The Independent Canadian Directors of the Issuer also serve on the board of managers of Primary Energy and receive compensation from Primary Energy in that capacity.

Management and Administration

The Issuer has no executive officers and has engaged the Manager to provide certain services pursuant to a management agreement. The chief executive officer, chief financial officer and other senior officers of the Manager generally perform similar functions in respect of the Issuer, except that they have been appointed by, and report to, the Manager, rather than the board of directors of the Issuer. The Issuer may directly retain professionals and other service providers from time to time to provide advice and other administrative services directly to the Issuer. See "— The Manager — Management Agreement".

Primary Energy

Board of Managers and Operating Agreement

Primary Energy is governed in accordance with its constating documents and the Securityholders' Agreement. As at December 31, 2005, the board of managers of Primary Energy is comprised of seven individuals as follows:

- four representatives of the Issuer comprised of the three Independent Canadian Directors and one additional independent individual designated by the directors of the Issuer who is a U.S. resident; and

- three representatives of Ventures.

A majority of the board of managers must be U.S. residents at all times and independent in relation to each of the Issuer, Primary Energy and Ventures. The Issuer is entitled to appoint a majority of the board of managers of Primary Energy.

Ventures' representation on Primary Energy's board of managers can be adjusted if its retained interest in Primary Energy is reduced or diluted. Ventures is currently entitled to appoint one manager, as long as it continues to own 10% or more but less than 20% of the outstanding membership interests; and no managers if it owns less than 10% of the outstanding membership interests.

The board of managers of Primary Energy has, subject to the provisions of the Securityholders' Agreement and the Management Agreement, full power to manage the business and affairs of Primary Energy, to make all decisions regarding Primary Energy and to bind Primary Energy.

The following table sets out the name, municipality of residence, positions with the Issuer and Primary Energy and principal occupation of the individuals who are directors of the Issuer and managers of Primary Energy as at December 31, 2005.

Name and Municipality of Residence	Position(s)	Director Since	Principal Occupation, If not with the Company
Charles E. Bayless Montgomery, West Virginia	Manager of Primary Energy	2005	President of the West Virginia University Institute of Technology
Thomas R. Casten Hinsdale, Illinois	Director of the Issuer and Manager of Primary Energy	2005	Chairman and CEO of the Manager
Celia M. Cuthbertson Toronto, Ontario	Director of the Issuer and Manager of Primary Energy	2005	Corporate Secretary and Legal Counsel of Home Equity Income Trust
Michael G. Fisch New York, New York	Director of the Issuer and Manager of Primary Energy	2005	President of American Securities Capital Partners LLC

Name and Municipality of Residence	Position(s)	Director Since	Principal Occupation, If not with the Company
A. Michel Lavigne .... Brossard, Québec	Chairman and Director of the Issuer, Chairman and Manager of Primary Energy	2005	Corporate Director
Matthew F. LeBaron .... Westport, Connecticut	Manager of Primary Energy	2005	Managing Director of American Securities Capital Partners LLC
Christopher H. Pickwoad .... Montreal, Québec	Director of the Issuer and Manager of Primary Energy	2005	Chief Financial Officer and Executive Vice-President of Novamerican Steel Inc.

The directors and executive officers as a group, beneficially own or control, directly or indirectly, 304,900 EISs being approximately 0.98% of all issued and outstanding EISs and 6,337,471 Class B Common Interests, being 100% of the issued and outstanding Class B Common Interests.

Biographies

Charles E. Bayless: Mr. Bayless is President of the West Virginia University Institute of Technology. Until December 27, 1999, Mr. Bayless was Chairman, President, and Chief Executive Officer of Illinova Corporation, and its wholly owned subsidiary, Illinois Power Company. He is a member of the Board of Directors of Dynegy, Primary Energy Inc., Commerce Energy, Ontario Power Authority and Thermon, Inc. He is Chairman of the Board of Independent Wireless One. Mr. Bayless received his BSEE from West Virginia Institute of Technology in 1968. He received his MSEE in 1971 and J.D. in 1972, from West Virginia University. He earned his MBA in 1977 from the Graduate School of Business Administration at the University of Michigan.

Thomas R. Casten: Mr. Casten is Chairman and Chief Executive Officer of the Manager. Mr. Casten has over thirty years of power industry experience. In 1977, he formed Cummins Cogeneration Company, a division of Cummins Engine Co. In 1986, he founded Trigen Energy Corporation ("Trigen"), where he served as President and Chief Executive Officer until January of 2000. Under his leadership, Trigen developed technical, legal and financial approaches to generate electricity locally and convert wasted heat energy into electricity. Trigen became the largest operator of district energy plants in the western hemisphere, providing heat and/or cooling to over 1500 commercial buildings, hospitals, universities and industrial facilities, from 56 power plants, mostly combining heat and power generation that burn coal, oil, gas, biomass and flare gas. He serves on the Board of Directors of the World Alliance for Decentralized Energy, an umbrella organization of national CHP and distributed energy associations, equipment vendors, government agencies and foundations that promote distributed generation. Mr. Casten also serves on the Advisory Boards of the Carnegie Melon Electric Industry Center, the Oregon Climate Trust and the Center for Inquiry. Mr. Casten received his Masters in Business Administration from Columbia University, New York, NY in 1969 and his Bachelors of Arts in Economics from the University of Colorado, Denver, Denver, CO in 1964.

Celia M. Cuthbertson: Ms. Cuthbertson, a corporate lawyer, is the legal counsel and corporate secretary of Home Equity Income Trust, a public entity listed on the Toronto Stock Exchange. Formerly, Ms. Cuthbertson consulted with Executive Risk Services, a Canadian company dedicated to identifying and reducing the risks incurred by boards of directors and executives and was an executive compensation consultant with Mercer Human Resources Consulting. In addition, she has practiced securities law with a Toronto law firm and gained securities regulatory experience with the Capital Markets, Corporate Finance and General Counsel divisions of the Ontario Securities Commission.

Michael G. Fisch: Mr. Fisch has been President of American Securities Capital Partners ("ASCP") since its founding in 1994. Previously, he was a financial advisor to the William Rosenwald family with whom he founded ASCP, a Managing Director of two private equity firms, a consultant in the Paris office of Bain & Company, and a professional in the Mergers and Acquisitions department of Goldman, Sachs & Co. Mr. Fisch is a director, partner and/or officer of numerous entities affiliated with ASCP. He is a member of the investment committee of the Sterling American Property series of real estate funds which have invested over $1 billion of equity since 1993 and of the ICV Partners private equity funds which invest in inner-city and ethnic minority businesses with a committed capital of over $250 million. He is also a Trustee of The Brick Presbyterian Church and Princeton Theological Seminary and actively involved with Human Rights Watch and New York's Mount Sinai Hospital. Mr. Fisch received a BA degree *cum laude* from Dartmouth College and an MBA degree from Stanford University.

A. Michel Lavigne: Mr. Lavigne is a director of the *Caisse de dépôt et placement du Québec* and Quebecor Media. Until May 2005, he served as President and Chief Executive Officer of Raymond Chabot Grant Thornton in Montreal, Quebec, Chairman of the Board of Grant Thornton Canada and was a member of the Board of Governors of Grant Thornton International. Mr. Lavigne is a fellow of the Order of Chartered Accountants of Quebec and a member of the Canadian Institute of Chartered Accountants. He received his *Certification en Science Administratives* from the *Ecole des Hautes Études Commerciales* in Montreal, Quebec in 1972.

Matthew F. LeBaron: Mr. LeBaron is a Managing Director of American Securities Capital Partners. Previously, he was a private equity investor at Bain Capital, Inc., and a consultant at The Boston Consulting Group. Mr. LeBaron is a director of Miltex Instrument Company, Inc., Cambridge International, Inc., Oreck Corporation and Ventures Holdco. He received a BA degree *magna cum laude* in Economics from Amherst College and received his MBA from the Harvard Business School in 1999.

Christopher H. Pickwoad: Mr. Pickwoad has been the Executive Vice President, Chief Financial Officer and a Director of Novamerican Steel Inc. since April 4, 1997. He has 25 years of experience in the steel industry and has been employed by Novamerican since 1982. Prior to 1982, he was a partner of a firm of Chartered Accountants, having obtained the designation of Chartered Accountant in 1963.

Remuneration of Board of Managers of Primary Energy

Compensation for managers of Primary Energy is $30,000 per year. The chairman of the board and the chairman of the audit committee each receive an additional $10,000 for service in such capacity. Each member of the board of managers of Primary Energy receive $1,500 per meeting for attending board or committee meetings in person and $500 for attending meetings by phone. The chairman of the board and the chairman of the audit committee are the same individuals who serve in such capacities on the board of the Issuer. Managers are also reimbursed for out-of-pocket expenses for attending board and committee meetings. Managers participate in the insurance and indemnification arrangements described below under "Insurance Coverage for Directors and Managers and Indemnification".

Management

Primary Energy has no executive officers. The chief executive officer, chief financial officer and other senior officers of the Manager generally perform similar functions in respect of Primary Energy, except that they are appointed by, and report to, the Manager, rather than the board of managers of Primary Energy. Management and administrative services are provided to Primary Energy by the Manager pursuant to the Management Agreement. See "— The Manager — Management Agreement", "Risk Factors — Risks Related to the Business and the Projects — Dependence on Key Personnel" and "Risk Factors — Risks Related to the Business and the Projects — Dependence on the Manager and Potential Conflicts of Interest".

Insurance Coverage for Directors and Managers and Indemnification

The Issuer has obtained a policy of insurance for the directors of the Issuer and for the managers of Primary Energy. The aggregate limit of liability applicable to the insured directors and officers under the policy is $25,000,000. Under the policy, each of the Issuer and Primary Energy will have reimbursement coverage to the extent that it has indemnified the directors or managers. The policy includes securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against the directors of the Issuer or the managers of Primary Energy. The total limit of liability is shared among the directors of the Issuer and the managers of Primary Energy so that the limit of liability is not exclusive to any one of the respective directors or managers.

The constating documents of the Issuer and Primary Energy provide for the indemnification of their respective directors, managers and officers (if any) from and against liability and costs in respect of any action or suit brought against them in connection with the execution of their duties of office, subject to certain limitations.

The Manager

The Manager is Ventures. The names, municipalities of residence, positions with the Manager and principal occupations of the officers of the Manager, together with brief biographies of those who are not members of the board of managers of Primary Energy, are set out below.

Name and Municipality of Residence	Position(s)	Officer Since	Principal Occupation, If not with the Manager
Thomas R. Casten .... Hinsdale, Illinois	Chairman and Chief Executive Officer	December 9, 2004	n/a
William D. Rockford .... Clarendon Hills, Illinois	President, Chief Financial Officer and Chief Operating Officer	December 9, 2004	n/a
V. Michael Alverson .... Michigan City, Indiana	Executive Vice President and Treasurer	December 9, 2004	n/a
John D. Prunkl...................................... Oak Brook, Illinois	Executive Vice President, Operations	December 9, 2004	n/a
Dean H. Hall .... Schererville, Indiana	Executive Vice President, Business Development	December 9, 2004	n/a
William B. Johnson .... Lake Forest, Illinois	Executive Vice President, Mergers and Acquisitions	December 9, 2004	n/a

Biographies

William D. Rockford: Mr. Rockford is President, Chief Financial Officer and Chief Operating Officer. In this position, he directs and manages the Manager. Mr. Rockford has twenty-eight years experience in providing senior capital, corporate finance, start-up capital, project finance and merger and acquisition advice to the traditional utility and independent power industry. In 2000, Mr. Rockford retired from The Chase Manhattan Bank after twenty-eight years of service and joined Primary Energy. During his last fifteen years at Chase, Mr. Rockford was Managing Director responsible for the Global Power, Project Finance and Environmental Group. This group was responsible for all corporate financial and advisory services to the electric industry globally as well as all project finance transactions. Mr. Rockford serves on the Board of Directors of TECO Energy Inc., a Fortune 500 diversified energy company. Mr. Rockford received his Masters of Arts in Economics from Fordham University, New York, NY in 1972 and his Bachelors of Arts from Fordham University, New York, NY in 1967.

V. Michael Alverson: Mr. Alverson is Executive Vice President and Treasurer. In this position, he is responsible for the principle administrative functions of the company including accounting, treasury, human resources and information technology. Mr. Alverson has more than thirty years experience in the energy industry. In 1996 he was one of the founding members of Primary Energy, Inc., a subsidiary of NiSource Inc and predecessor to Primary Energy, where he has held several different executive positions, including responsibility for engineering and construction of project facilities, operations and maintenance, project finance and general administration. From 1973 to 1996 he served in various capacities with Northern Indiana Public Service Company ("NIPSCO"), as subsidiary of NiSource Inc, where he began his career. Mr. Alverson held various technical positions, including Manager of Plant Engineering, all involved with the engineering, construction and upgrade projects of coal fired power plants. He also served as NIPSCO's Director of Special Markets, which interfaced with the utility's largest industrial customers on all aspects of gas and electric service and with cogeneration issues. Mr. Alverson received a BS in Mechanical Engineering from the University of Missouri — Rolla, and an MBA (*Magna Cum Laude*) from the University of Notre Dame.

John D. Prunkl: Mr. Prunkl is Executive Vice President, Operations. In this position he is responsible for day to day operations, engineering and optimization of existing plants. The operations team is also accountable for the engineering, procurement and construction of all new facilities. Prior to joining Primary Energy, in 2001 he co-founded and was a principal of MetroGen LLC, an energy company focused on aggregating standby generators in New York City and dispatching them into the electric marketplace during emergency periods. Prior to founding MetroGen, Mr. Prunkl was Vice President, Operations for Illinova Generating Company, the independent power subsidiary of Illinova Corporation. Mr. Prunkl had overall profit and loss responsibility for all domestic and international projects in operation and under construction. He also served as President of Illinova Resource Recovery, a subsidiary specializing in the generation of electric power from industrial waste byproducts. Before joining Illinova Generating in 1996, Mr. Prunkl held several management positions at GE Power Systems where his key responsibilities involved leading major commercial and technical negotiations for varied projects, including gas and steam turbines, combined cycles and turnkey power plants in the Asian and U.S. Markets. Mr. Prunkl received his MBA from J.L. Kellogg School of Management, Northwestern University in 1999 and his Bachelors of Science in Mechanical Engineering from Auburn University in 1990. He also holds a Bachelors of Arts degree in Mathematics from Huntingdon College.

Dean H. Hall: Mr. Hall is the Executive Vice President — Business Development. In this position, he leads new project development for Ventures. Mr. Hall joined Primary Energy in 1993 and has approximately thirty years of industry experience, including 21 years in purchasing and operations management at Inland Steel Company. Before joining Inland, Mr. Hall served as a lieutenant for the U.S. Naval Civil Engineer Corps. Mr. Hall received his BS in electrical engineering and BS in materials physics from the Massachusetts Institute of Technology in 1967, MS in metallurgy from the Massachusetts Institute of Technology in 1973, and his XMBA from the University of Chicago in 1985.

William B. Johnson: Mr. Johnson is the Executive Vice President, Mergers and Acquisitions. In this position, he leads all acquisition activities for Ventures. Prior to joining Primary Energy in 2003 he was the founder and President and CEO of Nations Energy, an onsite supplier of electricity and steam to industrial customers. Prior to founding Nations Energy, Mr. Johnson served as a corporate officer of Air Liquide Group, a $7 billion international chemical company, responsible for its global chemical and energy businesses. During his 15-year tenure with Air Liquide, he oversaw startup and acquisition of various businesses as well as profit and loss accountability for key subsidiaries. He also managed the company's production, business development and strategic planning activities. Mr. Johnson also previously worked with Fish Engineering and Construction and Union Carbide Chemicals and Plastics. Mr. Johnson received his BS in chemical engineering from Auburn University in 1975 and in 1993 completed Harvard Business School, AMP.

Management Agreement

Management and Administrative Services

The Manager provides management and administrative services to Primary Energy and its subsidiaries pursuant to the terms of the Management Agreement. These management and administrative services include: (i) representing Primary Energy's interests in its subsidiaries, and overseeing the operation of the five existing Projects including managing the business of all subsidiaries of Primary Energy; (ii) enhancement of the Projects (at the expense of Primary Energy); (iii) assisting in the development, implementation and monitoring of strategic plans; (iv) identification of accretive acquisitions and investment opportunities in the power and energy sector which do not fit the Manager's requirements and/or strategy but which the Manager determines are appropriate for Primary Energy; (v) assisting in and supervising the analysis of potential acquisitions, investments and dispositions; (vi) carrying out or supervising the making of acquisitions, investments and dispositions; (vii) assisting in developing an annual budget and an annual distributable cash forecast; (viii) assisting with treasury, legal and compliance, financing and risk assessment activities; (ix) reviewing the budgets and schedules for major maintenance proposed for the Projects; (x) assisting in the preparation of financial reports in respect of the Projects; (xi) assisting in the negotiation of material agreements; (xii) monitoring compliance with the annual budget, the annual distributable cash forecast and applicable laws; (xiii) retaining accountants, lawyers, consultants, investment bankers and other such professional advisers; (xiv) advising on and negotiating any financings by Primary Energy; and (xv) assisting in the preparation, planning and coordination of meetings of the board of managers of Primary Energy and holders of membership interests in Primary Energy; and (xvi) providing such other management and administrative services as Primary Energy or its subsidiaries may reasonably require in the conduct of their businesses.

Under the Management Agreement, the Manager, if and to the extent requested by the Issuer, will also provide certain administrative services to the Issuer including: (i) assisting the Issuer in complying with its continuous disclosure obligations under applicable securities laws and with its investor relations activities; (ii) monitoring compliance of the Issuer with applicable laws; (iii) providing or causing to be provided to holders of securities of the Issuer, all information to which they are entitled under the constating documents of the Issuer, the Indenture and applicable laws; (iv) providing for the calculation and distribution of interest payments and distributions to holders of EISs and the Separate Subordinated Notes and any other securities issued by the Issuer; (v) advising on and negotiating any financings by the Issuer; and (vi) assisting in the preparation, planning and coordination of meetings of the board of directors of the Issuer and holders of Common Shares; and (xvi) providing such other management and administrative services as the Issuer or its subsidiaries may reasonably require in the conduct of its businesses.

The Manager has made available to Primary Energy and the Issuer the Designated Employees, who devote a substantial portion of their time to or for the benefit of the Issuer, Primary Energy or the Projects. Agreements between each of the Designated Employees, the Manager and Primary Energy contain a non-competition provision which survives 12 months after termination of employment in respect of the development, ownership and operation of recycled energy projects and combined heat and power projects including projects in these sectors under development or being explored by the Manager at the time of termination (but excluding ROFO Projects not acquired by Primary Energy when offered to it).

In consideration for providing the management and administrative services under the Management Agreement, the Manager receives an annual management fee equal to US$3.0 million, subject to adjustment for any future acquisitions on the basis of an increase of $100,000 per US$1.0 million increase in the Issuer's annual distributable cash forecast associated with the acquisition (pro rated for partial years, as applicable). The annual fee is subject to adjustment for inflation and is payable monthly in advance on the first business day of each month. The annual fee does not cover amounts paid to third party advisers and consultants (such as accountants, lawyers and engineers) which are borne by the Issuer or Primary Energy, as applicable. The Issuer, Primary Energy and Primary Operations pay the annual fee based on an allocation established in the annual budget reflecting the Manager's estimate of time and resources to be spent on the provision of management services to each entity for the year.

The Manager is entitled to an incentive fee under the Management Agreement. The incentive fee is designed to align the financial interests of the Manager with those of Primary Energy and thus, those of the Issuer's and is in addition to any increase of the base annual management fee. The incentive fee for each year (to be calculated and paid as soon as practicable after the end of such year) will equal 25% of the product of (a) the excess of Primary Energy's distributable cash per EIS (or, following the maturity, redemption or repurchase of all of the Subordinated Notes or separation of all of the EISs, per Common Share) for the fiscal year over the Targeted Annual Distributable Cash and (b) the weighted average number of EISs, Common Shares not represented by EISs and Class B Common Interests outstanding for such fiscal year. Appropriate adjustments to the amount of the Targeted Annual Distributable Cash will be made as agreed to by the Manager and the managers of Primary Energy and the directors of the Issuer who are independent of the Manager and its affiliates and associates, acting reasonably, to reflect changes in the number of EISs and/or Common Shares outstanding as a result of dilutive events. The Targeted Annual Distributable Cash will also be adjusted in the event that the Issuer or Primary Energy or any subsidiary of either of them acquires or invests in any project in the power and energy sector owned directly or indirectly by the Manager to reflect the increase in annual distributable cash forecast resulting therefrom and any issue of EIS, Common Shares or other equity interest in respect thereof. The amount of such adjustment shall be agreed by the Manager and the directors of the Issuer who are independent of the Manager and its affiliates and associates. Cash distributable per EIS or Common Share, as applicable, will not include any proceeds from a sale or other disposition of Primary Energy's or the Issuer's direct or indirect interest in any Project.

Right of First Offer

During the term of the Management Agreement, if the Manager decides to sell or otherwise alienate any ROFO Project, it will first provide an offer to Primary Energy (the "Offer") in respect thereof. The Offer will set out a cash price for the ROFO Project and the proposed terms of sale. Primary Energy will have 90 days after receipt of the Offer to accept such offer or negotiate alternate terms of sale acceptable to Primary Energy and Ventures. If Primary Energy and Ventures agree with the terms of sale for the ROFO Project prior to the end of the 90 day negotiation period, they shall enter into definitive documentation to effect such transfer, which shall be elected within 30 days thereafter or such longer period up to a maximum of 90 days as may be necessary to complete a shareholder vote by the Issuer (if required) or a financing (if required). If within the 90 day negotiation period the Offer is not accepted and the parties cannot agree on other terms then thereafter the Manager may sell the ROFO Project (subject to any changes in form or condition, financial or otherwise, which in the reasonable opinion of the Manager are not material taken as a whole) to a *bona fide* third party dealing at arm's length with the Manager at a price and on terms and conditions that, taken as a whole, in the reasonable opinion of the Manager are not more favourable to the third party than those contained in the Offer. To clarify, the Manager would be permitted to sell to the third party at a lower price than as set out in the Offer if one or more other terms and conditions of the transaction are more attractive than those contained in the Offer.

The directors of the Issuer who are independent of the Manager and its affiliates and associates will be permitted to hire advisors to assist in the assessment of any such acquisition opportunity and will approve the terms of any such acquisition from the Manager made by Primary Energy.

Other Terms of the Management Agreement

The Management Agreement has an initial 20-year term and will be automatically renewed for additional five-year terms unless, at least six months prior to the expiration of the then current term, a majority of the managers of Primary Energy and a majority of the directors of the Issuer who are independent of the Manager and its affiliates and associates determine that the Management Agreement will not be renewed and notify the Manager accordingly.

Although the Management Agreement may be terminated in certain circumstances, it may be difficult for the Issuer to terminate the Management Agreement if it is unsatisfied with the performance of the Manager (or otherwise) without having to pay significant damages to Ventures. See "Risk Factors".

The Management Agreement also provides for the indemnification of the Manager by Primary Energy and, if applicable, the Issuer.

The above summary of certain provisions of the Management Agreement is subject to, and qualified in its entirety by reference to, all the provisions of the Management Agreement. A copy of the Management Agreement is available on SEDAR at www.sedar.com.

Interests in the Manager

Certain directors and officers of Ventures are also directors of the Issuer and managers of Primary Energy (as described above). No director of the Issuer, no manager of Primary Energy and no director or officer of the Manager, directly or indirectly owns or exercises control or direction over membership interests in Ventures, except for (i) Michael G. Fisch, who indirectly owns a minority interest in and exercises control and direction over the controlling member of Ventures, (ii) Thomas R. Casten, who indirectly owns approximately 4% of the outstanding membership interests in Ventures, and (iii) other directors and officers of the Manager who indirectly own, on an aggregate basis, 20% of the membership interests in Ventures.

AUDIT COMMITTEE AND AUDITOR'S FEES

The Issuer has established an audit committee of three directors: A. Michel Lavigne, Christopher H. Pickwoad and Celia M. Cuthbertson, each of whom is independent of the Issuer and "financially" literate within the meaning of Multilateral Instrument 52-110 - *Audit Committees*. The audit committee is responsible for the oversight and supervision of the accounting and financial reporting practices and procedures of the Issuer, monitoring the adequacy of internal accounting controls and procedures and reviewing the quality and integrity of financial statements of the Issuer. The independent auditors of the Issuer report directly to the audit committee. In addition, the audit committee is responsible for reviewing and approving the auditors' examination of specific areas and for recommending to the board of directors the selection of independent auditors of the Issuer. The charter of the audit committee is attached hereto as Appendix "A".

Relevant Education and Experience of Audit Committee Members

The following is a brief summary of the education or experience of each member of the audit committee that is relevant to the performance of his or her responsibilities as a member of the audit committee, including any education or experience that has provided the member with an understanding of the accounting principles used by the Issuer to prepare its annual and interim financial statements:

Name of Audit Committee Member	Relevant Education and Experience
A. Michel Lavigne	• Past President and Chief Executive Officer of Raymond Chabot Grant Thornton • Fellow of the Order of Chartered Accountants of Québec • Member of the Canadian Institute of Chartered Accountants • *Certification en Science Administratives* from the *Ecole des Hautes Études Commerciales*
Christopher H. Pickwoad	• Executive Vice-President, Chief Financial Officer and a Director of Novamerican Steel Inc. • Past partner of a firm of Chartered Accountants, having obtained the designation of Chartered Accountant in 1963
Celia M. Cuthbertson	• Legal counsel of Home Equity Income Trust, a TSX listed entity • Past consultant with Mercer Human Resources designing executive compensation plans aligned with business strategy • Former corporate finance lawyer • Bachelor of Commerce (finance and accounting)

Non-Audit Services

The audit committee of the Issuer must, prior to the provision of services, approve any non-audit services to be provided to the Issuer and/or any of its subsidiaries by the independent auditor of the Issuer and the fees associated with those services.

External Auditor Service Fees

The following table summarizes the Audit, Audit Related, Tax Related and Other Fees (excluding expenses and taxes) of the Issuer's external auditor for the 130-day period ended December 31, 2005.

Audit Fees	$	400,000
Audit-Related Fees	$	62,000
Tax Fees	$	157,000
All Other Fees	$	1,635,000[1]

[1] Represents fees incurred in connection with the EIS Offering.

Audit Committee Oversight

At no time since the commencement of the Issuer's most recently completed fiscal year has a recommendation of the audit committee to nominate or compensate an external auditor not been adopted by the board of directors.

RISK FACTORS

The following section describes both general and specific risks that could affect the Issuer's financial performance. The risks described below are not the only risks facing the Issuer and Primary Energy. Additional risks and uncertainties not currently known or that are currently deemed to be immaterial may also materially and adversely affect Primary Energy's business operations. Any of the matters highlighted in these risk factors could have a material adverse effect on the Issuer's results of operations, business prospects or financial condition, cash flow, in which case, the market price or value of the EISs, Common Shares or Subordinated Notes could be adversely affected.

Risks Related to the Business and the Projects

The Projects Depend on their Electricity and Thermal Energy Customers

Each Project relies for its revenues on one or more tolling agreement, lease agreement, or other agreement with its host. The amount of cash available for distribution to holders of EISs, Common Shares and Subordinated Notes is highly dependent upon customers under such agreements fulfilling their contractual obligations. There is no assurance that these customers will perform their obligations or make required payments on a timely basis. Each of the Projects is dependent upon its industrial host's continuing operations at those Projects, in that the revenue producing agreements with those hosts do not preclude a complete cessation of operations, whether due to unforeseen circumstances, *force majeure* or the discretion of the host, which would also cease purchases of thermal or electric energy from the Projects, that would not necessarily result in an actionable breach of the Project's revenue producing contracts. Certain Projects rely on their industrial hosts for waste fuel and derive a significant portion of their revenue based on output rather than strictly on Capacity Payments; accordingly, these Projects rely on their industrial hosts to maintain industrial operations at a high level. Various conditions which are not within the control of the Issuer or the Project operators, and may not be within the control of the host industrial companies, may directly or indirectly result in significant reduction or cessation of industrial operations at any given Project, such as competitive pressures, mergers or acquisitions, adverse financial or economic conditions or events (including foreclosure, bankruptcy or liquidation of the industrial company), environmental constraints or incidents, weather conditions, labour actions, fuel shortages, equipment malfunction or refurbishment, accidents or sabotages, mismanagement, governmental action and *force majeure*. If any of the hosts were to materially curtail or cease manufacturing operations that require energy from a Project, a material portion of the Project's revenues could be interrupted or would cease, and there may be no contractual remedy or insurance coverage sufficient to cover such shortfalls. Moreover, substantial short or long-term changes in industrial operating levels short of material curtailment or cessation of operations can result from management decisions by the industrial hosts. These changes are not predictable, and such changes may produce material volatility in production-based revenues from any of the Projects so affected.

Projects May Not Operate as Planned

The revenue produced by the Recycled Energy Projects is dependent, in whole or in part, on the amount of electric energy and thermal energy generated by them. The ability of the Projects to generate the maximum amount of energy to be distributed to hosts is the primary determinant in the amount of cash that will be distributed to the Issuer, and that will in turn be available for distribution to holders of EISs, Common Shares and Subordinated Notes. With respect to each of the Projects, there is a risk of equipment failure (of both Project equipment and equipment operated by the host) for various reasons including, without limitation, component failures, latent defect, design error, operator error, weather conditions or *force majeure* which could adversely affect revenues and cash available for distribution. To the extent that such equipment requires either longer than anticipated down times or unexpected capital requirements for maintenance and repair, or suffers disruptions of energy generation for other reasons, the amount of cash available for distribution may be adversely affected.

Primary Energy does not control, nor does it have contractual rights in respect of, the operations of its customers. The host steel mills have the ability to run their plants at their discretion. Due to the fact that some of the Projects are affected by the level of production at these facilities, such Projects' performance may be impacted by the hosts' operational decisions. Such operational decisions include production levels and which blast furnaces the host steel mills choose to run.

ISG May Purchase the Ironside Project

Pursuant to a lease agreement between Ironside and ISG (a wholly-owned subsidiary of Mittal Steel) dated September 29, 2003 (the "Ironside Lease"), ISG has an option to purchase the Ironside Project at a purchase price equal to the greater of an amount calculated under a formula prescribed in the Ironside Lease and fair market value (the "Purchase Option"). The Purchase Option may be exercised by ISG (i) during the first five years of the term of the Ironside Lease, once per year on the anniversary of the lease commencement date upon 30 days prior notice by ISG; and (ii) following the first five years of the term of the Ironside Lease, at any time upon 30 days prior notice by ISG. If ISG exercises its Purchase Option, the loss of the Ironside Project will have a significant impact on the future financial results of Primary Energy.

The Issuer Has Limited Control Over the Harbor Coal Project

The Projects are wholly-owned, indirectly, by the Issuer, with the exception of the Harbor Coal Project. Harbor Coal LLC, an indirect subsidiary of Primary Energy, owns a 50% general partnership interest in PCI Associates which in turn owns the Harbor Coal Project. Harbor Coal LLC has limited control over the operation of the Harbor Coal Project. III/PCI, Inc., the other general partner of PCI Associates and an affiliate of Ispat Inland Inc., manages the operations of the Harbor Coal Project. Ispat Inland Inc. is an indirect subsidiary of Mittal Steel.

Primary Energy's limited control results in a number of risks at the Harbor Coal Project. These include commodity costs such as coke, coal, natural gas, oil and oxygen costs, which can vary with market conditions; Mittal Steel determines which commodity mix is used on a daily basis. Furthermore, Mittal Steel determines the amount of hot metal produced per day for use in steel production. These factors determine the profitability of the Harbor Coal Project. Primary Energy must also rely on the technical and management expertise of III/PCI, Inc. to oversee operations and maintenance of the Project. To the extent that III/PCI, Inc. does not fulfill its obligation to manage the operations of the Harbor Coal Project, or is not effective in doing so, the amount of cash available for distribution may be adversely affected.

Primary Energy Derives its Revenues From Only a Few Customers

Almost all of Primary Energy's revenues are generated from providing services to entities controlled by only two underlying customers. The percentage of Primary Energy's revenues generated by each major customer for the year ended December 31, 2005 was 85% and 15%, respectively.

Primary Energy or the Issuer May Not Have or be Able to Obtain Sufficient Capital for Future Acquisitions

Future acquisitions by Primary Energy or the Issuer from the Manager or any third parties, expansions of the existing Projects and other capital expenditures will be financed out of cash generated from operations, sales of additional EISs and other borrowings. There can be no assurance that sufficient capital will be available on acceptable terms to fund acquisitions from the Manager, expansion projects or other capital expenditures.

Financing Arrangements Could Impact the Business of the Issuer

Current or future borrowings by the Issuer or its subsidiaries will increase the level of financial risk to the Issuer. To the extent that the interest rates are not fixed or that borrowings are refinanced at different rates, cash available for distribution may vary as a result of interest rate variations or fluctuations. Contractual arrangements in respect of those borrowings may also adversely affect cash available for distribution. In addition, Primary Energy and the Projects currently have existing indebtedness or other project-based financing arrangements in place with various lenders. These project-based financing arrangements are typically secured by all of the Project assets, contracts and equity interests, as well as the equity interests of certain holding companies. The terms of these project-based or other financing arrangements generally impose many covenants and obligations on the part of the borrowers and guarantors. In many cases, a default by any party under other Project operating agreements (such as a power purchase agreement, operations and maintenance agreement or a steam sales agreement) will also constitute a default under the Project's existing indebtedness or other financing arrangement. Failure to comply with the terms of these term loans or other financing arrangements, or events of default thereunder, may prevent cash distributions by the Project and may entitle the lenders to demand repayment and enforce their security against the Project assets. In addition, if an event of default should occur, the lenders are entitled to take possession of their security.

The Projects are Subject to Significant Environmental and Other Regulations

The Projects, facilities and operations are subject to extensive and increasingly stringent federal, state and local laws, regulations, guidance and other requirements governing or relating to, among other things: air emissions; discharges into water; the storage, handling, use and transportation of materials; the prevention of releases of hazardous substances into the environment; the prevention, presence and remediation of hazardous substances in soil and groundwater, both on and off site; land use and zoning matters; and workers health and safety matters. As such, the operation of the Projects carries an inherent risk of environmental, health and safety liabilities (including potential civil actions, compliance or remediation orders, injunctive relief, fines and other penalties), and may result in the Projects being involved from time to time in administrative and judicial proceedings relating to such matters. In addition, the Projects operate on real estate owned by others that may be contaminated. Although management believes that existing indemnities provide appropriate protection against claims related to contamination not caused by the Projects, there can be no assurance that future claims will not be made against the Projects in respect of such contamination that may be material.

The Projects have obtained environmental permits and other approvals that are required for their operations. Compliance with applicable laws and regulations and future changes to them is material to the Issuer's businesses. Although management believes the operations of the Projects are currently in material compliance with applicable environmental laws, licenses, permits and other authorizations required for the operation of the Projects and although there are environmental monitoring and reporting systems in place with respect to all the Projects, there is no guarantee that more stringent laws and regulations will not be imposed, that there will not be more stringent enforcement of applicable laws or regulations or that such systems may not fail, which may result in material expenditures. Failure by the Projects to comply with any environmental, health or safety requirements, or increases in the cost of such compliance, including as a result of unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, could result in additional expense, capital expenditures, restrictions, temporary or permanent cessation of operations, or delays in the Projects' activities, the extent of which cannot be predicted.

Changes in Costs and Technology

Changes in costs and technology may significantly impact Primary Energy's business by making certain of the Projects less competitive, by limiting opportunities of the Manager to develop additional projects and by making the acquisition of existing projects less attractive. Traditional coal-fired systems and gas-fired systems may under certain economic conditions produce electricity at lower average prices than the all-in costs to the customer of the Recycled Energy Projects. It is possible that technological advances will further reduce the cost of alternate methods of power generation to a level that is equal to or below that of most waste recycled energy generation. If this were to happen, the competitive advantage of Primary Energy's Projects could be significantly impaired.

Operations are Subject to the Provisions of Various Energy Laws and Regulations

The laws affecting our facilities have undergone major changes recently and, in some cases, remain in a state of flux pending completion of agency action and judicial review. The Energy Policy Act of 2005 ("EPAct 2005"), which was signed into law on August 8, 2005, added new criteria to the definition of a Qualifying Facility that must be satisfied by new Qualifying Facilities. The Company believes that the Recycled Energy Projects are not new Qualifying Facilities and that in any event they would satisfy the new criteria, but if this were not the case for any Recycled Energy Project, it could lose its Qualifying Facility status. This could subject such a Project to additional regulation under the FPA and/or state law.

EPAct 2005 also eliminated, subject to certain conditions to be determined by FERC and subject to the grandfathering of existing contracts and facilities, the requirement under PURPA that electric utilities must purchase electric energy and capacity from, and sell electric energy and capacity to, Qualifying Facilities. FERC has issued a proposed -- but not yet a final -- rule to implement this change. While the Recycled Energy Projects do not currently sell power to or purchase power from electric utilities, these amendments may limit or eliminate their rights to do so in the future.

EPAct 2005 also created a new FPA section 203(a)(2), which, if applicable to the Company, could require the Company under certain circumstances to obtain FERC approval before acquiring a Qualifying Facility.

EPAct 2005 also repealed The Public Utility Holding Company Act of 1935, effective February 8, 2006, and abolished the utility ownership restrictions previously applicable to Qualifying Facilities. Finally, subject to certain exceptions and the grandfathering of existing contracts, FERC recently revoked the exemptions from FPA sections 205 and 206 (rate regulation of utilities) previously afforded to Qualifying Facilities. To the extent the Recycled Energy Projects engage in wholesale power sales in the future, this revocation could subject them to some degree of rate regulation by FERC.

Revenue May be Reduced Upon Expiration or Termination of Agreements

Energy generated by the Recycled Energy Projects, in most cases, is provided to customers under agreements that expire at various times. In addition, these agreements may be subject to termination in certain circumstances, including, without limitation, default by the Project owner or operator. When such a contract expires or is terminated, there can be no assurance that it will be renewed. Furthermore, even if such agreements are renewed it is possible that the price received by the relevant Project for energy or capacity under subsequent arrangements may be reduced significantly. It is possible that subsequent contracts may not be available at prices or under terms that permit the operation of a Project on a profitable basis. If this occurs, the affected Project may temporarily or permanently cease operations.

Dependence on Key Personnel

Primary Energy's success is largely dependent on the skills, experience and efforts of the senior management team and other key personnel of Ventures. In particular, Primary Energy's success depends on the continued efforts of Tom Casten, William Rockford, V. Michael Alverson, John Prunkl and other key employees of Ventures. The loss of the services of any key employee could materially harm Primary Energy's business, financial condition, future results and cash flow. Although to date Primary Energy has been successful in retaining the services of senior management, such members of senior management may terminate their employment agreements without cause. Ventures may also not be able to locate or employ on acceptable terms qualified replacements for its senior management or key employees if their services were no longer available. Primary Energy has entered into agreements with such members of senior management which prohibit them from competing with or soliciting employees or customers of Primary Energy during and for 12 months following cessation of their employment.

Labour Disruptions May Adversely Affect Primary Energy's Business and Operations

No employee of Ventures Holdco and leased to Primary Energy is covered by the provisions of a collective bargaining agreement. Operations at the Harbor Coal, North Lake and Ironside Projects are entirely conducted by the hosts, which operate such Projects utilizing operating employees employed and supervised by the hosts. At the Cokenergy and Portside Projects, Primary Energy oversees operations which are conducted utilizing operating employees that are employed and supervised by the hosts. In both cases, all operating employees of the hosts are subject to the provisions of collective bargaining agreements maintained by such hosts. Primary Energy has no control over the labour relations of the hosts. While labour relations at the Projects have been stable to date and there have not been any disruptions in operations as a result of labour disputes with employees, the maintenance of a productive and efficient labour environment cannot be assured. In the event of a labour disruption, such as a strike or lock out, the ability of the Project to generate income, and consequently the amount of cash available for distribution may be adversely affected.

Dependence on the Manager and Potential Conflicts of Interest

Primary Energy and the Issuer are dependent on the Manager in respect of the administration and management of Primary Energy and the Issuer and the operations of the Projects. Although the Management Agreement has an initial 20-year term, the Management Agreement may be terminated earlier in certain circumstances, including by the Manager upon 180 days' prior written notice. Upon termination, Primary Energy and the Issuer are required to establish replacement arrangements. If Primary Energy and the Issuer are not able to obtain such arrangements on favourable terms, revenues and profits may decline and distributable cash of the Issuer may be negatively affected.

Certain officers of the Manager are full-time employees of the Manager and will devote their time and efforts exclusively to or for the benefit of the business of Primary Energy and the Issuer. The Manager and its affiliates and employees or agents may be engaged or invest directly or indirectly in a variety of other companies or other entities involved in owning, managing or advising on or otherwise engaged in the business of the generation, production, transmission, distribution, purchase and sale of electricity, other forms of energy-related projects, infrastructure projects, utility projects or other businesses.

None of the Manager or its affiliates is prohibited by the Management Agreement or any other agreement with Primary Energy or the Issuer from competing with Primary Energy or the Issuer, or from acquiring, investing in, or providing administrative or managerial services to, a competitor of Primary Energy or the Issuer.

The Term of the Management Agreement Exceeds the Terms of Existing Customer Contracts

The Management Agreement has a 20-year term and automatically renews for additional five-year terms unless a majority of the independent managers of Primary Energy and a majority of the independent directors of the Issuer determine that the Management Agreement will not be renewed and notify the Manager accordingly. However, the Projects' existing contracts with their customers expire within 5 to 13 years. The Issuer and Primary Energy are obligated to pay the Manager the full amount of the management fee specified under the Management Agreement regardless of whether a customer elects not to renew its contract with the relevant Project, or even if all of the Projects' customers elect not to renew their contracts. Further, although the Management Agreement may be terminated in certain circumstances, it may be difficult for the Issuer to terminate the Management Agreement if it is unsatisfied with the performance of the Manager (or otherwise) without having to pay significant damages to the Manager. If one of more of the Projects' customers fails to renew its contract and the Issuer and Primary Energy continue to pay the full amount of the management fee, or if the Issuer and Primary are required to pay significant damages to terminate the Management Agreement, this may have a significant adverse impact on the future financial results of the Issuer and Primary Energy and adversely affect cash available for distribution.

The Issuer May Face Significant Competition for Acquisitions and May Not Successfully Integrate Acquisitions

The Issuer's business plan includes growth through identifying suitable acquisition or investment opportunities presented by the Manager, pursuing such opportunities, consummating acquisitions or investments and effectively integrating acquisitions or investments with the Issuer's business. There can be no assurance that the Manager will be able to identify, develop and/or finance the acquisition or development of attractive acquisition candidates in the power industry in the future, that the Issuer will be able to make acquisitions or investments on an accretive basis or that acquisitions or investments will be successfully integrated into the Issuer's existing operations. Although the U.S. power industry is continuing to undergo consolidation and may offer attractive acquisition and investment opportunities, the Manager believes that the Issuer is likely to confront significant competition for those opportunities and, due to the constriction in the availability of capital resources for acquisitions, investments and other expansion, to the extent that any opportunities are identified, the Issuer may be unable to effect acquisitions or investments.

Any acquisition or investment may involve the potential risks inherent in the existing Projects in addition to specific risks associated with each such acquisition or investment, including an increase in indebtedness, the inability to successfully integrate operations, the potential disruption of the Issuer's ongoing business and the possibility that the Issuer pays more than the acquired company or interest is worth. There may also be liabilities that the Manager failed to discover or was unable to discover in its due diligence prior to the consummation of the acquisition or investment and the Issuer may not be indemnified for some or all these liabilities. In addition, the Issuer's funding requirements associated with acquisitions or investments and integration costs may reduce the funds available to the Issuer to make distributions.

The Projects' Operations are Subject to the Risk of Future Proceedings

The Projects' operations are subject to all operating hazards and risks normally incidental to industrial operations, including the generation of electricity and production of thermal energy. As a result, at any given time, the Projects and entities associated with the operation of the Projects may be defendants in various legal proceedings and litigation arising in the ordinary course of business. The Projects maintain insurance policies with insurers in amounts and with coverages and deductibles that the Manager believes to be reasonable and prudent. However, there can be no assurance that this insurance will be adequate to protect the Projects from all material expenses related to potential future claims for loss or damage or that these levels of insurance will be available in the future at economical prices. A significant judgment against any Project, the loss of a significant permit or other approval or the imposition of a significant fine or penalty could have a material adverse effect on the Issuer's business, financial condition and future prospects and could adversely affect cash distributions by the Issuer.

Insurance May Not be Sufficient to Cover All Losses

While the Manager believes that the Projects' insurance coverage addresses all material insurable risks, provides coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities and are subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance, current operating conditions and insurance market conditions, there can be no assurance that such insurance will continue to be offered on an economically feasible basis, nor that all events that could give rise to a loss or liability are insurable, nor that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of the Projects or the Issuer. Levels of insurance coverages maintained to cover insurable risks of the Projects are, in some cases, dictated by the provisions of the various agreements related to those Projects. To the extent any such agreements are extended, amended or renewed, the level and type of insurance coverages mandated by such agreements may change. If a claim is made under any insurance coverage to recover damages related to an insured event, based on the circumstances of such claims and the relative position of the insurance companies issuing such insurance coverages, payment of such claims could be delayed or denied.

Operations are Subject to a Number of Natural and Inherent Risks

The occurrence of a significant event which disrupts the ability of the Projects to produce or sell or provide energy for an extended period, including events which preclude existing customers from obtaining energy, could have a material adverse effect on distributable cash.

If a Project experiences a *force majeure* event, the Project would be excused from its obligations under the relevant Project agreement. However, the relevant counterparty may not be required to make payments under the contract so long as the *force majeure* event continues and may have the right to prematurely terminate the contract. Additionally, to the extent that a forced outage has occurred, the relevant counterparty may not be required to make payments to the affected Project, and/or may prematurely terminate the contract. As a consequence, Primary Energy may not receive any net revenues from the affected Project other than the proceeds from business interruption insurance, if any, that applies to the *force majeure* event or forced outage after the relevant waiting period, and may incur significant liabilities in respect of past amounts required to be refunded. Accordingly, Primary Energy's business, financial condition, future results and cash flows could be materially and adversely affected.

Regulatory Changes Impacting Competitive Energy Markets Could Affect the Performance of the Issuer and the Projects

The independent generation of electricity is severely constrained by state and federal regulatory rules designed to provide monopoly protection to electric distribution and in many cases generation. These rules limit a wide range of competitive approaches to the sale of energy services to Primary Energy's current and future potential host/users. If the state or federal government were to ease or remove these barriers, Primary Energy could face new competition from a variety of alternate energy providers. For example, there are universal bans on privately owned wires carrying electricity across any property of the state or subdivision thereof. It is thus generally illegal for any person to generate power at an adjacent or nearby facility and offer competitive services directly to Primary's customers through privately owned wires across public lands. Should these bans be eased, Primary Energy could face uncertain, and potentially adverse, changes in its competitive environment.

Primary Energy's Cash Flows Are Subject to Intra-Annual Variations

Intra-annual variations may cause significant fluctuations in cash flows, which may cause the market price of the EISs to fall in certain periods. Seasonal variations result from a number of factors, including different usage rates for steam, hot water and electric power during various times of the year. Gas turbines experience reduced generation during warm periods due to the reduced density of air. Additionally, payment of expenses and debt service by the Issuer, Primary Energy and their subsidiaries fluctuate throughout the year. Such intra-annual variations could materially and adversely affect the Issuer's and Primary Energy's business, financial condition, future results and cash flows.

Changing Economic and Political Environment

The risk of terrorist attacks in the United States or elsewhere continues to remain a potential source of disruption to the nation's economy and financial markets in general. Additionally, the recent rise in fuel costs may make it more expensive for our customers to operate their businesses. These events and others which cannot be foreseen could constrain the capital available to our industry and could adversely affect our financial stability and the financial stability of our counterparties in transactions.

Timely and Accurate Reporting of Financial Results May Depend on the Ability of the Manager to Successfully Remediate a Material Weakness in Internal Controls over Financial Reporting

In connection with their audit of the consolidated financial statements for the year ended December 31, 2005, the Issuer's independent auditors have reported a condition that constitutes a material weakness in internal control over the financial reporting that affects the Issuer's ability to produce and issue financial statements free from material misstatements on a timely basis. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The Issuer's independent auditors reported to the audit committee that the Issuer does not maintain sufficient processes and internal controls in order that the financial and accounting implications of contracts and other agreements are properly recorded in the accounts of the Issuer and reflected in its financial statements on a timely basis. This control deficiency resulted in post closing year end adjustments to the Issuer's 2005 annual and interim financial statements. Additionally, this control deficiency could result in a misstatement of account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected.

We have implemented internal awareness and procedures to remediate this material weakness. The accounting department is to be provided with all material contracts being pursued by the Issuer to assess and advise of accounting and reporting implications. As contracts are executed the accounting procedures, controls and records will incorporate the obligations and other implications, as required, to maintain accurate records in accordance with GAAP.

These remedial measures, along with existing controls cannot provide assurance that these measures or any future measures will adequately remediate the material weakness reported by our independent auditors. In addition, other material weaknesses in our internal controls over financial reporting may be identified in the future. Any failure to remediate the material weakness reported by our independent auditors, to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause failure to meet reporting obligations on a timely basis or result in material misstatements in the annual or interim financial statements. Inadequate internal controls over financial reporting could also cause investors to lose confidence in the reported financial information, which could cause the stock price to decline.

Risks Related to Capital Structure

The Issuer is Dependent on Primary Energy and the Projects for all Cash Available for Distributions

The Issuer is dependent on the operations and assets of the Projects through its indirect ownership of the Projects. The Issuer's ability to make payments on the Subordinated Notes and to make cash distributions to holders of EISs and Common Shares will be dependent on the ability of Primary Energy to make distributions to the Issuer, which in turn will be dependent on the ability of the Projects to make distributions to Primary Energy. The actual amount of cash available for payments to holders of Subordinated Notes and distributions to holders of EISs and Common Shares will depend upon numerous factors relating to each of the Projects, including profitability, changes in revenues, fluctuations in working capital, capital expenditure levels, applicable laws, compliance with contracts and contractual restrictions contained in the instruments governing any indebtedness. Any reduction in the amount of cash available for distribution, or actually distributed, by the Projects or Primary Energy will reduce the amount of cash available for the Issuer to make payments to holders of Subordinated Notes and distributions to holders of EISs and Common Shares. While the Issuer is contractually obligated to make interest payments on the Subordinated Notes, cash distributions by the Issuer on the Common Shares, including the Common Share component of an EIS, are not guaranteed and will fluctuate with the performance of the Projects.

Distribution of All or a Significant Amount of Available Cash May Restrict Potential Growth of Primary Energy and the Issuer

The payout by the Issuer and Primary Energy of substantially all of their operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of these funds could limit the future growth of the Issuer and Primary Energy and their cash flow. In addition, the Issuer may be precluded from pursuing otherwise attractive acquisitions or investments because they may not be accretive to the Issuer on a short-term basis.

Future Distributions are not Guaranteed

The Issuer's only source of cash flow for payment of dividends on its Common Shares and interest on its Subordinated Notes, respectively, is distributions on its membership interest in Primary Energy. While the Issuer is contractually obligated to make interest payments on the Subordinated Notes, the Issuer's board of directors or Primary Energy's board of managers may, in their respective discretion, amend or repeal the existing distribution policy relating to equity distributions. Future equity distributions from these companies, if any, will depend on, among other things, the results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the board of directors or managers may deem relevant. Either of these boards of directors or managers may decrease the level of equity distributions provided for in their existing distribution policies or entirely discontinue such distributions. The Indenture and the Credit Facility contain significant restrictions on the Issuer's and Primary Energy's ability to make distributions, including if the Issuer defers interest on the Subordinated Notes under the Indenture, restrictions on the payment of dividends until Primary Energy has paid all deferred interest, together with accrued interest thereon.

In addition, the Issuer's after-tax cash flow available for distributions and interest payments would be reduced if the Subordinated Notes were treated as equity rather than debt for U.S. federal income tax purposes. In that event, the stated interest on the Subordinated Notes could be treated as a dividend and would not be deductible by the Issuer for U.S. federal income tax purposes. The inability to deduct interest on the Subordinated Notes could materially increase the Issuer's taxable income and, thus, the Issuer's U.S. federal and applicable state income tax liability. If this were to occur, the Issuer's after-tax cash flow available for distributions and interest payments may be reduced. The additional tax due to federal and state authorities in that event could adversely affect the Issuer's financial position, cash flows and liquidity, and could also adversely affect its ability to continue as a going concern. In addition, non-U.S. holders of the EISs could be subject to withholding taxes on the payment treated as dividends on equity, which could subject the Issuer to additional liability for the withholding taxes that it did not collect on such payments.

Subject to Restrictions Set Forth in the Indenture, the Issuer May Defer the Payment of Interest to Holders for a Significant Period of Time

Prior to August 24, 2010, the Issuer may, subject to restrictions set forth in the Indenture, defer interest payments of the Subordinated Notes on one or more occasions for up to an aggregate period of 24 months. In addition, after August 24, 2010, the Issuer may, subject to certain restrictions, defer interest payments on the Subordinated Notes on eight occasions for not more than eight months on each occasion. Deferred interest will bear interest at the same rate as the Subordinated Notes. For any interest deferred during the first five years, the Issuer may not be obligated to pay such deferred interest until August 24, 2010, so a holder of EISs or Subordinated Notes may be owed a substantial amount of deferred interest that will not be due and payable until such time. For any interest deferred after August 24, 2010, the Issuer may not be obligated to pay all of such deferred interest until the maturity of the Subordinated Notes, so a holder of EISs or Subordinated Notes may be owed a substantial amount of deferred interest that will not be due and payable until such time.

Exchange Rate Fluctuations May Impact the Amount of Cash Available for Distribution by the Issuer

A substantial portion of the Issuer's distributions to holders of EISs, Common Shares and Subordinated Notes is expected to be denominated in Canadian dollars. Conversely, all of the Projects' revenues and expenses, together with distributions received by Primary Energy from the Projects, will be denominated in U.S. dollars. As a result, the Issuer will be exposed to currency exchange rate risks.

Although Primary Energy has entered into hedging arrangements to mitigate this exchange rate risk, there can be no assurance that these arrangements will be sufficient to fully protect against this risk. If hedging transactions do not fully protect against this risk, changes in the currency exchange rate between U.S. and Canadian dollars could have a material adverse effect on the Issuer's results of operations and may adversely affect cash distributions by the Issuer. The costs associated with the conversion of U.S. dollars to Canadian dollars and these hedging arrangements will be borne by Primary Energy.

Substantial Indebtedness Could Negatively Impact the Financial Flexibility of the Issuer and the Projects

The degree to which the Issuer is leveraged on a consolidated basis could have important consequences to the holders of EISs, Common Shares and Subordinated Notes, including:

- the Issuer's ability in the future to obtain additional financing for working capital, capital expenditures or other purposes may be limited;
- the Issuer and Primary Energy may be unable to refinance indebtedness on terms acceptable to the Issuer or Primary Energy, as the case may be, or at all;
- defaults under senior indebtedness may prevent the Issuer from making payments on the Subordinated Notes;

- a significant portion of the Issuer's cash flow (on a consolidated basis) is likely to be dedicated to the payment of the principal of and interest on its indebtedness, including the Subordinated Notes, thereby reducing funds available for future operations, capital expenditures and/or distributions on its Common Shares;
- the Issuer and Primary Energy may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures; and
- the Issuer and Primary Energy may be at a competitive disadvantage to their competitors that have less indebtedness.

The Indenture governing the Subordinated Notes does not limit the Issuer's ability to issue additional Subordinated Notes to be represented by additional EISs.

The Issuer May Not be Able to Repurchase the Subordinated Notes Upon a Change of Control as Required by the Indenture

Upon the occurrence of certain specific kinds of change of control events, the Issuer will be required to offer to repurchase outstanding Subordinated Notes at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase. However, it is possible that the Issuer will not have sufficient funds at the time of the change of control to make any required repurchases. Failure to purchase tendered notes would constitute a default under the Indenture, which, in turn, would constitute a default under the credit facility.

Changes in the Issuer's Creditworthiness May Affect the Value of the EISs, Common Shares and Subordinated Notes

The perceived creditworthiness of the Issuer, Primary Energy and their respective subsidiaries that have guaranteed the Subordinated Notes, as well as changes in ratings of the EISs and Subordinated Notes, may affect the market price or value and the liquidity of the EISs, Common Shares and Subordinated Notes. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if in its judgment circumstances so warrant. The ratings of the EISs and Subordinated Notes are not recommendations to purchase, hold or sell such securities.

Restrictive Covenants in the Credit Facility Could Impact the Business of the Issuer and Primary Energy

The Credit Facility and the Indenture contain restrictive covenants that limit the discretion of the Issuer or Primary Energy, as the case may be, to among other things,

- incur additional indebtedness;
- make distributions in respect of the EISs or membership interests, as the case may be, or to make certain other restrictive payments or investments;
- sell assets;
- consolidate, merge, sell or otherwise dispose of all or substantially all of their assets;
- enter into transactions with affiliates;

- create liens; and
- enter into new lines of businesses.

In addition, the Credit Facility includes other and more restrictive covenants and prohibits Primary Energy and certain of its affiliates from prepaying its other indebtedness, including the Issuer prepaying the Subordinate Notes, while debt under the Credit Facility is outstanding. The agreement governing the Credit Facility also requires Primary Energy to achieve specified financial and operating results and maintain compliance with specified financial ratios. Primary Energy's ability to comply with these ratios may be affected by events beyond its control.

A breach of any of the restrictive covenants in the Credit Facility or in Primary Energy's ability to comply with the required financial ratios could result in a default under the Credit Facility. If a default occurs, the lenders under the Credit Facility may elect to declare all borrowings outstanding under that facility together with accrued interest and other fees, to be immediately due and payable which would result in an event of default under the Indenture.

Primary Operations May be Unable to Refinance its Debt Under the Credit Facility

The Credit Facility consists of a four-year term loan for $135 million and a three-year revolving credit facility for $15 million. Upon maturity of the Credit Facility, Primary Energy intends to refinance the Credit Facility at current market rates. If Primary Energy is unable to refinance the Credit Facility on comparable or better terms there may be an adverse effect on cash available for distribution. If Primary Energy is unable to refinance or renew the Credit Facility at all, or is only able to do so with considerably less borrowings than under the Credit Facility, this would adversely affect Primary Energy's financial position, cash flow and liquidity and may affect Primary Energy's ability to continue as a going concern.

Future Issuances of EISs or Common Shares Could Result in Dilution

The Issuer's articles of incorporation authorize the issuance of an unlimited number of Common Shares for such consideration and on such terms and conditions as are established by the board of directors without the approval of any shareholders. Additional EISs or Common Shares may be issued by the Issuer in connection with a future financing or acquisition by the Issuer. The issuance of additional EISs or Common Shares may dilute an investor's investment in the Issuer and reduce distributable cash per Common Share or per EIS.

Limitations on Enforcement of Certain Civil Judgments by Canadian Investors

Ventures is organized under the laws of the State of Delaware. All of the assets of the Projects are located outside of Canada and certain of the directors of the Issuer are residents of the United States. As a result, it may be difficult or impossible for investors to effect service within Canada upon Ventures, the Issuer or their respective directors managers or officers who are not residents of Canada, or to enforce or realize against them upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws.

Ventures is considered to be a promoter of the Issuer and has been advised by counsel in the United States that there is some doubt as to the enforceability in the United States by a court in original actions, or in actions to enforce judgments of Canadian courts, of civil liabilities predicated upon such applicable Canadian provincial securities laws.

Ventures is not contractually prohibited from selling its interest in Ventures Holdco and Ventures Holdco is similarly not prohibited from selling its Class B Preferred and Class B Common Interests in Primary Energy.

There Can be No Assurance that the Common Shares and Subordinated Notes Represented by the EISs will Continue to be Qualified Investments and There May be Other Canadian Tax Risks

There can be no assurance that the Common Shares and Subordinated Notes represented by the EISs will continue to be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans under the Tax Act. The Tax Act currently imposes penalties for the acquisition or holding of non-qualified or ineligible investments.

On September 8, 2005, the Department of Finance released a consultation paper on tax and other issues related to publicly listed flow-through entities such as income trusts and limited partnerships and invited interested parties to make submissions prior to December 31, 2005. In addition, on September 19, 2005, the Minister of Finance (Canada) announced that the Canada Revenue Agency would postpone providing advance tax rulings respecting flow-through entity structures pending these consultations. EISs share many characteristics of income trust units. On November 23, 2005, the Minister of Finance announced the end of this consultation process and no legislative amendments were proposed to change the taxation of income trusts and other flow-through entities. Instead, the Minister of Finance tabled a Notice of Ways and Means Motion that proposes to enhance the dividend gross-up and tax credit mechanism applicable to certain eligible dividends payable by corporations resident in Canada after 2005. In addition, the Canada Revenue Agency resumed providing advance tax rulings in respect of flow-through entity structures.

The U.S. Internal Revenue Service May Challenge the Characterization of the Subordinated Notes as Debt

There can be no assurance that U.S. federal income tax laws and IRS administrative policies respecting the U.S. federal income tax considerations will not be changed in a manner which adversely affects Non-U.S. Holders.

No statutory, judicial or administrative authority directly addresses the treatment of the EISs or the Subordinated Notes, or instruments similar to the EISs or the Subordinated Notes, for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of the purchase, ownership and disposition of EISs and the Subordinated Notes are uncertain. On closing of the EIS Offering, the Issuer received an opinion from its US counsel, Torys LLP and the Underwriters (as defined in the Underwriting Agreement) received an opinion from their U.S. counsel, Vinson & Elkins LLP, to the effect that the acquisition of an EIS should be treated as the acquisition of a Common Share and a Subordinated Note as separate securities and that the Subordinated Notes should be classified as debt for U.S. federal income tax purposes. The Issuer intends to deduct interest on the Subordinated Notes for U.S. federal income tax purposes. However, the IRS or the courts may take the position that the EISs are a single security classified as equity, or that the Subordinated Notes, standing alone, are properly classified as equity for U.S. federal income tax purposes, which could adversely affect the amount, timing and character of income, gain or loss in respect of a holder's investment in EISs or Subordinated Notes, and materially increase Issuer's taxable income and, thus, U.S. federal and applicable state income tax liability. This would adversely affect Issuer's financial position, cash flow, and liquidity, and could affect its ability to make interest payments on the Subordinated Notes or dividend payments on the Common Shares.

In addition, Non-U.S. Holders may be subject to U.S. federal withholding or estate taxes with respect to the Subordinated Notes, and the Issuer could be liable for withholding taxes on any interest payments previously made to Non-U.S. Holders. Payments to Non-U.S. Holders would not be grossed-up for any such taxes. Issuer's tax deduction for interest may be put at risk in the future as a result of a change in law or administrative or judicial rulings issued in the future and, in such event, Issuer may need to consider the effect of such developments on the determination of its future tax provisions and obligations.

In compliance with certain requirements imposed by the IRS (i) any U.S. tax advice contained in this Annual Information Form is not intended to be used, and cannot be used by any investor for the purpose of avoiding penalties imposed for U.S. federal income tax purposes; (ii) such advice was written in connection with the marketing of the EISs; and (iii) investors should seek advice based on their particular circumstances from an independent tax advisor.

There Can Be No Assurance that the IRS Will Not Assert that the Interest Rate on the Notes is in Excess of an Arm's Length Interest Rate

There can be no assurance that the IRS will not assert that the interest rate on the Notes is in excess of an arm's length interest rate. If the IRS were successful in such a challenge, then the Issuer would not be able to deduct all of the interest paid on the Notes. In such case, the Issuer's taxable income and, thus, its U.S. federal income tax liability could be materially increased. As a result, the Issuer's after-tax cash flow could be reduced and the Issuer's ability to make interest payments on the Notes and/or distributions with respect to the Common Shares could be materially and adversely impacted.

If the Issuer Subsequently Issues Subordinated Notes With Significant OID, the Issuer May Not Be Able to Deduct All of the Interest on the Subordinated Notes

Subordinated Notes issued in a subsequent issuance may be issued at a discount to their face value and, accordingly, such notes may have "significant OID" and thus be classified as "applicable high yield discount obligations" for U.S. federal income tax purposes. If any Subordinated Notes were so treated, a portion of the OID on such notes would be non-deductible by the Issuer, and the remainder would be deductible only when paid. It is also possible that Subordinated Notes issued in a subsequent issuance will be treated as equity for U.S. federal income tax purposes. If any Subordinated Notes were so treated, the interest payable on such Subordinated Notes would be non-deductible by the Issuer. Any limit on the Issuer's ability to deduct interest for U.S. federal income tax purposes would have the effect of increasing the Issuer's taxable income and may adversely affect its cash flow available for interest payments and distributions to unitholders.

An Allocation of EIS Purchase Price that Results in OID May Reduce the Amount a Holder Can Recover Upon an Acceleration of the Payment of Principal Due On the Subordinated Notes or in the Event of the Issuer's Bankruptcy

Under U.S. federal bankruptcy law, if the Subordinated Notes are treated as issued with OID because the allocation of the purchase price is not respected, holders of such Subordinated Notes having OID may not be able to collect the portion of the principal face amount of such Subordinated Notes that represents unamortized OID as of the acceleration or filing date, as the case may be, in the event of an acceleration of the Subordinated Notes or in the event of the Issuer's bankruptcy prior to the maturity date of the Subordinated Notes. As a result, a treatment of the Subordinated Notes as having been issued with OID could have the effect of ultimately reducing the amount such holder can recover from the Issuer, Primary Energy, Primary Operations and its guaranteeing subsidiaries, in the event of an acceleration or bankruptcy.

The Issuer or Other Payor May Not Be Able to Properly Report OID to the Holders of EISs or Subordinated Notes and the IRS, and Hence May Become Subject to Substantial IRS Penalties for Such Failure

The Code generally requires that the payor of interest and OID report to its payees and the United States Internal Revenue Service ("IRS") the amounts of interest and OID includable in income with respect to such payees, unless an exception to reporting applies. If the EISs or Subordinated Notes issued in connection with the EIS Offering are issued with OID and there is a subsequent issuance of Subordinated Notes or if any subsequent issuance of EISs or Subordinated Notes is issued with OID and, in either case, no exception to reporting applies, the Issuer or other payor may not be able to properly report the amount of OID to the proper payee because all of the Subordinated Notes are being issued and will be traded under the same CUSIP number and will be held in book-entry form in the name of the CDS or its nominee. As a result, the identity of the holders of the Subordinated Notes issued with OID may not be known, and hence the Issuer or other payor may not be able to properly report OID to the IRS and to the proper payees.

In such circumstances, the Issuer or other payor may choose to report such OID to all holders of Subordinated Notes regardless of whether such holders acquired the Subordinated Notes in this offering or a subsequent issuance, unless an exception to reporting applies. The Issuer believes that such reporting may satisfy the OID reporting requirements and hence reduce or eliminate any exposure of the Issuer to penalties for not properly reporting. Non-U.S. Holders who qualify for the Portfolio Interest Exemption generally should not be subject to OID reporting, and hence generally should not be impacted by such reporting.

As a result, a holder subject to OID reporting, which as discussed below generally would not apply to a Non-U.S. Holder, may be required to report OID even though such holder purchased Subordinated Notes having no OID unless such holder can establish to the IRS that its Subordinated Notes do not have OID. The IRS might assert that, unless a holder can establish that it is not holding Subordinated Notes with OID, all Subordinated Notes held by such holder will have OID.

The penalties for failure to properly file and report such OID amounts to the IRS is generally capped at $250,000 for all such failures during any calendar year, but if such failure is due to the intentional disregard of the filing requirement, the penalty is the greater of $100 for each return with respect to which a failure occurs or 10% of the aggregate amount of items required to be reported correctly. The penalties for failure to properly furnish and report such amounts to a payee of OID is generally capped at $100,000 for all such failures during any calendar year, but if such failure is due to the intentional disregard of the filing requirement, the penalty is the greater of $100 for each return with respect to which a failure occurs or 10% of the aggregate amount of items required to be reported correctly. A failure is due to intentional disregard if it is a knowing or willful failure to file timely or to include the correct information, which determination is made based on all the facts and circumstances of the particular case. A failure by the Issuer or other payor to properly report OID in the case of the EISs and Subordinated Notes may be treated as due to an intentional disregard, and therefore could result in substantial penalties.

The Subordinated Notes May Have OID for U.S. Federal Income Tax Purposes

The Subordinated Notes may be treated as having been issued with OID for U.S. federal income tax purposes in certain circumstances, e.g., if the allocation of the purchase price of each EIS to the Subordinated Notes were determined to be too high or if the likelihood of a deferral of interest payments on the Subordinated Notes were determined not to be "remote" or an interest deferral actually occurred.

A Non-U.S. Holder generally would not be subject to U.S. federal income tax with respect to such OID so long as such OID is not effectively connected with such holder's conduct of a trade or business within the U.S. and such holder qualifies for the Portfolio Interest Exemption. If the Non-U.S. Holder failed to satisfy these requirements, a holder generally would be required to include OID in income in advance of the receipt of cash attributable to that income, and such OID may be subject to U.S. federal income or withholding taxes.

Any U.S. tax advice contained herein is not intended to be used, and cannot be used by an investor for the purpose of avoiding penalties imposed for U.S. federal income tax purposes. Prospective investors should consult their own tax advisor to determine the particular U.S. federal income tax consequences of OID, including the applicability and effect of U.S. state and local tax laws.

The requirement to include OID in income in advance of the receipt of cash attributable to that income may discourage U.S. persons and those Non-U.S. Holders subject to U.S. federal income tax on OID from acquiring Subordinated Notes and may adversely affect the liquidity of the EISs and Subordinated Notes.

Certain U.S. Tax Considerations May Discourage Third Parties from Pursuing a Tender Offer or other Change of Control Transaction

Under certain circumstances, Code Section 163(j) limits a corporation's deductions for interest paid to related foreign persons exempt from U.S. federal income tax. For these purposes, a corporation and a creditor of the corporation will generally be "related" if the creditor owns, directly or by attribution, more than 50% of the corporation by vote or value. The purchase of an EIS should be treated for U.S. federal income tax purposes as a purchase of both an equity interest and a creditor's interest in the Issuer. As a result, a purchase by any Non-U.S. Holder of more than 50% of the EISs could result in the Issuer's interest deductions being limited with respect to the Subordinated Notes forming part of those EISs or otherwise owned by such person. Furthermore, if any Non- U.S. Holder owns, directly or by attribution, 10% or more of the outstanding voting stock of the Issuer (including stock owned through EISs), or certain other relationships exist, then the Issuer may be required to withhold U.S. tax at a rate of up to 30% on interest payable on any Subordinated Notes owned by that person (including Subordinated Notes owned through EISs), unless an exemption or reduced rate of U.S. withholding tax applies under an applicable treaty. Either of these factors could discourage third parties from pursuing a tender offer or other change of control transaction with respect to the Issuer, which otherwise might have led to a premium being paid for EISs.

Recent U.S. Federal Income Tax Legislation

Recently enacted U.S. federal income tax legislation dealing with corporate "inversions" (e.g. certain transactions in which a non-U.S. corporation acquires substantially all of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the transaction, former equity owners of the U.S. corporation or partnership own a specified level of stock in the non-U.S. corporation) provides in certain cases that a non-U.S. corporation may be treated as a U.S. corporation for U.S. federal income tax purposes. As enacted, this legislation should not apply to Issuer, because Ventures, the indirect holder of the Class B Preferred and Class B Common Interests of Primary Energy, will not own any stock in Issuer as a result of the Offering and related transactions. The legislation grants authority to the IRS to promulgate implementing regulations that could, if exercised broadly, cause this legislation to apply to Issuer and result in Issuer being treated as a U.S. corporation for U.S. federal income taxes purposes and U.S. withholding taxes being imposed on dividends paid on the Common Shares to Non-U.S. Holders. In such a case, there would be no U.S. withholding tax imposed on dividends paid on the Common Shares to U.S. Holders.

Primary Energy Intends to Adopt the Traditional Allocation Method Under Code Section 704(c)

For U.S. federal income tax purposes, Ventures will be treated as contributing, through Ventures Holdco, the Projects to Primary Energy simultaneously with the Issuer's contribution of the proceeds of the offering to Primary Energy and Primary Energy's repayment of debt. Venture's indirect contribution will be treated, in part, as a taxable sale and, in part, as a non-taxable contribution of assets to a partnership.

With respect to the part treated as a taxable sale, Primary Energy will have a tax basis in the contributed assets equal to their allocated purchase price. Primary Energy will be entitled to claim deductions for depreciation and amortization with respect to these assets in the same manner as if it had purchased them.

With respect to the part of Venture's indirect contribution treated as a non-taxable contribution of assets to a partnership, Primary Energy will have a tax basis in the contributed assets that is the same as the basis of such assets in the hands of Ventures Holdco prior to the contribution. As a result of this "carryover" basis, Primary Energy will only be entitled to claim deductions for depreciation and amortization to the same extent as Ventures Holdco could have claimed such deductions and Primary Energy may recognize income from a sale of the contributed assets that is based on Ventures Holdco's tax basis as reduced by further depreciation and amortization. These results differ from the treatment that would have been obtained if Primary Energy had purchased the contributed assets directly from Ventures Holdco.

Treasury regulations permit a partnership to adopt a method of accounting to eliminate the effect of such differences to partners of a partnership who do not contribute assets to the partnership or who contribute only cash thereto (such as the Issuer). Primary Energy intends to adopt the "traditional" method for eliminating the effect of such differences. Under the traditional method, Primary Energy will allocate depreciation and amortization deductions, to the full extent they are available with respect to the contributed assets to the Issuer as may be necessary to cause the Issuer to receive the benefit of such deductions had Primary Energy purchased the contributed assets directly from Ventures Holdco.

In the event insufficient depreciation or amortization deductions are available with respect to the contributed assets, however, the Issuer will be allocated a reduced amount of such deductions, and as a result its U.S. federal taxable income generally will increase, and it will be liable for additional U.S. federal income tax and branch profits tax.

In the event the Issuer has been allocated such a reduced amount of depreciation and amortization deductions, it may be entitled to a loss for U.S. federal income tax purposes upon final disposition of its interest in Primary Energy, but there are significant limitations on the Issuer's ability to benefit from this loss.

The Issuer May Not be Able to Make all Principal Payments on the Subordinated Notes

The Subordinated Notes will mature 12 years after the date of issuance. The Issuer may not be able to refinance the principal amount of the Subordinated Notes in order to repay the principal outstanding or may not have generated enough cash from operations to meet this obligation. There is no guarantee that the Issuer will be able to repay the outstanding principal amount upon maturity of the Subordinated Notes.

As a result of the subordinated nature of the guarantees of the Subordinated Notes, upon any distribution to creditors of Primary Energy in a bankruptcy, liquidation or reorganization or similar proceeding relating to Primary Energy or its property or assets, the holders of Primary Energy's senior indebtedness will be entitled to be paid in full in cash before any payment may be made with respect to the Subordinated Notes under the guarantee provided by Primary Energy. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to any of the Project holding companies or the Projects, the holders of the Subordinated Notes will not have a claim against the assets of such Projects.

There is No Public Market for the Common Shares and Subordinated Notes and Holders May Have Limited Liquidity

Neither the Common Shares or the Subordinated Notes have a public market history and an active trading market for those securities does not currently exist. The Issuer currently does not expect that an active trading market for the Common Shares will develop until the Subordinated Notes mature. If the Subordinated Notes represented by the EISs mature or are redeemed or repurchased, the EISs will be automatically separated. There is no intention to list the Subordinated Notes on any stock exchange and an active trading market for the Subordinated Notes may not develop. As a result, there may continue to be limited liquidity for the Common Shares and Subordinated Notes not represented by the EISs.

The Market Price for the EISs, Common Shares or Subordinated Notes May be Volatile

There has been limited public market for enhanced income securities. Factors such as variations in the Issuer's financial results, announcements by the Issuer, the Projects or others, developments affecting the business of the Issuer or the Projects, general interest rate levels, the market price of the Common Shares and general market volatility could cause the market price of the EISs, the Common Shares or the Subordinated Notes to fluctuate significantly.

In addition, future sales or the availability for sale of substantial amounts of EISs or Common Shares or a significant principal amount of Subordinated Notes in the public market could adversely affect the prevailing market price of the EISs, the Common Shares and the Subordinated Notes and could impair the Issuer's ability to raise capital through future sales of its securities.

MARKET FOR SECURITIES

The EISs are listed and posted for trading on the Toronto Stock Exchange ("TSX").

The monthly average volume of trading and price ranges of the EISs on the TSX over fiscal 2005 are set forth in the following table:

PERIOD	HIGH ($)	LOW ($)	VOLUME
August 2005[1]	10.08	9.55	2,569,351
September 2005	10.05	9.40	2,624,026
October 2005	9.95	8.01	1,300,323
November 2005	9.30	8.20	907,975
December 2005	9.75	8.81	1,789,231

(1) For the period August 24, 2005 - August 31, 2005.

PRIOR ISSUANCES

The only issuances of securities by the Issuer in the 12 months prior to December 31, 2005, were securities issued in connection with the EIS Offering and the issuance of one Common Share upon incorporation at a price of $10.00. This Common Share was repurchased by the Issuer for $10.00 and cancelled in connection with the Closing of the EIS Offering.

PROMOTER

Ventures is considered to be a promoter of the Issuer by reason of its initiative in organizing the business and affairs of the Issuer. Venturers indirectly owns, through Ventures Holdco, a 16.8% interest in Primary Energy through its Class B Preferred and Class B Common Interests.

Ventures is organized under the laws of a foreign jurisdiction and resides outside Canada. Although the promoter has appointed the Issuer, Suite 1600, Cathedral Place, 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2 as its agent for service of process in British Columbia, it may not be possible for investors to collect from the promoter judgments obtained in Canada predicated on the civil liability provisions of securities legislation of certain of the provinces and territories of Canada. See “Risk Factors — Risks Related to Capital Structure — Limitations on Enforcement of Certain Civil Judgments by Canadian Investors”. Ventures is not contractually prohibited from selling its interest in Ventures Holdco and Ventures Holdco is similarly not prohibited from selling its Class B Preferred and Class B Common Interests in Primary Energy.

AUDITORS, TRANSFER AGENT, REGISTRAR AND INDENTURE TRUSTEE

The auditors of the Issuer and Primary Energy are PricewaterhouseCoopers LLP.

The transfer agent and registrar for the EISs and the Common Shares is Computershare Investor Services Inc. at its principal office in Toronto, Ontario.

The Trustee for the Subordinated Notes is Computershare Trust Company of Canada at its principal office in Toronto, Ontario.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, which have been entered into by the Issuer or Primary Energy within the most recently completed fiscal year:

- the Investment Agreement dated August 24, 2005 between the Issuer, Ventures Holdco, Ventures, Primary Energy and Primary Operations;
- the Subordinated Note Indenture referred to under “The Issuer — Description of Subordinated Notes”;
- the Underwriting Agreement dated August 15, 2005 between the Issuer, Primary Energy Holdings LLC, Primary Energy Recycling Holdings LLC and Primary Ventures LLC and the Underwriters (as defined therein);
- the Securityholders’ Agreement referred to under “Primary Energy — Securityholders’ Agreement”;
- the Management Agreement referred to under “Directors, Officers and Management — The Manager — Management Agreement”; and
- the Credit Agreement dated August 24, 2005 between Primary Operations, as borrower, Royal Bank of Canada, as administrative agent and collateral agent, CIBC World Markets Corp. and RBC Capital Markets, as joint lead arrangers and joint bookrunners, CIBC World Markets Corp and

Bank of Montreal (d.b.a Harris Nesbitt), as co-syndication agents, Toronto-Dominion Bank and The Bank of Nova Scotia, as co-documentation agents, and the Lenders (as defined therein), pursuant to which the lenders have made available to Primary Operations a $150 million revolving and term loan facility.

Each of these material contracts is available for review on SEDAR at www.sedar.com.

INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

To the knowledge of the board of directors of the Issuer, other than as disclosed in this Annual Information Form, no insider or director of the Issuer or any associate or affiliate of any such persons, had any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any material transaction with the Issuer since the closing of the Issuer's initial public offering on August 24, 2005.

LEGAL PROCEEDINGS

In the ordinary course of business, the Issuer and its subsidiaries may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. To the knowledge of the Issuer, none of the Issuer or its subsidiaries is involved in any legal proceeding which is expected to have a material effect on the Issuer and no legal proceedings of a material nature are pending or to the knowledge of the Issuer threatened against the Issuer or its subsidiaries.

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP, the Issuer's auditor, has been named as having prepared a certified statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 — *Continuous Disclosure Obligations* by the Issuer during, or relating to the Issuer's fiscal year ended December 31, 2005. To the knowledge of the Issuer, PricewaterhouseCoopers LLP holds no registered interest, directly or indirectly, in any securities or other property of the Issuer or any of its affiliates.

ADDITIONAL INFORMATION

Additional information is provided in the Issuer's financial statements and management's discussion and analysis of the Issuer's financial condition and results of operations for its most recently completed fiscal year. Copies of such documents and any additional information related to the Issuer may be found on SEDAR at www.sedar.com. In the alternative, copies may be obtained from the Issuer, upon written request.

Additional information, including directors' and officers' remuneration and indebtedness and the principal holders of the Issuer's securities will be contained in the Issuer's Management Information Circular, to be filed with Canadian securities regulatory authorities in connection with the annual meeting of shareholders of the Issuer to be held in respect of its 2005 fiscal year.

GLOSSARY OF TERMS

In this Annual Information Form, the following terms will have the meanings set forth below, unless otherwise indicated. Words importing the singular include the plural and vice versa and words importing any gender include all genders:

"**affiliate**" has the meaning ascribed thereto in the *Securities Act* (Ontario).

"**Availability**" means the percentage of hours during the reference period that the power plant in question was able, if called upon, to produce name plate generation capacity.

"**Business Day**" means a day other than a Saturday, Sunday or other day on which banking institutions in the Province of Ontario are authorized or required by law to close.

"**Capacity Payment**" means a payment based on the capacity of an electric generator to deliver electric energy, or based on the capacity of a cogeneration facility to deliver electricity and thermal energy. A facility's capacity may be determined for these purposes by agreement, by historical performance, or by periodic testing of the facility. Capacity Payments are generally owed whether or not the generator or cogeneration facility is actually run because they are based on the facility's ability to deliver as opposed to its actual deliveries.

"**CDS**" means the Canadian Depository for Securities Limited.

"**CHP**" means combined heat and power.

"**Class A Common Interests**" means the Class A common membership interests of Primary Energy.

"**Class A Preferred Interests**" means the Class A preferred membership interests of Primary Energy.

"**Class B Common Interests**" means the Class B common membership interests of Primary Energy.

"**Class B Preferred Interests**" means the Class B preferred membership interests of Primary Energy.

"**Code**" means the United States Internal Revenue Code of 1986, as amended.

"**Common Shares**" or "**Common Share**" means the common shares of the Issuer.

"**Credit Facility**" means the credit facility provided by a syndicate of financial institutions to Primary Operations on Closing in an aggregate amount of $150 million.

"**Designated Employees**" means Thomas Casten, William Rockford, John Prunkl and Michael Alverson.

"**DBRS**" means Dominion Bond Rating Service Limited.

"**EIS**" means enhanced income security, consisting of one Common Share and Cdn$2.50 principal amount of Subordinated Notes.

"**EIS Offering**" means the offering of the EISs on August 24, 2005 pursuant to a prospectus of the Issuer dated August 16, 2005.

"**EIS Transactions**" menas, together, the EIS Offering and the Credit Facility.

"**EPA 2005**" means the United States Energy Policy Act of 2005.

"**equivalent amount**" on any given date in one currency (the "first currency") of any amount denominated in another currency (the "second currency") means the amount of the first currency which could be purchased with such amount of the second currency at the rate of exchange approximately equal to the noon rate of exchange quoted by the Bank of Canada on such day for the purchase of the first currency with the second currency.

"**ERISA**" means the United States Employee Retirement Income Security Act of 1974, as amended.

"**ERISA Plan**" means any employee benefit plan that is subject to the fiduciary and prohibited transaction provisions of ERISA and/or any plan that is subject to Section 4975 of the Code, any trust holding assets of such a plan, any entity that is deemed to hold the assets of such a plan pursuant to 29 C.F.R. Section 2510.3-101, issued by the United States Department of Labor, and any governmental plan (as defined in Section 3(32) of ERISA or Section 414(d) of the Code) organized in a jurisdiction within the United States that is subject to a federal, state or local law which is substantially similar to the foregoing provisions of ERISA or Section 4975 of the Code.

"**FERC**" means the United States Federal Energy Regulatory Commission, an independent regulatory agency that, among other things, regulates the transmission and sale of electric power at wholesale in interstate commerce.

"**FPA**" means the *Federal Power Act*, as amended.

"**Guarantee**" means a guarantee of the obligations of the Issuer under the Indenture and the Subordinated Notes by any person.

"**Guarantor**" means any person that incurs a Guarantee, including Primary Energy, Primary Operations and all of its direct or indirect subsidiaries subject to limitations described in the Indenture; provided that upon the release or discharge of such person from its Guarantee in accordance with the Indenture or the applicable Guarantee, such person ceases to be a Guarantor.

"**Harbor Coal Project**" means the coal pulverization facility which is owned by PCI Associates, a general partnership under the laws of the State of Indiana, the two general partners of which are Harbor Coal LLC (formerly Harbor Coal Company) and III/PCI Inc. (formerly ISC/PCI Inc.).

"**Holder**" means a holder of EISs, Subordinated Notes or Common Shares.

"**Indenture**" means the Subordinated Note Indenture dated August 24, 2005 among the Issuer, Primary Energy and the Trustee.

"**Ispat Inland**" means Ispat Inland Inc., a wholly-owned subsidiary of Mittal.

"**ISG**" means ISG Indiana Harbor Inc., a wholly-owned subsidiary of Mittal.

"**IRS**" means the United States Internal Revenue Service.

"**Issuer**" means Primary Energy Recycling Corporation, a corporation continued under the laws of British Columbia.

“**Lakeside**” means Lakeside Energy LLC.

“**Manager**” means Ventures.

“**Management Agreement**” means the management agreement dated August 24, 2005 among the Manager, the Issuer, Primary Energy and Primary Operations, as it may be amended, supplemented and restated from time to time.

“**Mittal**” means Mittal Steel. In December 2004, Ispat International (the parent of Ispat Inland) merged with LNM Group to form Mittal. In April 2005, Mittal acquired ISG. Unless otherwise noted, references to Mittal in this Annual Information Form refer to Mittal and its predecessor entities and their subsidiaries, including Ispat Inland and ISG.

“**Non-U.S. Holder**” means any person, other than an entity or arrangement classified as a partnership for U.S. federal income tax purposes, that is not: (i) an individual who is (or in certain cases was) a citizen in the United States, including an alien resident who is a lawful permanent resident of the United States or meets the “Substantial Presence” test under 7701(b) of the Code, (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S. or a political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source, or (iv) a trust, if it (A) is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) the trust was in existence on August 20, 1996 and has properly elected under applicable Treasury Regulations to continue to be treated as a United States person.

“**Notes**” means the Subordinated Notes and the Separated Subordinated Notes.

“**OID**” means original issue discount.

“**Primary Energy**” means Primary Energy Recycling Holdings LLC, a limited liability company formed under the laws of Delaware.

“**Primary Operations**” means Primary Energy Operations LLC, a limited liability company formed under the laws of Delaware, formerly known as Primary Energy Steel LLC.

“**Projects**” means the Recycled Energy Projects and the Harbor Coal Project, all as described under “Overview of the Projects”.

“**PUHCA 2005**” means the *Public Utility Holding Company Act of 2005*.

“**PURPA**” means the United States Public Utility Regulatory Policies Act of 1978, as amended.

“**Qualifying Facility**” has the meaning ascribed thereto in PURPA and the regulations of the FERC thereunder.

“**Recycled Energy Projects**” means the Ironside, North Lake, Cokenergy and Portside projects.

“**ROFO Projects**” means projects in the power and energy sector owned or acquired directly or indirectly by the Manager having a minimum value of $500,000 including, without limitation, the projects described under “Business of Primary Energy — Business Strategy — Opportunity to Purchase ROFO Projects”.

"**S&P**" means Standard and Poor's, a division of The McGraw-Hill Companies, Inc.

"**Securityholders' Agreement**" means the securityholders' agreement in respect of Primary Energy dated August 24, 2005 among the Issuer, Primary Energy, Ventures Holdco and Ventures.

"**Separate Equity**" means a number of Class B Preferred and Class B Common Interests representing at least 10% of the total preferred and common interests of Primary Energy outstanding on Closing, respectively.

"**Separate Subordinated Notes**" means the Cdn$18.5 million principal amount of Subordinated Notes to be issued and sold separately at the time of Closing.

"**Subordinated Notes**" means the 11.75% subordinated notes of the Issuer issued in accordance with the Indenture.

"**Targeted Annual Distributable Cash"** means Cdn$1.10 per EIS and, following the maturity, redemption or repurchase of all of the Subordinated Notes or the separation of all of the EISs, means Cdn$0.8063 per Common Share subject to adjustment from time to time as described under "Directors, Officers and Management — The Manager — Management Agreement — Management and Administrative Services".

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, in each case in effect on the date hereof.

"**Thermal Energy**" means useful energy for heating or removing heat and can be delivered as steam, hot or cold water.

"**Treasury Regulations**" means the U.S. Treasury regulations (including final, temporary and proposed regulations) promulgated under the Code.

"**Trustee**" means Computershare Trust Company of Canada.

"**U.S. Holder**" means any Holder that is not a Non-U.S. Holder.

"**U.S. Steel**" means Unites States Steel Corporation.

"**USEPA**" means the United States Environmental Protection Agency.

"**Ventures**" means Primary Energy Ventures LLC, a limited liability company formed under the laws of Delaware.

"**Ventures Holdco**" means Primary Energy Holdings LLC, a limited liability company formed under the laws of Delaware.

APPENDIX "A"

AUDIT COMMITTEE CHARTER

PRIMARY ENERGY RECYCLING CORPORATION

I. PURPOSE

The Audit Committee of the Board of Directors of Primary Energy Recycling Corporation (the "Committee") supports the Board in: (i) carrying out its oversight responsibilities relating to the Company's financial statements, accounting policies and its financial reporting process, the systems of internal accounting and financial controls, the independent audit and the selection of the independent auditors (the "Auditors"), (ii) review and discuss the Company's internal control measures with management of the Company's manager, Primary Energy Ventures LLC ("PEV") for purposes of the Company's compliance with any internal control regulations as may be promulgated by the Ontario Securities Commission or other regulatory body to which the Company is subject and (iii) carrying out any other functions set out in this Charter or as from, time to time, may be assigned by the Board to this Committee.

II. COMPOSITION

The Committee shall be comprised of no fewer than three directors, each of whom the Board has determined to satisfy the independence and financial literacy requirements as contemplated by the laws, regulations and listing requirements to which the Company is subject. No director shall be qualified to be a member of the Committee if such director receives any compensation or other remuneration from the Company or any of its subsidiaries, other than director's fees, for such member's services; provided, however, that a member of the Committee who is also a shareholder of the Company may receive dividends and other distributions declared by the Company in the same proportion and amount as other shareholders of the Company.

Members, including the Committee Chair, shall be appointed by the Board and shall serve for such term as the Board may determine.

The General Counsel or Associate General Counsel of PEV shall act as secretary to the Committee, attend meetings of the Committee and prepare and maintain minutes of the proceedings of the Committee.

Any member of the Committee may be replaced or removed at any time by the Board. The Board shall fill vacancies on the Committee, as it deems appropriate.

No member of the Committee shall sit on more than four public company audit committees, including this Committee, without the approval of the Board.

III. MEETINGS

The Chair of the Board or the Committee Chair may call at meetings of the Committee anytime. The Committee shall meet as often as necessary, but not less than four times a year. Any director may ask the Committee Chair to call a Committee meeting.

A quorum at any meeting of the Committee shall be a majority of the members.

Notice of the time and place of each meeting of the Committee and any relevant materials shall be provided to each member of the Committee and the Auditor, not less than forty eight (48) hours before the time fixed for such meeting. A member may waive notice of a meeting.

The Committee Chair shall, with input from the chief financial officer of the Manager, other appropriate individuals and the Auditors, develop the agenda for regular Committee meetings.

If the Chair of the Committee is not present at any meeting of the Committee, one of the members who is present shall be chosen by the Committee to preside at the meeting.

At each regular meeting, the Committee shall meet separately with the Auditors. The Committee will meet in camera, as necessary.

At the invitation of the Committee Chair, other members of the Board, members of Primary Energy Recycling Holdings LLC's Board of Managers, members, officer or employees of the Manager, or special advisors may attend any meeting of the Committee.

IV. RESPONSIBILITIES

To carry out its responsibilities, the Committee shall have the following duties and powers:

1. In respect of Disclosure and Internal Controls

(a) Review and discuss with the Company's internal control measures with PEV for purposes of the Company's compliance with any internal control regulations as may be promulgated by the Ontario Securities Commission or other regulatory body to which the Company is subject.

(b) Review and discuss with management: (i) the Company's policies and procedures for internal accounting, financial control and management information and (ii) the Company's disclosure controls and procedures.

(c) Review and discuss with management: (i) the Company's risk management policies governing the process by which the Company manages exposure to risk, (ii) the Company's major financial risk exposures and (iii) on at least an annual basis, the steps that have been taken to monitor and control such exposures; including the Company's insurance program.

(d) Review all of the Company's interim and annual financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operation and recommend for approval to the Board.

(e) Review all of the Company's public disclosure documents containing financial information, before they are released.

(f) Review and approve (where not otherwise reviewed and approved by the Board as a whole) all press releases disclosing financial information, including the results of operations for any interim or annual financial accounting period and any changes to any Earnings Guidance.

(g) Consistent with the Company's obligation under the Ontario Securities Commission or other regulatory body to which the Company is subject, direct that management of PEV file the financial statements of the Company and/or any Earnings Guidance statements with applicable securities regulators contemporaneous with issuance of any press releases related thereto.

(h) Review any off-balance sheet items.

(i) Discuss with management the type of financial information, earnings guidance and presentation provided to analysts and rating agencies.

(j) Review expenses submitted by the Manager to be paid by the Company.

(k) Review the annual management and administration budget for the Company prepared by the Manager and recommend for approval to the Board.

(l) Review the evaluation, accounting and disclosure of legal proceedings against the Company.

(m) Review with management and the Auditors any significant correspondence with regulators or governmental agencies or published reports which may raise material issues regarding the Company's financial statements or accounting policies.

(n) Satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, and periodically assess the adequacy of these procedures.

2. In respect of the Auditors

(a) Evaluate the performance and independence of the Auditors and recommend the retention or termination of the Auditors and, in the case of termination of the Auditors, make nominations to the Board of Directors with respect to any Auditors to be retained in replacement of existing Auditors who shall report directly to the Committee.

(b) Discuss with the Auditors any relationships that may impact the quality of its services to the Company or the objectivity and independence of the Auditors.

(c) Approve all audit engagement fees and terms and recommend approval of such fees to the Board.

(d) Prior to the provision of services, approve the provision of any non-audit services, to be provided to the Company and/or any its subsidiaries by the Company's Auditors and the fees associated with those services.

(e) Review the process for the rotation of the lead audit partner, the concurring partner and any other engagement team partner assigned by the Company's Auditor to the provision of audit services to the Company and its subsidiaries.

(f) Require the Auditors to submit a formal written statement describing their quality control procedures.

(g) Consider any reports or communications (and management's related responses) submitted to the Committee by the Auditors as required by applicable auditing standards.

(h) Discuss any significant matters arising from any audit, and any difficulties or considerable differences of opinion between the Auditors and the Manager, and the Manager's responses thereto.

(i) Review the annual Auditor's Report to Shareholders.

(j) Discuss with the Auditors and the Manager the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements, including the quality of the Company's critical accounting principles, any significant changes in these principles, alternative treatments of financial information that have been discussed with management and the implications of their use.

(k) Obtain the Auditor's assurance that the audit was conducted in a manner consistent with applicable laws and regulations.

(l) Review and approve any policies instituted by the Company with respect to utilization of partners, former employees and former partners of the Auditors in connection with work performed for the Company and its subsidiaries by the Manager.

3. In respect of Corporate Governance

(a) Establish and monitor procedures for the receipt, retention, treatment and resolution of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.

(b) Establish and monitor procedures for confidential, anonymous submissions by employees of the Manager of concerns regarding accounting, internal accounting controls, auditing matters or financial reporting.

(c) Report its activities to the Board on a regular basis and make such recommendations to the Board as the Committee deems necessary or appropriate.

(d) Prepare a report, if deemed necessary or appropriate, for inclusion in the Company's annual proxy circular.

(e) Conduct and review with the Board an annual performance evaluation of the Committee and its members.

(f) Review this Charter annually and recommend any changes to the Board.

(g) Review insider and related party transactions.

V. RESOURCES

In fulfilling its role, the Committee is sanctioned to investigate any matter brought to its attention with full access to the books, records, facilities and personnel of Primary Energy Recycling Holdings LLC and its subsidiaries and to the Manager's personnel.

The Committee has the authority to retain, at the expense of the Company, counsel, accountants or other experts, as it deems appropriate, without seeking approval of the board.

VI. LIMITATION OF THE COMMITTEE'S ROLE

The function of the Committee is oversight. It is not the duty or responsibility of the Committee to: (1) plan or conduct audits, (2) determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles or (3) conduct other types of auditing or accounting reviews or similar procedures.

Members of the Committee, unless they have knowledge to the contrary, shall be entitled to rely on: (1) the integrity of those persons within the Manager and Primary Energy Recycling Holdings LLC and external advisors from which they receive information, (2) the accuracy of the information provided to the Committee and (3) representations made by the Manager and the Auditors as to any non-audit services provided by the Auditors to the Company and its affiliates.