PRIMARY ENERGY RECYCLING CORPORATION

Consolidated Financial Statements
(In US Dollars)

Year Ended December 31, 2006 and
Period from August 24, 2005 to December 31, 2005

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
PRIMARY ENERGY RECYCLING CORPORATION

We have audited the accompanying consolidated balance sheets of Primary Energy Recycling Corporation as of December 31, 2006 and December 31, 2005 and the related consolidated statements of operations and accumulated shareholders' deficit and cash flows for the year ended December 31, 2006 and for the period from August 24, 2005 to December 31, 2005 which, as described in Note 2, have been prepared on the basis of accounting principles generally accepted in Canada. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Primary Energy Recycling Corporation at December 31, 2006 and December 31, 2005 and the results of its operations and its cash flows for the year ended December 31, 2006 and the period from August 24, 2005 to December 31, 2005 in conformity with accounting principles generally accepted in Canada.

(Signed) "PricewaterhouseCoopers LLP"

Chicago, Illinois USA
March 7, 2007

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

ASSETS	December 31, 2006	December 31, 2005
Current assets:		
Cash and cash equivalents	$ 15,640	$ 12,090
Accounts receivable	7,863	14,847
Spare parts inventory	865	1,033
Future tax asset (Note 11)	824	686
Current portion of foreign currency exchange contracts (Note 12)	269	426
Current portion of interest rate swap contracts (Note 12)	427	54
Other current assets	495	322
Total current assets	26,383	29,458
Non-current assets:		
Property, plant and equipment, net (Note 3)	249,741	260,241
Intangible assets, net (Note 4)	179,811	209,711
Long-term portion of foreign currency exchange contracts (Note 12)	2,133	3,492
Long-term portion of interest rate swap contracts (Note 12)	485	639
Deferred finance fees, net	6,774	8,019
Other non-current assets	194	247
Total assets	$ 465,521	$ 511,807
LIABILITIES, NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,047	$ 162
Due to affiliates (Note 13)	413	1,534
Accrued property taxes	3,622	5,255
Accrued interest payable	2,000	1,888
Distributions payable	2,676	2,508
Accrued expenses	1,361	2,096
Total current liabilities	11,119	13,443
Long-term debt (Note 5)	217,376	217,340
Future tax liability (Note 11)	4,566	58,598
Asset retirement obligation (Note 7)	2,951	2,749
Total liabilities	236,012	292,130
Commitments and contingencies (Note 8)		
Non-controlling preferred interest (Note 9)	13,225	13,225
Non-controlling common interest (Note 9)	87,000	36,418
Shareholders' equity:		
Common stock (Note 10)	178,571	178,571
Accumulated shareholders' deficit	(49,287)	(8,537)
Total shareholders' equity	129,284	170,034
Total liabilities, non-controlling interest and shareholders' equity	$ 465,521	$ 511,807

The accompanying notes are an integral part of these 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)

	Year Ended December 31, 2006	Period from August 24, 2005 to December 31, 2005
Revenue:		
Capacity	$ 36,071	$ 12,800
Energy Service	51,001	19,599
	87,072	32,399
Expenses:		
Operations and maintenance	31,423	7,549
General and administrative	9,286	5,744
Depreciation and amortization	40,400	14,405
Operating income	5,963	4,701
Other income (expense):		
Interest expense, net (Note 6)	(20,594)	(7,211)
Unrealized gain (loss) on derivative hedge contracts (Note 12)	(1,297)	4,612
Unrealized loss on foreign currency translation	(36)	(2,310)
Loss before income taxes	(15,964)	(208)
Income tax benefit (expense) (Note 11)	54,884	(1,925)
Income (Loss) before non-controlling interest	38,920	(2,133)
Non-controlling interest in class B Preferred	(1,523)	(537)
Non-controlling interest in class B Common	(55,854)	1,706
Net Loss	$ (18,457)	$ (964)
Accumulated shareholders' deficit - beginning of period	(8,537)	-
Distributions	(22,293)	(7,573)
Accumulated shareholders' deficit - end of period	$ (49,287)	$ (8,537)
Weighted average number of shares outstanding	31,000,000	30,326,923
Basic and Diluted net loss per share (Note 14)	$ (0.60)	$ (0.03)

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

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

	Year Ended December 31, 2006	Period from August 24, 2005 to December 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (18,457)	$ (964)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	40,400	14,405
Unrealized loss on foreign currency translation	36	2,310
Unrealized (gain) loss on foreign currency exchange contracts and interest rate swaps	1,297	(4,612)
Non-controlling Class B preferred interest	1,523	537
Non-controlling Class B common interest	55,854	(1,706)
Amortization of deferred finance fees	1,245	439
Income taxes	(54,884)	1,925
Accretion of asset retirement obligations	202	67
Changes in operating assets and liabilities:		
Accounts receivable	6,984	(4,600)
Inventory and other assets	66	(476)
Accounts payable	885	(84)
Accrued property tax	(1,633)	531
Accrued interest payable	112	1,351
Accrued expenses	(735)	(1,059)
Amounts owed to affiliates	(1,121)	1,534
Net cash provided by operating activities	31,774	9,598
CASH FLOWS FROM INVESTING ACTIVITIES:		
Business acquistion, net of cash acquired of $5,482	-	(157,911)
Purchase of Class B Minority Interest Shares upon exercise of over-allotment option	-	(20,237)
Purchase of property, plant and equipment	(18)	-
Net cash used in investing activities	(18)	(178,148)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sale of initial public offering common shares	-	163,393
Net proceeds from sale of common shares upon exercise of over-allotment option	-	15,178
Debt issuance	-	209,690
Net proceeds from sale of subordinated notes upon exercise of over-allotment option	-	5,339
Payments on long-term debt	-	(160,009)
Payment of deferred financing fees	-	(8,458)
Payment of predecessor debt prepayment penalties	-	(37,594)
Distributions on non-controlling Class B preferred interest	(1,523)	(284)
Distributions on non-controlling Class B common interest	(4,509)	(821)
Distributions on Common Shares	(22,174)	(5,794)
Net cash provided by (used in) financing activities	(28,206)	180,640
Net increase in cash	3,550	12,090
Cash and cash equivalents - beginning of period	12,090	-
Cash and cash equivalents - end of period	$ 15,640	$ 12,090
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 20,352	$ 5,192

The accompanying notes are an integral part of these 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 consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and include the consolidated accounts of the Company's subsidiary PERH. Significant inter-company accounts and transactions have been eliminated in consolidation. Certain amounts in the prior period financial statements and related notes have been reclassified to conform to 2006 presentation. The Company changed its classifications of amounts owed to affiliates and distributions on non-controlling Class B preferred interest in the statement of cash flows which increased net cash provided by operating activities by $0.7 million and decreased net cash provided by financing activities by $0.7 million for the period from August 24, 2005 to December 31, 2006. The results for the year ended December 31, 2006 reflect a net increase in unrealized loss on derivative hedge contracts of $0.5 million for excess unrealized gain recognized in prior periods.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue 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.

Cash and Cash Equivalents
Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less at the date of purchase.

Spare Parts Inventory
The Company maintains a certain level of spare parts inventory 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. Inventory at December 31, 2006 and 2005 is reflected net of a reserve for estimated obsolescence. The Company expenses parts as they are used.

Property, Plant and Equipment
Property, plant and equipment are accounted for at acquisition cost. The cost for all asset classes is depreciated 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.

Intangible Assets
Intangible assets are recorded at their allocated cost at the date of acquisition of the related facility. Amortization is provided for intangible assets on a straight line basis over their estimated useful lives, which range from 4 to 8 years. It is the Company's policy to review intangible assets for impairment whenever events or changes in circumstances suggest that the carrying amount of an asset may not be recoverable. An impairment is recognized when the carrying amount of an asset exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Functional Currency
The functional currency of the Company is the U.S. dollar and all amounts presented in these financial statements and notes contained herein are presented in U.S. dollars, unless otherwise specified. The Company translates monetary assets and liabilities denominated in foreign currencies, principally its subordinated debt, which is denominated in Canadian dollars, at exchange rates

in effect at the respective balance sheet date. Foreign exchange gains and losses are included in the consolidated statement of operations.

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. In connection with the debt issued and credit facilities entered into connection with the 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. For the year ended December 31, 2006 and the period from August 24, 2005 to December 31, 2005, the Company has amortized $1.2 million and $0.4 million, respectively, 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 capitalized asset retirement cost is depreciated over the useful life of the related asset and included in depreciation expense on the consolidated statement of operations and accumulated shareholders' 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 accumulated shareholders' 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. The Company presents the fixed monthly payments from these contracts as Capacity revenue on its consolidated statement of operations. Substantially all of the Company's buildings and equipment serve as rental property under these operating leases.

Revenue is recorded on the accrual basis when earned and may include estimates for services delivered. Capacity revenue represents the fixed revenue amounts established in the tolling agreements with the Company's customers and is billed on a monthly basis. Energy Service revenue represents the revenue earned based on measurements of energy services performed and delivered in each period.

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

Accounting for Derivatives

The Company evaluates derivatives in accordance with Accounting Guideline 13 “Hedging Relationships” (“AcG-13”). For those derivatives that do not qualify for hedge accounting under AcG-13 the derivative instrument is recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized currently in earnings.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist principally of accounts receivable and cash. The Company has a credit policy and performs ongoing credit evaluations of its customers and does not generally require collateral or other security.

During each of the fiscal periods presented, primarily all of the Company’s revenues were generated from providing energy services under long term contractual agreements to two customers that are both in the steel manufacturing industry. The percentage of revenues generated by each major customer is as follows:

	Year Ended December 31, 2006	Period from August 24, 2005 to December 31, 2005
Customer A	89%	90%
Customer B	11%	10%

The accounts receivable from the Company’s two largest customers as a percentage of the total consolidated accounts receivable balance is as follows:

	December 31, 2006	December 31, 2005
Customer A	89%	94%
Customer B	11%	6%

The Company provides estimates for doubtful accounts it deems necessary based on the aging category and specific knowledge of the customers ability to pay. No such allowances were recorded at December 31, 2006 and 2005.

The Company maintains cash and cash equivalents with various major financial institutions. The Company performs periodic evaluations of the relative credit standings of these financial institutions.

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

Accounting for Joint Ventures
The investment in the Harbor Coal joint venture is accounted for using the proportional consolidation method.

Loss Per Share
Basic loss per share is computed based on the weighted average number of Common Shares outstanding. As of December 31, 2006 and 2005, there are no potentially dilutive securities issued and outstanding. Accordingly, diluted loss per share is equivalent to basic earnings per share.

3. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31, 2006			December 31, 2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 22,581	$ (1,121)	$ 21,460	$ 22,581	$ (294)	$ 22,287
Plant Equipment	241,413	(13,132)	228,281	241,394	(3,440)	237,954
	$ 263,994	$ (14,253)	$ 249,741	$ 263,975	$ (3,734)	$ 260,241

The Company recognized depreciation expense of $10.5 million for the year ended December 31, 2006 and $3.7 million for the period from August 24, 2005 to December 31, 2005.

4. Intangible Assets

Intangible assets consist of contract rights on leases and nitrogen oxide (NOx) allowances. Contract rights represent the value assigned to existing customer contracts at the date of the acquisition and are amortized on a straight line basis over an average term of eight years. NOx allowances amortize through 2009. As of August 24, 2005, $219.5 million was assigned to contract rights and $0.9 million was assigned to NOx allowances representing fair value. For the year ended December 31, 2006 and the period from August 24, 2005 to December 31, 2005, the Company has recorded contract value amortization of $29.8 million and $10.6 million, respectively. For the year ended December 31, 2006 and the period from August 24, 2005 to December 31, 2005, the Company recorded NOx allowance amortization of $0.2 million and $0.1 million, respectively.

	December 31, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Contract Value and other intangibles	$ 220,362	$ (40,551)	$ 179,811	$ 220,382	$ (10,671)	$ 209,711

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

5. Long-Term Debt

Long term obligations consist of the following:

	December 31, 2006	December 31, 2005
Term loan facility……………………………	$ 135,000	$ 135,000
Subordinated debt………………………	82,376	82,340
Total ……………………………………	$ 217,376	$ 217,340

Maturities of long-term debt are as follows:

2007 ……………………………………	$ -
2008 ……………………………………	-
2009 ……………………………………	135,000
2010 ……………………………………	-
2011 ……………………………………	-
Thereafter ………………………………	82,376
Total ……………………………………	$ 217,376

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 has been drawn as of December 31, 2006. 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 year ended December 31, 2006 the interest rate was defined using an average LIBOR rate of 5.0% plus 2.75%. For the period August 24, 2005 to September 7, 2005, the interest rate was defined using a fixed Prime rate of 6.5% plus 1.75%. For the period September 8, 2005 through December 31, 2005, the interest rate was defined using an average LIBOR rate of 3.9% plus 2.75%. 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. 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.

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 December 31, 2006 and 2005. For the year ended December 31, 2006 and the period from August 24, 2005 to December 31, 2005, the Company recorded a loss on foreign currency translation of $0.04 million and $2.3 million, respectively, related to these notes denominated in Canadian dollars. The Subordinated 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.

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

As of December 31, 2006 and December 31, 2005, the Company was in compliance with all debt covenant requirements in these agreements.

6. Interest Expense

Interest expense is comprised of the following:

	Year Ended December 31, 2006		For the Period August 24 to December 31, 2005	
Interest expense, net:				
Term loan facility	$	10,744	$	3,409
Subordinated debt		9,631		3,418
Amortization of deferred financing fees		1,282		459
Interest income		(1,063)		(75)
	$	20,594	$	7,211

7. Asset Retirement Obligation

Certain of the Company's subsidiaries have contractual obligations to remove all buildings and equipment associated with the ground leases related to their facilities. The Company estimated these liabilities based upon an independent valuation. The total undiscounted cash flows required to satisfy the legal obligations are estimated to be $15.6 million, paid over the course of five years between 2025 to 2029. These amounts were discounted by the Company's credit-adjusted risk-free borrowing rate of 7.32%. For the year ended December 31, 2006, and the period from August 24, 2005 to December 31, 2005 the Company recognized accretion expense of $0.2 million and $0.07 million and depreciation expense of $0.1 million and $0.03 million, respectively. As of

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

December 31, 2006 and 2005, the balance of the asset retirement obligation liability was $3.0 million and $2.7 million and the balance of the related asset was $2.2 million and $2.3 million, respectively.

8. Commitments and Contingencies

Lease Revenue
The Company's operations include delivery of power obtained through its generation capacity and sold under long term power purchase agreements. Certain of these agreements contain firm power purchase commitments related to power generation capability of the specific facilities and are deemed to be operating lease arrangements for accounting purposes. The agreements contain certain tolling provisions that provide for fixed monthly payments to be paid to the Company that are recorded as revenue.

As of December 31, 2006, the Company's future revenue from operating leases is as follows:

Year ending:		
2007 …………………………………….	$	39,364
2008 …………………………………….		39,397
2009 …………………………………….		39,430
2010 …………………………………….		39,464
2011 and Thereafter …………………….		135,096
Total …………………………………….	$	292,751

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

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

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.

9. 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.

10. 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 5). Each common shareholder is entitled to one vote per Common Share on matters presented to PERC common shareholders for consideration.

11. Income Taxes

Income tax expense (benefit) consists of the following:

	Year Ended December 31, 2006	For the Period August 24, 2005 to December 31, 2005
Current tax provision:		
Federal	$ (564)	$ (2)
State	(150)	(1)
Total current tax	(714)	(3)
Future tax provision:		
Federal	(42,801)	1,666
State	(11,369)	262
Total future tax	(54,170)	1,928
Total tax expense (benefit)	$ (54,884)	$ 1,925

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

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:

	Year Ended December 31, 2006	For the Period August 24 to December 31, 2005
Income tax expense (benefit) at Canadian Statutory Rate:	$ (5,766)	$ (75)
Additional tax expense (benefit) from operations in countries with different income tax rates	(699)	(9)
Valuation Allowance	8,914	2,009
Non-controlling interest tax benefit	(57,333)	-
Total tax expense (benefit)	$ (54,884)	$ 1,925

Non-Controlling Interest Tax Benefit

The Company recorded a net future tax liability at the date of acquisition representing the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These items were primarily related to property, plant and equipment and intangible assets which were contributed to the Company by the Class B investors on August 24, 2005. For accounting purposes the acquired assets were recorded at fair value where as for tax purposes the assets were recorded at the lower value of the historical basis of assets contributed by the Class B investors. This resulted in the recording of a deferred tax liability and an offsetting increase in property, plant and equipment and intangible asset value attributable to the non-controlling interest. The basis differences in the property, plant and equipment and intangible asset balances are being depreciated or 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. As of December 31, 2006 the outstanding balance of property, plant and equipment and intangible assets attributable to the non-controlling interest was $50.2 million. These amounts do not create a liability or expense for EIS and common shareholders and do not impact the Company's future cash flows. On November 1, 2006 the non-controlling interest holders sold their interest in the Company, resulting in a gain to the non-controlling interest holders. As a result, the Company is permitted to increase the tax basis of its assets to equal the recorded financial statement value. Accordingly, the remaining balance of deferred taxes associated with the August 24, 2005 transaction ($57.3 million) was eliminated in 2006 and is wholly allocable to the non-controlling interest through the non-controlling interest in class B common line item of the Statement of Operations.

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

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

	As of December 31, 2006	As of December 31, 2005
Accrued Expenses	$ 997	$ 708
Current Future Tax Assets	997	708
Contract Termination Fee	-	19,085
Foreign Currency Translation	950	936
Asset Retirement Obligation	1,195	1,113
Intangible Assets	2,020	-
Net Operating Loss	10,923	2,009
Valuation Allowance	(10,923)	(2,009)
Long-Term Future Tax Assets	4,165	21,134
Interest Rate Swap	(173)	(22)
Current Future Tax Liability	(173)	(22)
Other	-	(46)
Fixed Assets	(8,326)	(17,616)
Intangible Assets	-	(31,947)
Interest Rate Swap	(196)	(259)
Investment in PCI	(209)	(29,864)
Long-Term Future Tax Liability	(8,731)	(79,732)
Net Future Tax Liability	$ (3,742)	$ (57,912)

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 December 31, 2006 and 2005 the net current future tax asset balances were $0.8 million and $0.7 million, respectively. At December 31, 2006 and 2005 the net long term future tax liability balances were $4.6 million and $58.6 million, respectively.

12. 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 will be used to fund interest and cash distributions to EIS holders, the non-controlling interest and interest distributions to the separate subordinate note holders. The contracts are for a series of monthly payments through September 2010. At December 31, 2006, forty-five sets of payments comprised of three monthly contracts remain open. Each month, the Company sells a fixed amount of U.S. dollars for a fixed amount of Canadian dollars at a rate of Cdn$1.1712 to U.S. $1.00 and a rate of Cdn$1.0840 to U.S. $1.00 for

distributions to EIS holders and the non-controlling interest. The forward contracts applicable to distributions for the Separate Subordinated Notes have an exchange rate of Cdn$1.1713 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 December 31, 2006, the fair value of the forward contracts was $2.4 million of which $0.3 million is recorded in current assets. At December 31, 2005 the fair value of the forward contract was $3.9 million of which $0.4 million is recorded in current assets. The forward contracts have been entered into with a major Canadian bank as the counterparty.

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 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. At December 31, 2005, the fair value of these agreements was a net amount of $0.7 million of which $0.05 million is recorded in current assets.

13. 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 year ended December 31, 2006 and accordingly an incentive fee was not accrued. For the period from August 24, 2005 to December 31, 2005 the Company recorded an incentive fee accrual of $1.2 million. For the year ended December 31, 2006 and the period from August 24, 2005 to December 31, 2005 in accordance with the Management Agreement, the Company recorded management fees of $3.1 million and $1.1 million, respectively.

As of December 31, 2006, the Company had a payable due to the Manager of $0.4 million. As of December 31, 2005, the Company had a payable due to PEH of $0.2 million and a payable due to the Manager of $1.3 million inclusive of the management incentive fee. The Company has the ability and intent to settle these amounts.

On November 1, 2006 the Manager was acquired by EPCOR Power L.P. with all of the employees of PEV becoming employees of EPCOR Operations (US) Inc. ("EOI"), a wholly owned subsidiary of EPCOR Utilities Inc. and an affiliate of EPCOR Power L.P.. PEV will continue to act as the Manager of PERC under the Management Agreement, however, EOI will provide PEV all management and administrative services necessary to fulfill its obligations under the Management Agreement.

In connection with the acquisition of the Manager by EPCOR Power on November 1, 2006, the Company, EPCOR Power, EPCOR Operations, the Manager and Thomas Casten (former Chair and Chief Executive Officer of the Manager) entered into an allocation agreement (the "Allocation Agreement") which allocates among the parties rights to new and certain existing development and acquisition opportunities, where such opportunities have been or will be developed or identified by any of the Manager, EPCOR Operations or Thomas Casten. The principal terms of the Allocation Agreement are summarized in the Company's Annual Information Form dated March 8, 2007 and a copy of the Allocation Agreement is available for review on SEDAR at www.sedar.com.

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 7, 2007, which is available on SEDAR at www.sedar.com.

14. Basic and Diluted Net Loss Per Share

Basic and Diluted net loss per share has been calculated using the weighted average number of Common Shares outstanding of 31,000,000 for the year ended December 31, 2006, and 30,326,923 for the period from August 24, 2005 to December 31, 2005. For the year ended December 31, 2006 and 2005, there were no potentially dilutive securities outstanding.

15. Comparative Figures

The Company was incorporated on June 10, 2005 and did not begin operations until August 24, 2005. Consequently, there are no comparative figures for periods prior to August 24, 2005.

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

16. 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.

17. 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 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 year ended December 31, 2006 and for the period from August 24, 2005 to December 31, 2005 include $8.4 million and $3.2 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. The amount of coal consumed also determines the fee paid to the Manager of the Partnership and is recorded in operating expenses. Financial information representing Harbor Coal's share of PCI Associates is as follows:

	December 31,	
	2006	2005
Current assets	$ 454	$ 7,001
Noncurrent assets	14,937	16,657
Current liabilities	1,370	1,581
Noncurrent liabilities	-	-
	Year Ended December 31, 2006	**Period from August 24 to December 31, 2005**
Revenue	$ 32,480	$ 12,473
Operating Expenses	23,956	5,153
Net Income	8,541	7,325
Cashflows from operating activities	$ 16,261	$ 1,870
Cashflows from investing activities	-	-
Cashflows from financing activities	(16,598)	(1,861)