PRIMARY ENERGY RECYCLING CORPORATION

Unaudited Interim Consolidated Financial Statements
(In US Dollars)

Three Months and Six Months Ended June 30, 2007 and 2006

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Primary Energy Recycling Corporation
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)
(Unaudited)

ASSETS	June 30, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$ 11,299	$ 15,640
Accounts receivable	7,004	7,863
Spare parts inventory	925	865
Future tax asset (Note 7)	1,525	824
Current portion of foreign currency exchange contracts (Note 8)	3,721	269
Current portion of interest rate swap contracts (Note 8)	452	427
Other current assets	190	495
Total current assets	25,116	26,383
Non-current assets:		
Property, plant and equipment, net	244,480	249,741
Intangible assets, net	164,810	179,811
Long-term portion of foreign currency exchange contracts (Note 8)	8,168	2,133
Long-term portion of interest rate swap contracts (Note 8)	592	485
Other non-current assets	167	194
Total assets	$ 443,333	$ 458,747
LIABILITIES, NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,257	$ 1,047
Due to affiliates (Note 9)	98	413
Accrued property taxes	5,516	3,622
Accrued interest payable	1,936	2,000
Distributions payable	1,481	2,676
Accrued expenses	2,404	1,361
Total current liabilities	13,692	11,119
Long-term debt (Note 3)	218,730	210,602
Future tax liability (Note 7)	2,132	4,566
Asset retirement obligation	3,059	2,951
Total liabilities	237,613	229,238
Commitments and contingencies (Note 4)		
Non-controlling preferred interest (Note 5)	13,225	13,225
Non-controlling common interest (Note 5)	84,233	87,000
Shareholders' equity:		
Common stock (Note 6)	178,571	178,571
Accumulated shareholders' deficit	(70,309)	(49,287)
Total shareholders' equity	108,262	129,284
Total liabilities, non-controlling interest and shareholders' equity	$ 443,333	$ 458,747

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Primary Energy Recycling Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED SHAREHOLDERS' DEFICIT
(In thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue:				
Capacity	$ 9,018	$ 9,018	$ 18,036	$ 18,036
Energy Service	8,888	12,884	16,597	29,584
	17,906	21,902	34,633	47,620
Expenses:				
Operations and maintenance	8,244	8,726	14,615	17,453
General and administrative	2,517	1,107	5,410	4,818
Depreciation and amortization	10,131	9,852	20,262	20,002
Operating income (loss)	(2,986)	2,217	(5,654)	5,347
Other income (expense):				
Interest expense, net	(5,546)	(5,126)	(10,729)	(10,184)
Realized and unrealized gain on derivative hedge contracts (Note 8)	10,467	7,772	10,556	8,427
Unrealized loss on foreign currency translation	(7,337)	(3,844)	(8,140)	(3,759)
Income (Loss) before income taxes	(5,402)	1,019	(13,967)	(169)
Income tax benefit (expense) (Note 7)	2,349	33	3,101	(956)
Income (Loss) before non-controlling interest	(3,053)	1,052	(10,866)	(1,125)
Non-controlling interest in class B Preferred	(410)	(380)	(790)	(762)
Non-controlling interest in class B Common	(178)	1,202	735	2,445
Net Income (Loss)	$ (3,641)	$ 1,874	$ (10,921)	$ 558
Accumulated shareholders' deficit - beginning of period	(62,270)	(15,188)	(49,287)	(8,537)
Distributions	(4,398)	(5,573)	(10,101)	(10,908)
Accumulated shareholders' deficit - end of period	$ (70,309)	$ (18,887)	$ (70,309)	$ (18,887)
Weighted average number of shares outstanding	31,000,000	31,000,000	31,000,000	31,000,000
Basic and Diluted net income (loss) per share (Note 10)	$ (0.12)	$ 0.06	$ (0.35)	$ 0.02

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Primary Energy Recycling Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars, unless specified)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ (3,641)	$ 1,874	$ (10,921)	$ 558
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	10,131	9,852	20,262	20,002
Realized and unrealized loss on foreign currency translation	7,207	3,844	8,010	3,759
Realized and unrealized gain on foreign currency exchange contracts and interest rate swaps	(10,467)	(7,772)	(10,556)	(8,427)
Noncash interest expense	316	310	628	622
Non-controlling Class B preferred interest	410	380	790	762
Non-controlling Class B common interest	178	(1,202)	(735)	(2,445)
Income tax (benefit) expense	(2,349)	(33)	(3,101)	956
Accretion of asset retirement obligations	54	50	108	101
Changes in operating assets and liabilities:				
Accounts receivable	1,819	3,456	859	4,533
Inventory and other assets	75	29	272	146
Accounts payable	1,927	(645)	1,210	279
Accrued property tax	615	(1,077)	1,894	(836)
Accrued interest payable	51	18	50	65
Accrued expenses	(1,868)	2,106	1,043	1,963
Amounts owed to affiliates	(162)	1,204	(314)	825
Net cash provided by operating activities	4,296	12,394	9,499	22,863
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash settlement from foreign currency exchange contracts and interest rate swaps	912	-	912	-
Net cash provided by investing activities	912	-	912	-
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments of deferred financing costs	(231)	-	(231)	-
Distributions on non-controlling Class B preferred interest	(525)	(380)	(905)	(762)
Distributions on non-controlling Class B common interest	(1,481)	(1,091)	(2,645)	(2,182)
Distributions on Common Shares	(5,278)	(5,454)	(10,971)	(10,789)
Net cash used in financing activities	(7,515)	(6,925)	(14,752)	(13,733)
Net increase (decrease) in cash	(2,307)	5,469	(4,341)	9,130
Cash and cash equivalents - beginning of period	13,606	15,751	15,640	12,090
Cash and cash equivalents - end of period	$ 11,299	$ 21,220	$ 11,299	$ 21,220
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$ 5,691	$ 5,034	$ 10,865	$ 9,876

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

1. Description of Business

Primary Energy Recycling Corporation (the "Company") was incorporated on June 10, 2005 under the laws of the Province of Ontario and continued under the laws of British Columbia. The Company initiated business activity on August 24, 2005 and owns a majority interest in Primary Energy Recycling Holdings, LLC ("PERH"). The non-controlling interest of PERH is held by Primary Energy Holdings, LLC ("PEH") a wholly-owned subsidiary of Primary Energy Ventures, LLC (the "Manager" or "PEV"). PERH, headquartered in Oak Brook, Illinois, indirectly owns and operates four recycled energy projects and a 50% interest in a pulverized coal facility all located in the United States (collectively, the "Projects"). The Projects have a combined electrical generating capacity of 283 megawatts and a combined steam generating capacity of 1.8 MMlbs/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. For additional information with respect to the business, please see the Company's public filings including its Annual Information Form dated March 8, 2007 available on SEDAR at www.sedar.com.

2. Significant Accounting Policies

Basis of Presentation

The accompanying interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") for interim financial information and do not contain all of the disclosures required for annual financial statements. Accordingly, the interim consolidated financial statements and related notes included herein are unaudited and should be read in conjunction with the annual consolidated financial statements and related notes for the year ended December 31, 2006, included in the Company's 2006 Annual Report. These statements have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2006, except as described below.

Change in Accounting Policy

Effective January 1, 2007, the Company adopted Handbook Sections 1506, "Accounting Changes", 1530, "Comprehensive Income", 3855 "Financial Instruments - Recognition and Measurement" and 3865 "Hedges" issued by the Canadian Institute of Chartered Accountants ("CICA"). The adoption of these standards did not have a material impact on the Company's interim consolidated financial statements.

The Company prospectively adopted the CICA recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity and other financial liabilities are measured at their carrying value. This change in accounting had the following effect on the Company’s interim consolidated financial statements for the three months and six months ended June 30, 2007; reclassification of deferred financing fees from non-current assets to long- term debt (see Note 3).

The Company prospectively adopted the CICA recommendations pertaining to hedges, which establish standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in the income statement in the same period. This change in accounting did not have a material impact on the Company's interim consolidated financial statements.

The Company prospectively adopted the CICA recommendations regarding the reporting and disclosure of comprehensive income. Comprehensive income consists of changes in the equity of the Company from sources other than the Company’s shareholders, and includes income of the Company, the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses on changes in fair values of available-for-sale assets and effective cash flow hedging instruments. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income but are excluded from income of the period. This change in accounting did not have a material impact on the Company's interim consolidated financial statements.

The Company adopted the CICA recommendations that prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Adoption of this standard did not have a material impact on the Company's interim consolidated financial statements for the three months and six months ended June 30, 2007.

(In thousands of U.S. dollars unless specified, except share and per share amounts)

3. Long-Term Debt

Long-term debt consist of the following:

	June 30, 2007	December 31, 2006
Term loan facility	$ 135,000	$ 135,000
Subordinated debt	90,107	82,376
Less:		
Deferred finance fees	(6,377)	(6,774)
Total	$ 218,730	$ 210,602

Credit Facility

The Company's Credit Facility is comprised of a $135.0 million four-year term loan facility and a three-year $15.0 million revolving credit facility. None of the revolving credit facility was drawn as of June 30, 2007. The Credit Facility bears interest at a rate equal to LIBOR or U.S. Base Rate, plus an applicable margin. The borrower may elect from time to time to convert Eurodollar rate loans to base rate loans or base rate loans to Eurodollar rate loans by providing appropriate notice to the Administrative Agent of the Credit Facility. For the three months and six months ended June 30, 2007, the interest rate was defined using an average LIBOR rate of 5.36% plus 2.75% and 5.36% plus 2.75%, respectively. For the three months and six months ended June 30, 2006, the interest rate was defined using an average LIBOR rate of 4.95% plus 2.75% and 4.75% plus 2.75%, respectively. The Credit Facility has a standby fee of 0.5% of the undrawn availability associated with the revolving credit facility. The Credit Facility requires the Company to meet certain financial covenants including, among other things, maintaining certain defined leverage and coverage ratios. During the second quarter of 2007, the Credit Facility was amended to modify specified covenant levels for the remainder of 2007 and the first quarter of 2008. Beginning the second quarter of 2008 and thereafter, the pre-amendment covenant levels will continue to apply. The Credit Facility is collateralized by the Company's interests in, and the assets of, all subsidiaries and Projects. The Company has the ability to prepay the outstanding borrowings at anytime in whole or in part without penalty. Subsequent to June 30, 2007, the Company drew $3 million from its Credit Facility revolver.

Subordinated and Separate Subordinated Notes

In 2005, the Company issued Subordinated Notes (forming part of EISs) of U.S. $59.3 million or Cdn$71.25 million (as denominated in Canadian dollars using an exchange rate of Cdn$1.20235 per U.S. $1.00). Additionally in 2005, the Company issued the equivalent of U.S. $15.4 million or Cdn$18.5 million (denominated in Canadian dollars using an exchange rate of Cdn$1.20235 per U.S. $1.00) of Separate Subordinated Notes with a stated annual interest rate of 11.75% and a term of 12 years and an additional U.S. $5.3 million or Cdn$6.3 million (as denominated in Canadian dollars using an exchange rate of Cdn$1.17050 per US$1.00) of Subordinated Notes. The Subordinated Notes have a stated annual interest rate of 11.75% and a term of 12 years. Amounts payable under these notes in U.S. dollars have been adjusted to reflect the change in foreign exchange rates as of June 30, 2007 and 2006. For the three months and six months ended June 30, 2007, the Company recorded a loss on foreign currency translation of $6.9 million and $7.7 million, respectively, related to these notes denominated in Canadian dollars. For the three months and six months ended June 30, 2006, the Company recorded a loss on foreign currency translation of $3.8 million and $3.8 million, respectively, related to these notes denominated in Canadian dollars. The Subordinated Notes and Separate Subordinated Notes are collateralized by unsecured guarantees of the Company's subsidiaries and require the Company to meet certain financial covenants including, among other things, maintaining certain defined leverage and coverage ratios.

Deferred Finance Fees
The Company capitalizes costs associated with the issuance of debt instruments. These costs are amortized over the term of the debt. In connection with the debt issued and credit facilities entered into connection with the Company's initial public offering 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. Additionally, in June of 2007 the Company paid a fee of $0.2 million associated with the amendment of the Credit Facility (described above). This fee has been deferred and is being amortized over the remaining life of the Credit Facility. For the three months and six months ended June 30, 2007, the Company has amortized $0.3 million and $0.6 million, respectively, of deferred financing fees. For the three months and six months ended June 30, 2006, the Company has amortized $0.3 million and $0.6 million, respectively, of deferred financing fees.

As of June 30, 2007, the Company was in compliance with all debt covenant requirements in these agreements.

4. Commitments and Contingencies

Environmental Matters
The Company's operations are subject to a number of federal, state and local laws and regulations relating to the protection of the environment and the safety and health of personnel and the public. Some of the Company's operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. These requirements relate to a broad range of activities, including:

- Discharge of pollutants into the air, water and soil

- Identification, generation, storage, handling, transportation, disposal, record keeping, labeling and reporting of, and the emergency response in connection with, hazardous and toxic materials and wastes including asbestos
- Safety and health standards, practices and procedures that apply to the workplace and the operation of facilities

Management is not aware of any legal or regulatory issues relating to compliance with environmental or safety and health standards that would have a material impact on the business.

5. Non-Controlling Interest

The non-controlling interest holds 14.2% of the preferred interest and 17.0% of the common interest in PERH through its Class B preferred and common interest ownership. On a collective basis, the non-controlling interest holds 15.4% of the combined total of preferred and common interests of PERH. Each Class B common interest is entitled to receive pro rata distributions as and when declared by the board of managers after payment in full of Class A preferred return and Class B preferred return. Upon formation of the Company, Class B investors contributed assets with a lower tax basis than fair value. A deferred tax liability associated with this difference in basis and an offsetting increase in property, plant and equipment and intangible asset value was recorded and ascribed to the non-controlling interest. The increases in basis of the property plant and equipment and intangible asset balances are being depreciated and amortized over the useful lives of these assets and are fully allocated to the non-controlling interest through the non-controlling interest in Class B Common line item of the Statement of Operations.

6. Common Stock

Each Enhanced Income Security (“EIS”) consists of one Common Share and Cdn$2.50 of aggregate principal amount of 11.75% Subordinated Notes (Note 3). Each common shareholder is entitled to one vote per Common Share on matters presented to PERC common shareholders for consideration. As of May 2007, the Company has reduced its annual rate of distributions per EIS to Cdn$0.80 from Cdn$1.15.

(In thousands of U.S. dollars unless specified, except share and per share amounts)

7. Income Taxes

Income tax expense (benefit) consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Current tax provision:				
Federal	$ 249	$ 286	$ 26	$ 276
State	66	76	7	73
Total current tax	315	362	33	349
Future tax provision:				
Federal	(2,105)	(312)	(2,476)	480
State	(559)	(83)	(658)	127
Total future tax	(2,664)	(395)	(3,134)	607
Total tax expense (benefit)	$ (2,349)	$ (33)	$ (3,101)	$ 956

The principal items which cause the Company's effective tax rate to be greater than the Canadian statutory tax rate of 36.12% are the effect of the inclusion of the U.S federal and state income taxes that are greater than the Canadian statutory tax rate, the valuation allowance on the net operating loss and the tax accounting for the change in the non-controlling interest. These items are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Income tax expense (benefit) at Canadian Statutory Rate:	$ (1,951)	$ 367	$ (5,045)	$ (62)
Additional tax expense (benefit) from operations in countries with different income tax rates	(237)	45	(611)	(7)
Valuation Allowance	(161)	(445)	2,540	1,025
Other	-	-	15	-
Total tax expense (benefit)	$ (2,349)	$ (33)	$ (3,101)	$ 956

(In thousands of U.S. dollars unless specified, except share and per share amounts)

Significant components of the future tax assets and (liabilities) are as follows:

	As of June 30, 2007	As of December 31, 2006
Accrued Expenses	$ 1,708	$ 997
Current Future Tax Assets	1,708	997
Foreign Currency Translation	4,247	950
Asset Retirement Obligation	1,239	1,195
Intangible Assets	4,723	2,020
Net Operating Loss	13,463	10,923
Valuation Allowance	(13,463)	(10,923)
Long-Term Future Tax Assets	10,209	4,165
Interest Rate Swap	(183)	(173)
Current Future Tax Liability	(183)	(173)
Fixed Assets	(11,806)	(8,326)
Interest Rate Swap	(289)	(196)
Investment in PCI	(246)	(209)
Long-Term Future Tax Liability	(12,341)	(8,731)
Net Future Tax Liability	$ (607)	$ (3,742)

The Company has U.S. net operating loss carryforwards that will start to expire in 2026 and Canadian net operating loss carryforwards that will start to expire in 2016 and 2027. The Company has recorded a full valuation allowance on the net operating loss as it is more likely than not that the future asset will not be realized. At June 30, 2007 and December 31, 2006 the net current future tax asset balances were $1.5 million and $0.8 million, respectively. At June 30, 2007 and December 31, 2006 the net long term future tax liability balances were $2.1 million and $4.6 million, respectively.

8. Derivative Instruments and Hedging Activities

The Company utilizes certain derivative instruments to enhance its ability to manage risk relating to cash flow and interest rate exposure. Derivative instruments are entered into for periods consistent with the related underlying exposures and are not entered into for speculative purposes.

Foreign Currency Exchange Contracts
The Company has entered into foreign currency exchange forward contracts (the “Forward Contracts”) to exchange U.S. dollars for Canadian dollars. The Canadian dollars are used to fund interest and cash distributions to EIS holders, the non-controlling interest and interest distributions to the Separate Subordinate Note holders. Beginning with the May 2007 distribution declaration, the Canadian dollar funding requirement for distributions per EIS was reduced to an annual rate of Cdn$0.80 from Cdn$1.15. The contracts are for a series of monthly payments through September 2010. At June 30, 2007, thirty-nine sets of payments comprised of three monthly contracts remain open. The forward contracts applicable to distributions on the Separate Subordinated Notes have an

exchange rate of Cdn$1.1713 to U.S. $1.00. The remaining forward contracts have an exchange rate of Cdn$1.1712 to U.S. $1.00 and a rate of Cdn$1.0840 to U.S. $1.00. The Company was not required to deposit any collateral with regard to these contracts. The forward contracts do not qualify as a cash flow hedge for accounting purposes, and the change in the fair value is reflected in income. At June 30, 2007, the fair value of the forward contracts was $11.9 million of which $3.7 million is recorded in current assets. At December 31, 2006, the fair value of the forward contracts was $2.4 million of which $0.3 million is recorded in current assets. The forward contracts have been entered into with a major Canadian bank as the counterparty.

The following table summarizes the Company's forward foreign currency contracts with monthly settlement terms as of June 30, 2007:

Contract Dates	Number of Contracts	US $ to be delivered (in millions)	Cdn$ to be delivered (in millions)	Cdn$ per US$ (weighted average)
July 2007- Dec 2007	18	3.2	3.8	1.1673
Jan 2008 - Dec 2008	36	3.2	3.8	1.1673
Jan 2009 - Dec 2009	36	3.2	3.8	1.1673
Jan 2010 - Sept 2010	27	3.2	3.8	1.1673

The risk associated with the forward contracts is the cost of replacing these instruments in the event of default by the counterparty. Management believes that this risk is remote.

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 do not qualify as a cash flow hedge for accounting purposes and the change in the fair value of the derivative is recorded in income. At June 30, 2007 the fair value of these agreements was a net amount of $1.0 million of which $0.5 million is recorded in current assets. At December 31, 2006 the fair value of these agreements was a net amount of $0.9 million of which $0.4 million is recorded in current assets.

9. Related Party Transactions

The Company has a Management Agreement in place with the Manager. The Management Agreement has an initial 20-year term. The Manager provides various management and administrative services to the Company and its subsidiaries under terms defined in the Management Agreement. According to the terms of the Management Agreement, the Manager may earn an annual incentive fee based on sharing in financial performance above threshold levels. The incentive fee is paid annually and is designed to align the financial interests of the Manager with those of the Company. The financial threshold was not achieved for the six months ended June 30, 2007 and accordingly an incentive fee was not accrued. For the six months ended June 30, 2006 the Company recorded an incentive fee accrual of $0.8 million. For the three months and six months ended June 30, 2007, in accordance with the Management Agreement, the Company recorded management fees of $0.8 million and $1.6 million, respectively. For the three months and six months ended June 30, 2006, in accordance with the Management Agreement, the Company recorded management fees of $0.8 million and $1.6 million, respectively.

As of June 30, 2007, the Company had a net payable due to the Manager and its affiliates of $0.1 million. The Company has the ability and intent to settle these amounts. The Company has a Right of First Offer (“ROFO”) as defined in the Management Agreement that provides for the opportunity to purchase certain defined projects from the Manager. For additional disclosure please refer to the Company’s Annual Information Form dated March 8, 2007, which is available on SEDAR at www.sedar.com.

10. Basic and Diluted Net Income (Loss) Per Share

Basic and Diluted net income (loss) per share has been calculated using the weighted average number of Common Shares outstanding of 31,000,000 for the three months and six months ended June 30, 2007 and 2006. For the three months and six months ended June 30, 2007 and 2006, there were no potentially dilutive securities outstanding.

11. Segment Reporting

The Company owns and operates facilities designed to recycle waste energy under one operating segment. The Company serves as a single source of supply for its customers’ related requirements. The Company’s operations are located in the United States. All sales revenue is generated from the same geographic area.

12. Investment in Joint Venture

The Company has an indirect ownership interest in a joint venture through PERH’s wholly owned subsidiary Harbor Coal LLC. Harbor Coal owns a 50% interest in PCI Associates, a partnership that operates a pulverized coal facility. The investment is accounted for using the proportionate consolidation method in accordance with Canadian GAAP requirements. The carrying value of Harbor

(In thousands of U.S. dollars unless specified, except share and per share amounts)

Coal's interest in PCI Associates reflects a purchase price allocation to adjust the values ascribed to long term assets to fair value as of August 24, 2005. The excess purchase price allocated to fixed assets and intangibles has been recorded on the books of Harbor Coal. The consolidated financial statements for the three and six months ended June 30, 2007 include $2.1 million and $4.2 million, respectively, of related depreciation and amortization. The consolidated financial statements for the three and six months ended June 30, 2006 include $2.0 million and $4.2 million, respectively, of related depreciation and amortization.

Revenue at PCI Associates is determined based upon the displacement of certain defined commodities by coal. The value of the displaced commodities net of the cost of coal utilized represents revenue. The amount of displacement is impacted by physical inventories of the commodities utilized by the joint venture's host which have historically been performed in the fourth quarter of each year. Historically the impact of the physical inventory adjustments recorded by the joint venture's host have been volatile and can be material. Starting in fiscal 2007, the joint venture host plans to perform regular physical inventory over the course of the year. The amount of coal consumed also determines the fee paid to the Manager of the Partnership and is recorded in operating expenses. For the three months and six months ended June 30, 2007, Harbor Coal has recorded revenue adjustments of $3.0 million and $5.3 million, respectively, based upon reduced consumption associated with physical inventory adjustments recorded by the facility's host. For the three months and six months ended June 30, 2007, PCI Associates recorded $0.4 million and $0.9 million, respectively, of depreciation. Financial information representing Harbor Coal's share of PCI Associates is as follows:

	June 30, 2007	December 31, 2006
Current assets	$ 515	$ 454
Noncurrent assets	14,077	14,937
Current liabilities	3,285	1,370
Noncurrent liabilities	-	-

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue	$ 5,350	$ 8,496	$ 8,619	$ 20,101
Operating Expenses	4,938	6,617	9,998	13,039
Net Income (Loss)	418	5,186	(1,369)	7,071
Cashflows provided by operating activities	$ 1,402	$ 5,784	$ 1,831	$ 12,096
Cashflows used in investing activities	-	-	-	-
Cashflows provided by (used in) financing activities	(1,422)	(5,782)	(1,344)	(12,002)