PRIMARY ENERGY RECYCLING CORPORATION

(Amended) Management Discussion and Analysis of Financial Condition and Results of Operation

Period from August 24, 2005 to September 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company has amended its previously issued Management's Discussion and Analysis for the period from August 24, 2005 to September 30, 2005 to properly record an unrealized gain on derivative hedge contracts of $5.7 million. This correction, net of its impact on income tax benefit and non-controlling interest, reduced the net loss reported for the 38-day period ended September 30, 2005 by $4.4 million from $3.9 million to a net income of $0.5 million, changed the net loss per share reported for the 38-day period ended September 30, 2005 from $(0.13) to a net income per share of $0.02. This correction had no impact on net cash provided by operating activities, cash available for distribution, cash available for distribution per unit, total distributions or total distributions per unit.

The following management discussion and analysis of the financial condition and results of operations of Primary Energy Recycling Corporation (the "Company") should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the period ended September 30, 2005 and the financial statements included in the Company's prospectus dated August 16, 2005. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Canada ("GAAP"). All amounts described in the management discussion and analysis of financial condition and results of operations are in thousands of U.S. dollars, unless otherwise stated.

Forward-Looking Statements

Certain statements in this quarterly report may constitute ''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 quarterly report. These 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'' in the Final Prospectus. Although the forward-looking statements contained in this quarterly report 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 quarterly report and the Issuer assumes no obligation to update or revise them to reflect new events or circumstances.

Definition of EBITDA and Distributable Cash

References to ''EBITDA'' are to earnings before interest, taxes, depreciation, amortization and certain other adjustments listed in the reconciliation table provided herein. References to "Distributable Cash" are to EBITDA, as adjusted for: interest on the New Credit Facility and interest on the Separate Subordinated Notes. EBITDA and Distributable Cash are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. The Company intends to distribute substantially all of its cash excluding those amounts required for operation of the business on an ongoing basis. Accordingly, management believes that EBITDA and Distributable Cash are important measures in evaluating the Company's performance. Distributable Cash is not intended to be representative of cash flow or results of operations determined in accordance with GAAP.

Overview

General

The Company owns a majority interest in Primary Energy Recycling Holdings LLC ("PERH"). PERH, headquartered in Oak Brook, Illinois, indirectly owns and operates four recycling 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. PERH 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.

On August 24, 2005, the Company completed an initial public offering (the "Offering") through the issuance of 28,500,000 enhanced income securities ("EISs") at a price of Cdn$10.00 per EIS, each representing one common share of the Company and Cdn$2.50 principal amount of 11.75% subordinated notes resulting in net proceeds to the Company of approximately Cdn$264 million, after deducting underwriters' fees and expenses of the Offering. In addition, the Company issued Cdn$18.5 million Separate Subordinated Notes with the same terms as the EIS subordinated notes. A New Credit Facility was also entered into contemporaneously with the Offering consisting of a term note of $135.0 million and a $15.0 million revolving credit facility.

The Company used the proceeds of the Offering to acquire an ownership interest in PERH. The acquisition of PERH has been accounted for using the purchase method. Upon completion of the offering, the Company owned 76.5% financial interest in PERH.

The Company granted the Underwriters the Over-Allotment Option to purchase up to a total of 4,275,000 additional EISs for the purpose of covering over-allotments, if any, and for market stabilization purposes. On September 27, 2005 the Underwriters exercised the Over-Allotment Option to purchase 2,500,000 additional EISs. Net proceeds after deducting fees payable to the Underwriters were Cdn$23.7 million. The Company used the net proceeds to acquire additional Class A Preferred and Class A Common Interests in PERH. PERH in turn used such amounts to acquire, on a pro rata basis, Class B Preferred and Class B Common Interests in PERH held by Primary Energy Holdings LLC ("PEH"). After the exercise of the Over-Allotment Option, the Issuer owns an 83.2% financial interest in PERH through its Class A Preferred and Class A Common Interests and PEH owns a 16.8% financial interest in PERH.

Matters Affecting Comparability

The Company began operations on August 24, 2005, the same day as the Company completed an initial public offering of enhanced income securities ("EISs"). The period ended September 30, 2005 includes thirty-eight days of operations, and there are no financial statements for the 2004 fiscal year for the Company (or its subsidiaries) that can be used on a comprehensive basis for comparing the current 38 day period operating results to the comparative period in the prior period.

In order to enhance its usefulness, this management discussion and analysis includes a summary of the operating results of the Company for the 38 day period subsequent to the initial public offering of EISs and combined with the period from July 1, 2005 through August 23, 2005 of the predecessor Company to arrive at pro forma operating results for the three-month period ended September 30, 2005. These results have been compared to the pro forma operating results of the Company for the three-month period ended September 30, 2004. Additionally, the operating results includes a summary of the Company for the 38 day period subsequent to the initial public offering of EISs and combined with the period from January 1, 2005 through August 23, 2005 of the predecessor Company to arrive at pro forma operating results for the nine-month period ended September 30, 2005. These combined operating results have been compared to the pro forma operating results of the predecessor Company for the nine-month period ended September 30, 2004. As the periods, or portions thereof, are prior to the acquisition by the Company, this information is provided for reference purposes only, and is not intended as a comprehensive comparison of financial results.

Primary Energy Recycling Corporation
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (in 000's of US$, except per share data) – Three Months Ended September 30, 2005 (Unaudited)

	Three Months Ended September 30,			
	Actual 38 Days 8/24-9/30 (Amended)	Predecessor Pro forma 54 Days 7/1-8/23 (Note 1)	Pro forma 2005 (Note 1)	Predecessor Pro forma 2004 (Note 1)
Revenue:				
Capacity	$ 3,782	$ 5,236	$ 9,018	$ 9,018
Energy Service	5,383	4,943	10,326	13,276
	9,165	10,179	19,344	22,294
Expenses:				
Operations and maintenance	2,945	3,002	5,947	5,701
General and administrative	935	962	1,897	2,419
Depreciation and amortization	4,117	1,871	5,988	3,206
Total Operating Expenses	7,997	5,835	13,832	11,326
Operating income	$ 1,168	$ 4,344	$ 5,512	$ 10,968
Other Income (Expense):				
Interest income (expense),net	(2,166)			
Unrealized gain on derivative hedge contracts	5,672			
(Loss) on Foreign Currency Translation	(2,679)			
Income before income taxes	1,995			
Income tax benefit	111			
Income before non-controlling interest	2,106			
Non-controlling interest in class B Preferred	(160)			
Non-controlling interest in class B Common	(1,436)			
Net income	$ 510			
Net income per share (Note 2)	$ 0.02			

Note 1: Proforma financial data has been adjusted to reflect investment in PCI Associates on a proportionate consolidation basis for all periods presented and to remove the financial results of Lakeside Energy LLC from historical predecessor financial results.

Note 2 – Enhanced Income Securities per share has been calculated using the weighted average number of units outstanding during the period of 28,697,368.

Distributable Cash Summary - (Amended)

(in 000's of US$, except per share data)

	Actual 38 Days ended September 30, 2005 (Unaudited)
Reconciliation of net income to EBITDA:	
Net income	510
Plus:	
Depreciation and Amortization	4,117
Interest expense	2,166
Unrealized loss on foreign currency exchange	2,679
Unrealized gain on derivative hedge contracts	(5,672)
Income tax benefit	(111)
Non-controlling interest	1,436
Distributions on Class B preferred interest	160
EBITDA (Note 1)	**5,285**
Less:	
Interest and related charges on new credit facility	1,009
Interest on separated subordinated notes	195
Distributable Cash (Note 1)	**4,081**
Per fully diluted EIS unit (Note 2)	**0.11**
Interest on EIS distributions	815
EIS distributions	2,237
Distributions on Class B preferred interest	160
Distributions on Class B common Interest	457
Total distributions (Note 3)	**3,669**
Per fully diluted EIS unit (Note 2)	**0.10**
Hedge rate (Cdn$ per US$)	**1.1712**
Distributable Cash (Cdn$) (Note 1)	**4,780**
Per fully diluted EIS unit (Cdn$) (Note 2)	**0.13**

Note 1 - EBITDA and Distributable Cash are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. As the Company intends to distribute substantially all of its cash on an ongoing basis, management believes that EBITDA and Distributable Cash are important measures in evaluating the Company's performance. Distributable Cash is not intended to be representative of cash flow or results of operations determined in accordance with GAAP.

Note 2 – Fully diluted EIS unit computation assumes conversion of Class B interests into equivalent EIS units. For the 38 day period ended September 30, 2005, the number of units outstanding is 37,265,455

Note 3 – Declared, but not distributed in reporting period.

38 Days Ended September 30, 2005

For the 38 days ended September 30, 2005, revenue totaled $9.2 million. Operations and maintenance totaled $2.9 million or 32.1% of revenues, general and administrative expenses totaled $0.9 million or 10.2% of revenues, and depreciation and amortization totaled $4.1 million. Interest expense totaled $2.2 million, unrealized gain on derivative hedge contracts totaled $5.7 million and unrealized loss on foreign currency translation totaled $2.7 million for the 38-day period. Income tax benefit totaled $0.1 million.

Pro forma for Three Months Ended September 30, 2005 Compared to the Pro forma for the Three Months End September 30, 2004

The Company's pro forma revenues of $19.3 million in the third quarter of 2005 decreased $3.0 million, or 13.2% compared with pro forma revenues of $22.3 million for the comparable 2004 quarter. The decrease in revenues in the quarter was primarily driven by reduced revenues at the Company's Harbor Coal facility of $2.5 million and a $0.5 million reduction in Energy Service revenue.

Pro forma operating and maintenance expense for the third quarter of 2005 was $5.9 million compared to $5.7 million for the pro forma third quarter of 2004, an increase of $0.2 million or 4.3%. The increase noted is due to $0.3 million of additional operating expenses incurred at Harbor Coal offset by a $0.1 million reduction in operating and maintenance expenses at other facilities. As a percentage of revenues, operating and maintenance expenses increased to 30.7% for the third quarter of 2005 from 25.6% for the third quarter of 2004.

Pro forma general and administrative expense for the third quarter of 2005 was $1.9 million compared to $2.4 million for the pro forma third quarter of 2004, a decrease of $0.5 million or 21.6%. The decrease noted is the result of a $1.1 million reduction in allocated general and administrative expenses offset by additional expenses associated with plant and liability insurance of $0.2 million, professional fees of $0.3 million and property taxes of $0.1 million. Included in the general and administrative expenses for the period ended September 30, 2005 is a $0.3 million management fee. As a percentage of revenues, general and administrative expenses decreased to 9.8% for the third quarter of 2005 from 10.9% for the third quarter of 2004.

Pro forma depreciation expense totaled $2.5 million for the third quarter of 2005 and was essentially flat when compared with pro forma third quarter of 2004 depreciation expense. As a percentage of revenues, depreciation expense increased to 12.7% for the third quarter of 2005 from 10.7% for the third quarter of 2004.

Pro forma amortization expense for the third quarter of 2005 was $3.5 million compared to $0.8 million for the pro forma third quarter of 2004, an increase of $2.7 million. The increase was due to the additional amortization associated with the allocation of purchase price to Contract Value intangible upon the completion of the EIS Offering.

Pro forma income from operations for the third quarter of 2005 was $5.5 million compared to $11.0 million pro forma income from operations for the third quarter of 2004, a decrease of $5.5 million, or 49.8%. The decline was primarily driven from the net effect of items discussed above.

Primary Energy Recycling Corporation
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (in 000's of US$, except per share data) – Nine Months Ended September 30, 2005 (Unaudited)

	Actual 38 Days 8/24-9/30 (Amended)	Predecessor Pro forma 235 Days 1/1-8/23 (Note 1)	Nine Months Ended September 30, Pro forma 2005 (Note 1)	Nine Months Ended September 30, Predecessor Pro forma 2004 (Note 1)
Revenue:				
Capacity	$ 3,782	$ 23,271	$ 27,053	$ 27,053
Energy Service	5,383	25,942	31,325	35,499
	9,165	49,213	58,378	62,552
Expenses:				
Operations and maintenance	2,945	15,895	18,840	17,922
General and administrative	935	5,287	6,222	6,260
Depreciation and amortization	4,117	8,295	12,412	9,595
Total Operating Expenses	7,997	29,477	37,474	33,777
Operating income	$ 1,168	$ 19,736	$ 20,904	$ 28,775
Other Income (Expense):				
Interest income (expense),net	(2,166)			
Unrealized gain on derivative hedge contracts	5,672			
(Loss) on Foreign Currency Translation	(2,679)			
Income before income taxes	1,995			
Income tax benefit	111			
Income before non-controlling interest	2,106			
Non-controlling interest in class B Preferred	(160)			
Non-controlling interest in class B Common	(1,436)			
Net income	$ 510			
Net income per share (Note 2)	$ 0.02			

Note 1: Proforma financial data has been adjusted to reflect investment in PCI Associates on a proportionate consolidation basis for all periods presented and to remove the financial results of Lakeside LLC from historical financial results.

Note 2 – Enhanced Income Securities per share has been calculated using the weighted average number of units outstanding during the period of 28,697,368

Pro forma for the Nine Months Ended September 30, 2005 compared to the Pro forma for the Nine Months End September 30, 2004

The Company's pro forma revenues of $58.4 million in the first nine months of 2005 decreased $4.1 million, or 6.7% compared with pro forma revenues of $62.5 million for the comparable 2004 period. The decrease in revenues was primarily driven by reduced revenues at the Company's Harbor Coal facility of $3.1 million and a $1.0 million reduction in Energy Service revenue.

Pro forma operating and maintenance expense for the first nine months of 2005 was $18.8 million compared to $17.9 million for the pro forma first nine months of 2004, an increase of $0.9 million or 5.1%. The increase noted is due to $1.0 million of additional operating expenses incurred at Harbor Coal offset by a $0.1 million reduction in operating and maintenance expenses at other facilities. As a percentage of revenues, operating and maintenance expenses increased to 32.3% for the first nine months of 2005 from 28.7% for the first nine months of 2004.

Pro forma general and administrative expense totaled $6.2 million for the first nine months of 2005 and was essentially flat when compared with pro forma first nine months of 2004 general and administrative expense. Significant changes noted in general and administrative expense are, a decrease for the first nine months of 2005 in allocated general and administrative expenses of $1.6 million offset by additional expenses associated with plant and liability insurance of $0.2 million, professional fees of $0.3 million and property taxes of $1.1 million. In 2004 the Company received a special one year property tax abatement which was not repeated in 2005. Included in the general and administrative expenses for the period ended September 30, 2005 is a $0.3 million management fee. As a percentage of revenues general and administrative expenses increased to 10.7% for the first nine months of 2005 from 10.0% for the first nine months of 2004.

Pro forma depreciation expense totaled $7.2 million for the first nine months of 2005 and was essentially flat when compared with pro forma first nine months of 2004 depreciation expense. As a percentage of revenues, depreciation expense increased to 12.4% for the first nine months of 2005 from 11.4% for the first nine months of 2004.

Pro forma amortization expense for the first nine months of 2005 was $5.2 million compared to $2.5 million for the pro forma first nine months of 2004, an increase of $2.7 million. The increase was due to the additional amortization associated with the allocation of purchase price to Contract Value intangible upon the completion of the EIS Offering.

Pro forma income from operations for the first nine months of 2005 was $20.9 million compared to $28.8 million pro forma income from operations for the first nine months of 2004, a decrease of $7.9 million, or 27.4%. The decline was primarily driven from the net effect of items discussed above.

Outstanding Share Data

At September 30, 2005, the Company had 31,000,000 EISs outstanding. Each EIS represents one common share of the Company.

Liquidity and Capital Resources

On August 24, 2005, the Company completed an initial public offering (the "Offering") through the issuance of 28,500,000 enhanced income securities ("EISs") at a price of Cdn$10.00 per EIS, each representing one common share of the Company and Cdn$2.50 principal amount of 11.75% subordinated notes.

Net proceeds from the Offering after deducting fees payable to the Underwriters and expenses of the Offering, were approximately Cdn$264 million. In addition to Cdn$71.25 million of 11.75% Subordinated Notes represented by the EISs, Cdn$18.5 million of Separate Subordinated Notes were issued. The Company used the net proceeds from the Offering, together with approximately Cdn$17.95 million from the sale of the Separate Subordinated Notes, to subscribe for 35,900,000 Class A Preferred and 28,500,000 Class A Common Interests in Primary Energy Recycling Holdings, LLC ("PERH"). PERH used approximately Cdn$281.9 million of the proceeds from the subscription for membership interests by the Company to make a capital contribution to Primary Energy Operations LLC ("PEO") and repay approximately Cdn$205.6 million of outstanding senior indebtedness. PEO used the proceeds from the capital contribution by PERH, plus approximately Cdn$161.6 million drawn under the Credit Facility, to make capital contributions to each of North Lake Energy, Ironside Energy, Cokenergy, Harbor Coal and Portside Energy. Each of North Lake, Ironside, Cokenergy and Portside used the proceeds of the capital contributions from PEO to repay outstanding indebtedness. Harbor Coal used the proceeds of the capital contribution from PEO to make a capital contribution to PCI Associates, which in turn used such proceeds to repurchase the leased portion of the coal pulverization facility from the lessor. Following completion of the acquisition and prior to exercise of the over-allotment option (the "Over-Allotment Option"), the Company owned a 76.5% financial interest in PERH through its Class A Preferred and Class A Common Interests and Primary Energy Holdings LLC ("PEH") owned a 23.5% financial interest in PERH.

The Company granted the Underwriters the Over-Allotment Option to purchase up to a total of 4,275,000 additional EISs for the purpose of covering over-allotments, if any, and for market stabilization purposes. On September 27, 2005 the Underwriters exercised the Over-Allotment Option to purchase 2,500,000 additional EIS's. Net proceeds after deducting fees payable to the Underwriters were Cdn$23.7 million. The Company used the net proceeds to acquire additional Class A Preferred and Class A Common Interests in PERH, which in turn used such amounts to redeem, on a pro rata basis, Class B Preferred and Class B Common Interests in PERH held by PEH. After the exercise of the Over-Allotment Option, the Issuer owns an 83.2% financial interest in PERH through its Class A Preferred and Class A Common Interests and PEH owns a 16.8% financial interest in PERH.

During the thirty-eight day period ended September 30, 2005, the Company generated $2.3 million in cash flow from operations.

At September 30, 2005, the Company's debt under the New Credit Facility was $135.0 million, with $15.0 million in additional borrowings available under the revolving credit facility for working capital purposes. In addition, at September 30, 2005 outstanding debt included $82.7 million in Subordinated Notes and Separate Subordinated Notes. The New Credit Facility has a maturity date of August 24, 2009, while the Subordinated Notes, including the Separate Subordinated Notes, have a 12-year term and are due and payable on August 24, 2017.

The Company determines its dividend declarations, which it intends to pay in equal monthly amounts, based on periodic reviews of its estimated annual earnings and related estimated annual cash flows. The Company expects to follow the distribution policy summarized in the final prospectus dated August 16, 2005.

Foreign Currency Exchange Contracts

At the time of the Offering closing, the Company entered into forward contracts to purchase Canadian dollars sufficient to make 60 monthly distributions through September 2010 to all EIS holders including non controlling Investors, as well as interest payments on the Separate Subordinated Notes. For the period ending September 30, 2005, the impact of the change in the foreign exchange rate on the aggregate fair value of the hedges resulted in an unrealized gain of $5.4 million.

Interest Rate Swap Agreements

The Company entered into interest rate swap agreements on August 31, 2005. The contracts were purchased to mitigate the cash flow risk associated with the impact of changing interest rates or payments due under the Credit Facility. The agreements are accounted for as derivatives with the change in the fair value of the derivative recorded in income. The fair value of these agreements as of September 30, 2005 was a net amount of $239 thousand and has been recorded as an unrealized gain.

Commitments and Contractual Obligations

The following table reflects the Company's contractual obligations and commitments related to outstanding indebtedness as of September 30, 2005 and the required payment by period due.

Maturities long-term debt are as follow (in 000's):

	September 30, 2005 Balance	2005	2006	2007	2008	2009	Thereafter
Notes payable	$ 135,000	$ -	$ -	$ -	$ -	$ 135,000	$ -
Subordinated debt	82,709	-	-	-	-	-	82,709
Total...........................	$ 217,709	$ -	$ -	$ -	$ -	$ 135,000	$ 82,709

The Company pays a management fee under the Management Agreement which has an initial term of 20 years. For more detailed discussion, please see "Transactions with Related Parties".

The Company has no off-balance sheet debt or similar obligations.

Transactions with Related Parties

Primary Energy Ventures LLC (the "Manager") is engaged to provide management and administrative services to the Company and its subsidiaries pursuant to the terms of the Management Agreement for which it earns a fixed fee that adjusts annually based on inflation factors. The Manager is also 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 the Company. The incentive fee for each year will equal 25% of the product of (a) the excess of the Company's distributable cash per EIS and (b) the weighted average number of EISs, Common Shares not represented by EISs and Class B Common Interests outstanding for such fiscal year. The Management Agreement has an initial 20-year term.

During the term of the Management Agreement, if the Manager decides to sell or otherwise alienate any Right of First Offer Project ("ROFO Project"), it will first provide an offer to the Company in respect thereof (an "Offer"). The Offer will set out a cash price for the ROFO Project and the proposed terms of sale. The Company will have 90 days after receipt of the Offer to accept such offer or negotiate alternate terms of sale acceptable to the Company. If the Company agrees with the terms of sale for the ROFO Project prior to the end of the 90 day negotiation period, the Manager and the Company 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 Company (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 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 favorable 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.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable. If actual amounts are ultimately different from these estimates, the revisions are included in the Company's results of operations for the period in which the actual amounts become known.

Accounting policies are considered critical when they require management to make assumptions about matters that are highly uncertain at the time the estimate is made and when different estimates than those management reasonably could have made have a material impact on the presentation of the Company's financial condition, changes in financial

condition or results of operations. The following is a description of our accounting policies that we believe require subjective and complex judgments, and could potentially have a material effect on reported financial condition and results of operations.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Spare Parts Inventory

The Company maintains a certain level of inventory of spare parts at its facilities. The parts on-hand are stated at lower of cost or market value and are included in the current assets of the Company. The Company expenses parts as they are used.

Property, Plant and Equipment

Property, plant and equipment have been adjusted giving effect to the purchase method of accounting. Depreciation for all asset classes is recorded on a straight-line basis over the estimated useful lives of the assets. Generally, the estimated useful lives are 30 years for buildings, plant and equipment. The estimated useful life of office furniture and equipment is 7 years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to income as incurred. The carrying amount for long-lived assets is reviewed whenever events or changes in circumstances indicate that impairment may have occurred.

Deferred Finance Fees

The Company capitalizes costs associated with the issuance of debt instruments. These costs are amortized on a straight-line basis over the term of the debt agreements. In connection with credit facilities entered into in August of 2005, the Company paid $8.5 million for financing fees that have been deferred and are being amortized over the term of the underlying credit facilities. For the period of August 24, 2005 through September 30, 2005, the Company has amortized $128 thousand of deferred financing fees.

Asset Retirement Obligations

The fair value of estimated asset retirement obligations is recognized in the consolidated balance sheet when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are amortized over the asset's estimated useful life and included in depreciation expense on the consolidated statement of operations and members' deficit. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the consolidated statement of operations and members' deficit. Actual expenditures incurred are charged against the accumulated obligation.

Revenue Recognition

The Company operates its facilities under certain tolling and operation and maintenance agreements with its customers. These agreements with customers qualify as operating lease arrangements for accounting purposes under the principles of Statement of Financial Accounting Standards (SFAS) No. 13, "Accounting for Leases," and (EIC-150), "Determining Whether an Arrangement Contains a Lease." The Company presents the fixed monthly payments from these contracts as Capacity revenues on its consolidated statement of operations. Substantially all of the Company's building and equipment serve as rental property under these operating leases.

Revenues are recorded as services are delivered. Revenues are recorded on the accrual basis and may include estimates for services delivered. Capacity revenues represent the fixed revenue amounts established in the tolling agreements with the Company's customers. Energy service revenues represent the revenue earned based on measurements of services performed each period.

The Company provides estimates for doubtful accounts it deemed necessary based on the aging category and specific knowledge of the customers ability to pay. No such reserves were recorded at September 30, 2005.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for Derivatives

The Company accounts for and reports derivatives as required under Accounting Guideline 13 "Hedging Relationships" (AcG-13") requires that every derivative instrument be recorded in the balance sheets as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

Earnings per share

Basic earnings per share are computed based on the weighted average number of common shares outstanding. As of September 30, 2005, there are no potentially dilutive common units issued and outstanding. Accordingly, the diluted earnings per share is equivalent to basic earnings per share.

Risk Factors

Primary Energy Recycling Corporation's future performance and ability to generate sufficient cash flow to meet its monthly cash distributions to holders of EISs and the Common Shares and Subordinated Notes represented thereby involves a number of risks and uncertainties. Any of these risks and uncertainties could have a material adverse effect on the Company's results of operations, business prospects, financial condition, the cash available to the Company for distribution to holders of EISs, Common Shares, or Subordinated Notes or on the market price or value of EISs, Common Shares or Subordinated Notes. The following is a list of the primary risks facing the Company.

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.

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.

The Issuer has Limited Control Over 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.

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

If any Project that is a Qualifying Facility were to lose its status as a Qualifying Facility, then such a Project may no longer be entitled to exemption from provisions of the PUHCA and/'or the FPA and state law and regulations as described under "Industry Regulation". This could subject such Projects to rate regulation as public utilities either under the FPA and/or state law and could result in the Issuer or certain of its affiliates inadvertently becoming a public utility holding company by controlling a facility that would no longer be exempt from PUHCA. This could cause some or all of the remaining Projects that are Qualifying Facilities to lose their Qualifying Facility status, because Qualifying Facilities may not be more than 50% owned by public utility holding companies as defined by PUHCA. A Project may lose its Qualifying Facility status on retroactive or prospective basis.

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 and 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 short-term basis.

Recent Canadian Accounting and Related Pronouncements

In an effort to standardize Canadian GAAP with U.S. GAAP, the Canadian Accounting Standards Board has recently issued new Handbook sections:

- 1530, Comprehensive Income;
- 3855, Financial Instruments – Recognition and Measurement; and
- 3865, Hedges.

Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables and investments that are intended to be held to maturity and certain equity investments, which should be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are held for trading or they are derivatives. Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exception of gains and losses arising from:

- Financial assets held for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and
- Certain financial instruments that qualify for hedge accounting.

Sections 3855 and 3865 make use of "other comprehensive income". Other comprehensive income comprises revenues, expenses, gains and losses that are excluded from net income. Unrealized gains and losses on qualifying hedging instruments, foreign currency, and unrealized gains or losses on financial instruments held for sale will be included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components will be a required disclosure under the new standard. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

Variable Interest Entities ("VIEs")

In June 2003, the CICA issued Accounting Guideline 15 "*Consolidation of Variable Interest Entities*" (AcG-15"). AcG-15 defines VIEs as entities in which either: the equity at risk is not sufficient to permit that entity to finance its activities without additional financial support from

other parties; or equity investors lack voting control, and obligation to absorb expected losses or the right to receive expected residual returns. AcG-15 harmonizes Canadian and U.S. GAAP and provides guidance for companies consolidating VIEs in which it is the primary beneficiary. The guideline is effective for all annual and interim periods beginning on or after November 1, 2004. We do not expect this guideline to have a material impact on our consolidated financial statements.

Financial Instruments

The CICA Handbook Section 3860 "*Financial Instrument*" – *Disclosure and Presentation*" has been amended to provide guidance for classifying certain financial instruments that embody obligations that may be settled by the issuance of the issuer's equity shares as debt when the instrument that embodies the obligations does not establish an ownership relationship. We do not expect this guideline to have a material impact on our consolidated financial statements.

Additional Information

Additional information relating to the Company, including the interim financial statements for the period from August 24, 2005 to September 30, 2005 is available on SEDAR at www.sedar.com.