PRIMARY ENERGY RECYCLING CORPORATION

Letter to Holders of Enhanced Income Securities

Period from August 24, 2005 to September 30, 2005

Company Profile

Primary Energy Recycling Corporation (the "Company") is a corporation existing under the laws of British Columbia. The Company holds an 83.2% interest in Primary Energy Recycling Holdings LLC ("PERH"), a Delaware Limited Liability Company. The remaining 16.8% of PERH is indirectly owned by Primary Energy Ventures LLC (the "Manager"), which is also responsible for the management and operation of PERH's assets. These assets include four wholly-owned Recycled Energy projects with a combined electrical generating capacity of 283 megawatts (MW) electric and 1,851Mlbs/hour of steam generating capacity, plus a 50% interest in a pulverized coal facility that uses waste heat to dry pulverized coal for blast furnace injection.

The Company completed its initial public offering of Enhanced Income Securities ("EISs") on August 24, 2005 and is listed on the Toronto Stock Exchange under the symbol PRI.UN. The Company is structured to provide EIS holders with monthly cash distributions of most of the distributable cash flow of the Company.

A Message from the CEO

This is our first report to EIS holders following the initial public offering ("IPO") of the Company on August 24, 2005. The following pages provide you with information about the actual results of the Company since the IPO and provide year to date and comparative 2004 financial information on a pro forma basis. I would like to offer some perspective on our mission and strategy.

The Company and its Manager create value by recycling waste energy into electricity and thermal energy for our customers' use. Our business model is to enter into long term contracts with industrial facilities to provide us with waste energy streams such as blast furnace gas, exhaust heat and pressure drop and provide us space to build energy recycling plants. In turn, we supply electricity and thermal energy to our customers under long term contracts at prices below conventional costs of the same energy. This allows us to create steady cash flows that are largely insensitive to changes in the prices of fossil fuel and retail electricity. Our projects generate savings for our customers relative to the period's energy commodity prices. In this light, the doubling of natural gas prices that followed the recent U.S. hurricanes has substantially increased the value to our customers of the fuel we displace with recycled energy. If increased fossil fuel prices work their way into retail electricity prices, the value of electricity we produce for our customers will also increase. At the same time, commodity price volatility does not substantially affect our results.

This business model and its relative insensitivity to fuel price changes allows for the steady and reliable cash flow that you expected when you invested in the Company and that is what we plan to deliver.

The overall results of the reporting period are in line with our expectations. Our Distributable Cash for the period was $4.08 million or $0.14 (Cdn$0.17) per Enhanced Income Security while the Company declared Distributions of $3.67 or $0.13 (Cdn$0.15) per EIS, the target distribution for this period, thus increasing our liquidity. The Company has total liquidity of $26.68 million, of which $11.68 million is cash and cash equivalents and $15 million is an unused credit facility.

On September 8, 2005, Canadian Finance Minister Goodale expressed two concerns about Canada's growing number of income trust type entities, namely: 1) the potential of flow through entities to reduce Canadian federal tax revenues, and 2) whether the availability of such structures could lead to economically inefficient business decisions. A consultative process is now underway. We would like to share our views on these two concerns.

With respect to the concern over tax leakage from flow through entities, we note the following. There are over 225 income trusts in Canada that have flow through taxation characteristics and are the main focus of Mr. Goodale's concern. There are only 10 U.S. based "cross border" vehicles, including the Company, which are somewhat different. The Company is a Canadian corporation not a trust. As such, the Company is subject to Canadian corporate tax rules. The dividends and interest payments we make on the EISs are subject to normal taxation rules that govern the dividends and interest payments from any other Canadian corporation.

With regard to the question of efficient business decisions, I note as a past CEO of a New York Stock Exchange listed company that the structure of paying out most of net cash flow every month vastly improves the efficiency of economic decisions. In fact, our entire team manages the business every day to maximize cash flow. If we have a new idea that we believe merits investment, we must return to the market and have our shareholders "vote" on that idea. If those shareholders like our new investment, they can purchase additional securities. This puts management's ideas to market tests. Thus, we applaud the creation of these EIS structures and believe they cause managers to improve performance versus the conventional model of retaining cash for further investment.

Finally, we note several other broad trends in the economy and environment that are positive for the Company's future. Higher energy prices, continued moves to reduce pollution and greenhouse gases and increased efforts to improve the reliability and security of energy infrastructure in the face of severe weather and potential terrorist threats are today's headlines. We help our industrial hosts reduce their energy costs, environmental footprint and vulnerability to volatile fossil fuel prices, and do so with our financial and intellectual capital, freeing them to focus on their core businesses. We are in active discussion with our customers about projects to recycle more of their waste energy flows and are working diligently to translate these conversations into improvements in cash flow.

Also Noteworthy

In this last quarter I have been involved in several industry conferences which explored the opportunities for greater deployment of efficient and decentralized energy. At the World Combined Heat and Power and Decentralized Energy Conference in New York City, policy makers, energy executives and environmentalists joined together to share best practices and success stories for addressing the economic and environmental challenges of increased energy needs of developed and developing countries. The clear win-win solution is the deployment of highly efficient energy generation resources near the point of use, avoiding the need for additional transmission and distribution infrastructure. In my keynote address, I described the additional opportunity for capturing and using waste heat and opportunity fuels as an important part of reducing the environmental footprint of our global energy infrastructure. People become very excited when they recognize the significant opportunities to produce pollution free electricity and thermal energy from existing process industries in ways that reduce energy costs.

Thanks for the faith you have put in all of us to make Primary Energy Recycling Corporation a rewarding investment.

Thomas R. Casten
Chief Executive Officer
Primary Energy Ventures LLC