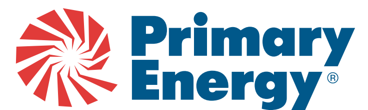
PRIMARY ENERGY RECYCLING CORPORATION

ANNUAL REPORT 2006

A Critical Piece of Our Energy Infrastructure



Primary Energy Recycling Corporation

Primary Energy Recycling Corporation (PERC) creates value by capturing and recycling waste energy from industrial processes and converting it into reliable and economical electricity and thermal energy for its customers' use while reducing pollution and greenhouse gases. PERC is the beneficial owner of four recycled energy projects and has a 50% interest in a pulverized coal facility that uses waste heat to dry pulverized coal for blast furnace injection. These facilities serve steel mills that are among the most technically efficient and cost effective mills in North America.

PERC's Enhanced Income Securities (EIS) trade on the Toronto Stock Exchange (TSX) under the symbol PRI.UN.

www.primaryenergyrecycling.com

Forward-Looking Statements
When used in this annual report, the words "anticipate", "expect", "project", "believe", "estimate", "forecast" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions pertaining, but not limited, to operating performance, regulatory parameters, weather and economic conditions and the factors discussed in the Company's public filings available on SEDAR at www.sedar.com. These forward-looking statements are made as of the date of this annual report and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

Investing in PERC is Investing in Our Energy Future

As environmental concerns and global warming force industrial companies to confront their energy strategies, PERC's recycled energy projects are positioned as a critical piece of the world's energy future.

Clean, Low Cost Energy Producer

- Extract useful energy with little or no associated air pollutant emissions or greenhouse gases
- Process reduces energy costs for our customers

Strong Growth Prospects

- Increased demand for clean energy solutions
- Enhanced capabilities from association with EPCOR Utilities Inc., a North American energy leader

Predictable and Sustainable Cash Distributions

- Long-term contracts with industry leaders
- Strong integration with host facilities
- High contract renewal potential

Financial Summary for the Year Ended December 31, 2006

	US$	Cdn$
Revenue (in thousands of dollars)	87,072	
Operating Expenses (in thousands of dollars)	81,109	
Operating Income (in thousands of dollars)	5,963	
EBITDA (in thousands of dollars)*	46,363	
Distributable Cash Generated per common and equivalent Common Share*	0.91	1.06
Distributable Cash Declared per common and equivalent Common Share*	0.97	1.13

** EBITDA and Distributable Cash are not recognized measures under U.S. GAAP or Canadian GAAP. See the definitions of EBITDA and Distributable Cash in the Company's MD&A.*

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Message from the Chair

Your directors are committed to ensuring that PERC's management team executes its growth strategy for the benefit of shareholders. A. Michel Lavigne, Chair

On behalf of Primary Energy Recycling Corporation's (PERC's) Board of Directors, I am pleased to address shareholders at the conclusion of PERC's first full year of operation as a public company.

This past year saw the Company move to another phase of its evolution when Primary Energy Ventures, (PEV), PERC's manager, was acquired by EPCOR Power L.P. (TSX: EP.UN) on November 1, 2006. EPCOR Power L.P. is a publicly-traded limited partnership that owns and operates electrical generation facilities in Canada and the United States. This new ownership brought with it some changes. All the employees of PEV transferred to a newly formed subsidiary EPCOR Operations (US) Inc. (EOI) and continue to manage the facilities in a safe, reliable and profitable manner. As part of the acquisition, PERC, PEV, EPCOR Power L.P. and others entered into an Allocation Agreement which defines the relationship between all the parties and reconciles potential conflicts with respect to new and certain existing development opportunities.

This change in ownership also brought with it changes to the management team, with John Prunkl appointed President of PEV and EOI, and Michael Alverson assuming the role of Chief Financial Officer. Both John and Michael have extensive experience with PERC's projects and have strong backgrounds in the energy sector. The Board is confident that the management team is strongly led and focused in its objectives. We are also confident that the Company's association with the EPCOR companies will help PERC capitalize on the growing opportunities for recycled energy.

The acquisition has also resulted in changes to the board composition. John Prunkl and Brian Vaasjo of EPCOR Power L.P. are our newest directors. They bring significant experience to the team and we welcome their contributions.

Another key event of 2006 was the October 31 announcement by the Canadian government regarding proposed changes to the taxation of income trusts. This proposal created some confusion for PERC's shareholders, but I want to point out that PERC is not an income trust. PERC is a Canadian corporation that is already subject to Canadian tax regulations. Our preliminary assessment is that the proposed legislation would not apply to the PERC structure.

Your directors are committed to ensuring that PERC's management team executes its growth strategy for the benefit of shareholders. To do this, we adhere to the highest standards of transparency and integrity. We recognize that both the Board of Directors and management team are accountable for prudent decision making and complete, accurate and timely disclosure of relevant developments. Our corporate governance policies provide a strong framework for effective oversight. We are further committed to proactively reviewing and updating our practices to ensure we meet evolving regulatory demands and investor expectations.

As we look back on this year of challenge and change, I extend my gratitude to our shareholders on behalf of the Board for your continued support. We look forward to guiding PERC towards increased shareholder value in 2007 and beyond.

A. Michel Lavigne
Chair of the Board of Directors

Message from the President

Our first full year of operation as a public entity has demonstrated our ability to successfully respond to change and challenges while staying focused on shareholder value. John Prunkl, President

PERC's vision of recycled energy is moving into the mainstream. You cannot pick up the paper today without seeing an article discussing global warming concerns and proposals to reduce greenhouse gases. As recycling energy continues to be one of the few solutions that improve industrial competitiveness while reducing emissions, we expect increased interest in the types of projects we own and operate. Today, the Canadian and U.S. governments are actively engaged in the carbon debate and political will to act is accelerating. We are well-positioned to take advantage of these positive changes in environmental policy and their impact on the energy sector.

Our first full year of operation as a public entity has demonstrated our ability to successfully respond to change and challenges while staying focused on shareholder value. The sale of PEV to EPCOR Power L.P., a large player in the strategic energy market with deep expertise in North America, increases our chances of success. However, recycling energy and improving our environment are complex tasks that involve challenges. We did experience a few operational difficulties and continue to see commodity price and volume volatility at the Harbor Coal project. As a team, we embrace these and future challenges. By setting very high standards for integrity and professionalism, coupled with the growing recognition of energy recycling as an attractive energy generation alternative, we have earned a solid reputation as a strategic partner to industry and are committed to maintaining that reputation.

Our new relationship with EPCOR gives us access to additional resources and expertise from a well-established owner and operator of similar types of energy assets. We have successfully completed our transition with EPCOR Power L.P. and will employ our collective capabilities in pursuit of enhancements for our customers and new growth opportunities in our core business of recycled energy.

Results

Our financial performance for 2006 was mixed. Top-line results for our projects were on target, but bottom line performance was below expectations. Cokenergy produced very strong results and both Ironside's and Portside's results were consistent with our plan. However, Northlake's profitability was affected by an extended outage and Harbor Coal proved to be a significant variable in our financial performance. Harbor Coal was affected by an increase in the quantity and price of various commodity inputs, particularly oxygen. Setting aside the impact of oxygen prices, the throughput associated with Harbor Coal was near expectations. We also continue to work closely with our partners at Mittal and U.S. Steel to find additional enhancements to improve financial performance.

Our results included distributing a total of $36.2 million to our shareholders during the year. The $8-million reserve established for expected variability in our business has remained intact since our IPO. Despite a relatively high payout ratio for the past year, we are comfortable with the current distribution level.

Looking ahead to 2007, we foresee growing acceptance of and demand for recycled energy as a method for reducing energy costs and pollution worldwide.

Outlook

Looking ahead to 2007, we foresee growing acceptance of and demand for recycled energy as a method for reducing energy costs and pollution worldwide. The U.S. and Canadian governments have stated their commitment to using clean energy to confront climate change, and we are optimistic that this will include more options for proven alternatives such as recycled energy. As momentum builds in the search for energy alternatives, we expect growth opportunities to be created for PERC. We also expect that the spirit of cooperation and alignment of interests we have with our industrial customers will continue to be a key ingredient that allows us to operate 'inside the fence' as a strategic partner at their facilities.

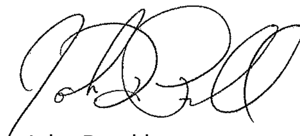
PERC intends to expand its operations by making additional investments or acquisitions that meet the investment guidelines of the Board of Directors. The PERC management team will execute our long-term growth strategy by focusing on four key objectives:

- Pursuing operational excellence and continuous improvement including enhancing existing projects and leveraging our relationships with our customers;
- Producing clean, low cost energy profitably;
- Providing greater certainty for our shareholders by maintaining long-term contracts with industry leaders and working to minimize financial volatility; and
- Delivering sustainable cash distributions.

I am confident in the abilities of our team to achieve these objectives and look forward to reporting our progress in the months ahead. On behalf of the management team, I want to recognize all those who have been committed to PERC's success during the past year. I particularly thank our customers for letting us prove our recycled energy vision works.

I offer my gratitude to our employees for their continued dedication to our mission. I appreciate and rely on the sound guidance provided by our Board of Directors and their unwavering commitment to PERC's vision. Finally, I extend sincere thanks to our shareholders for your continued support.

Yours truly,



John Prunkl
President
Primary Energy Ventures LLC &
EPCOR Operations (US), Inc.

The following profiles of three of our projects demonstrate the way we recycle energy, delivering economic and environmental benefits to our customers and returns to our shareholders.

COKENERGY, East Chicago, IN
Electric capacity (nameplate): 95 MW
Steam capacity: 896 Mlbs/hr steam
Host: Mittal Steel USA

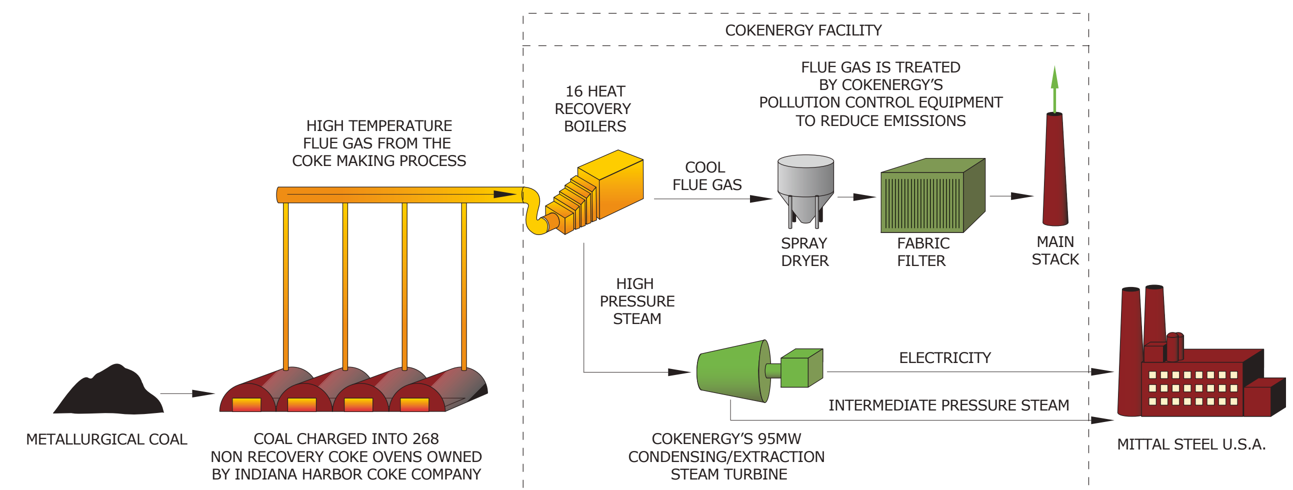
PERC's Cokenergy project plays a critical role in Mittal Steel's operations by reducing energy costs and contributing to a cleaner environment. This facility produced excellent results in 2006, completing its steam turbine outage under budget and managing expenses very well.

Located in East Chicago, Indiana, this facility consists of a unique Combined Heat and Power (CHP) project that captures, recycles and cleans waste heat and exhaust from 268 coke ovens. The waste heat from the ovens is used to drive a 95 MW steam turbine generator and is also used to produce process steam for Mittal's steel-making operations. Cokenergy provides a portion of Mittal's total electrical requirements and the majority of the process steam needs for the mill's west side. **The project is tightly integrated into Mittal's operations, making us an important strategic partner in their long-term business success.**

From an environmental point of view, Cokenergy's process is extremely clean as no fossil fuel inputs are used. Cokenergy eliminates an estimated 800,000 tons of carbon dioxide (CO_2) emissions every year and removes sulfur and particulates from the waste heat stream.

Cokenergy's innovative process coupled with the adjacent non-recovery coke making approach set a new industry standard for environmental performance. The United States Environmental Protection Agency has recognized the technical approach as 'Maximum Achievable Control Technology' for pollution control.

COKENERGY



PORTSIDE, Portage, IN

Electric capacity (nameplate): 63 MW
Steam capacity: 495 Mlbs/hr steam,
(facility also produces hot softened water)
Host: US Steel

PERC's Portside project in Portage, Indiana, is an excellent example of recycling energy often discarded in electric-only production. This approach provides significant cost efficiencies to the customer and produces far-reaching environmental benefits.

The Portside CHP project is highly integrated into this US Steel finishing facility. This highly efficient project is fueled by clean-burning natural gas to first produce electricity. The exhaust heat from the electricity generation is then captured to produce high-pressure steam and hot softened water. The steam and water are integral to US Steel's production of high quality coated steel for automobile bodies. **From a single input of natural gas, we supply all of their thermal energy needs and a substantial portion of their electrical energy requirements.** We are committed to working together to find further efficiencies and benefits.

Approximately 400,000 tons of carbon dioxide (CO_2) are eliminated each year from this project. In addition, nitrogen oxide (NO_x) and sulfur dioxide (SO_2) emissions have been reduced by thousands of tons compared to more traditional methods of energy supply.

In the past, Portside has received several accolades for its environmentally-friendly process, including the ENERGY STAR® CHP Award from the United States Environmental Protection Agency and the U.S. Department of Energy. Along with Cokenergy, it has also been recognized by the Governor of Indiana for excellence in pollution prevention.

HARBOR COAL, East Chicago, IN

Pulverizing capacity: 110 tons per hour of dried, pulverized coal for blast furnaces
Host: Mittal Steel USA

Our Harbor Coal project in East Chicago, Indiana is a unique partnership with Mittal Steel USA, the world's largest steel producer. It involves a different process than our four wholly-owned projects, but creates similar economic and environmental benefits.

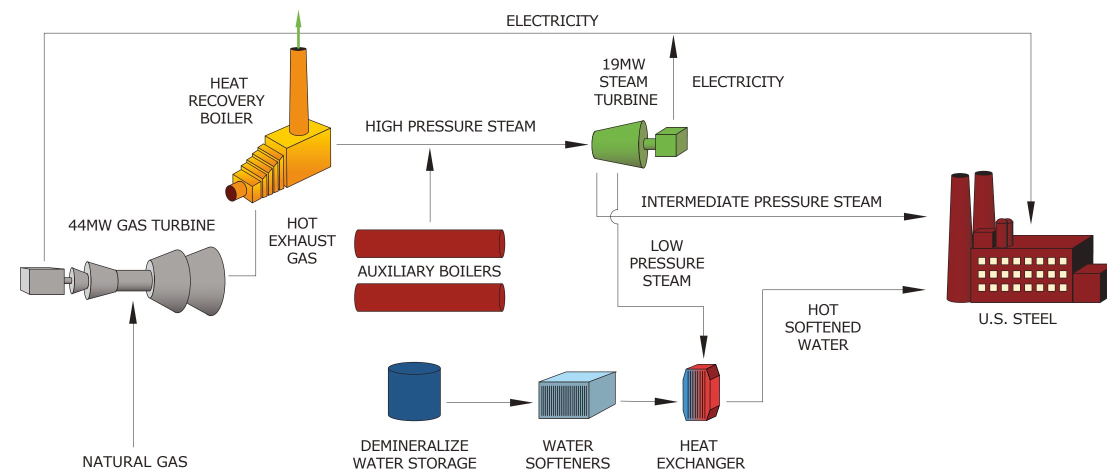
Stove exhaust that would normally be vented into the atmosphere is captured and used to dry coal. This coal is then pulverized and injected into blast furnaces to displace coke, fuel oil and natural gas inputs. The use of this waste heat eliminates the need to burn additional fuels, thereby reducing environmentally-harmful emissions. **The project improves Mittal's performance by decreasing coke and natural gas usage, eliminating fuel oil usage, and improving energy yield.**

These savings also help ensure that Mittal's Blast Furnace #7 continues to operate during steel industry downturns.

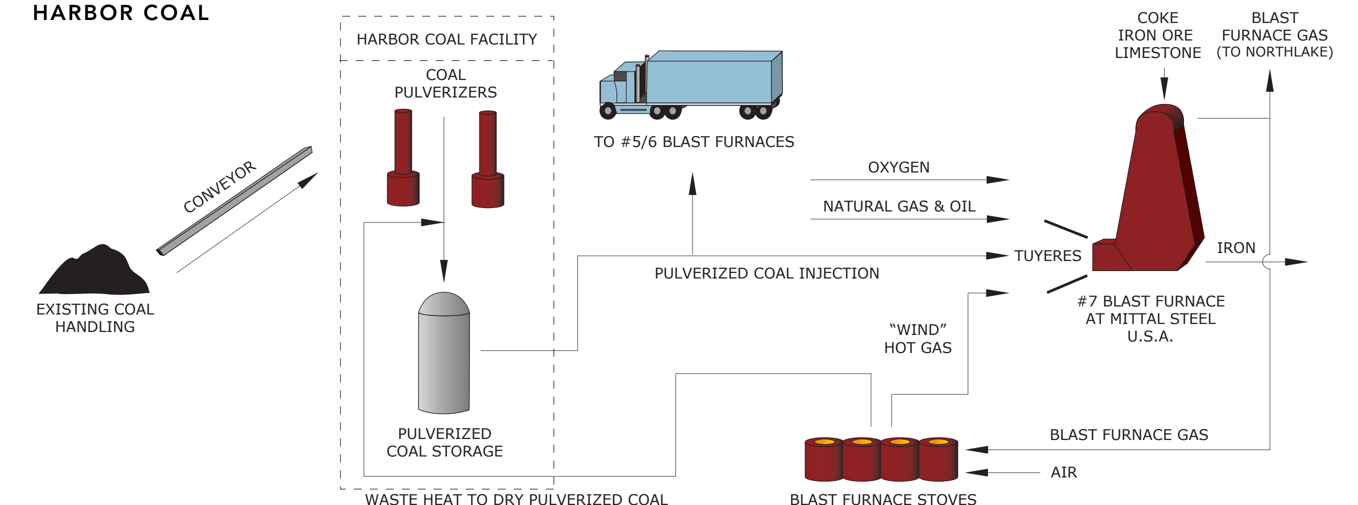
There are three key variables that affect Harbor Coal's performance. The first two, productivity and efficiency, are controllable factors. Because Harbor Coal uses coal to displace other commodity inputs, its profitability is also susceptible to shifts in commodity market prices, particularly coal, coke, natural gas and oxygen.

The financial benefits of pulverized coal injection increase as the price of natural gas increases, the spread between coal and coke widens and as metal production increases. PERC is working closely with Mittal to improve the long-term consistency and efficiency of this project.

PORTSIDE



HARBOR COAL



Board of Directors

A. Michel Lavigne, Chair of the Board of Directors

Mr. Lavigne sits on numerous public and private company boards including Caisse de dépôt et placement du Québec, Quebecor Media, Groupe TVA, Nurun Ltee and Nstein Technologies. Until May 2005, Mr. Lavigne served as President and Chief Executive Officer of Raymond Chabot Grant Thornton in Montreal, Quebec, Chairman of the Board of Grant Thornton Canada and was a member of the Board of Governors of Grant Thornton International. Mr. Lavigne is a fellow of the Order of Chartered Accountants of Quebec and a member of the Canadian Institute of Chartered Accountants since 1973.

John Prunkl

Mr. Prunkl is the President of Primary Energy Ventures LLC and EPCOR Operations (US), Inc. He has also held the position of Executive Vice President responsible for day to day operations. Prior to joining Primary Energy, in 2001 he co-founded and was a principal of MetroGen LLC, an energy company focused on aggregating standby generators in New York City and dispatching them into the electric marketplace during emergency periods. Mr. Prunkl was Vice President, Operations for Illinova Generating Company, the independent power subsidiary of Illinova Corporation (now Dynegy). He also served as President of Illinova Resource Recovery, a subsidiary specializing in the generation of electric power from industrial waste byproducts. Mr. Prunkl also held several management positions at GE Power Systems. Mr. Prunkl received his MBA from J.L. Kellogg School of Management, Northwestern University, his Bachelor of Science in Mechanical Engineering from Auburn University, and his Bachelors of Arts degree in Mathematics from Huntingdon College.

Christopher H. Pickwoad

Mr. Pickwoad is a Director and former Executive Vice President and Chief Financial Officer of Novamerican Steel Inc., a public company listed on the NASDAQ. He has 26 years of experience in the steel industry and was employed by Novamerican from 1982 to 2006. Prior to 1982, he was a partner of a firm of Chartered Accountants. Mr. Pickwoad is a member of the Canadian Institute of Chartered Accountants.

Celia M. Cuthbertson

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

Brian Vaasjo

Mr. Vaasjo has been Executive Vice President of EPCOR since he joined them in 1998 and Director and President of EPCOR Power LP since 2005. He is responsible for EPCOR's Regional activities including major development and construction projects. Prior to joining EPCOR, Mr. Vaasjo spent 19 years with the Enbridge Group of companies. Mr Vaasjo holds an MBA from the University of Alberta where he also received his undergraduate degree. He is a fellow of the Society of Management Accountants (FCMA) and is Chairman of the Board of the Capital Region United Way.

Clockwise starting from bottom left:
John Prunkl, A. Michel Lavigne, Christopher H. Pickwoad, Brian Vaasjo, Celia M. Cuthbertson.

Corporate Governance

Corporate Governance

PERC is committed to earning investor trust and confidence through straightforward and transparent corporate governance. To promote the company's long-term well being and sustainability for the benefit of shareholders, the Board of Directors has adopted a comprehensive corporate governance strategy that reflects the highest standards of corporate governance and compliance with guidelines and practices.

Committees and Mandates

The Board of Directors has established two committees to assist in the efficient functioning of PERC's corporate governance program.

The **Audit Committee** is responsible for overseeing all aspects of financial reporting, including the selection of independent auditors. The committee consists of three independent board members, all of whom are deemed financially literate by Multilateral Instrument 52-110, which prescribes requirements for audit committees.

Committee Members:

Christopher H. Pickwoad (Chair), Celia M. Cuthbertson, A. Michel Lavigne

The **Corporate Governance and Compensation Committee** is responsible for developing PERC's governance policies and practices, assessing the overall effectiveness of the board, reviewing directors' compensation, and reviewing and updating PERC's written disclosure policy. This committee consists of three members, all of whom are independent.

Committee Members:

Celia M. Cuthbertson (Chair), A. Michel Lavigne, Christopher H. Pickwoad

The Governance Committee, with input from the directors and the Board of Managers of Primary Energy, is responsible for the assessment of the performance and effectiveness of PERC's Board of Directors, the Board of Managers of Primary Energy, their respective committees, the chairperson and individual directors.

PERC is committed to earning investor trust and confidence through straightforward and transparent corporate governance.

Management Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis of the financial condition and results of operations ("MD&A") of Primary Energy Recycling Corporation (the "Company") dated March 7, 2007 should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2006. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). All amounts described in the management MD&A are in thousands of U.S. dollars, unless otherwise stated.

Forward-Looking Statements

Certain statements in this MD&A 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 Company. Such forward-looking statements reflect current expectations regarding future events and operating performance and speak only as of December 31, 2006. These forward-looking statements involve significant risks and uncertainties, and 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 this MD&A and in the Company's Annual Information Form dated March 8, 2007. Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at *www.sedar.com*. Although the forward-looking statements contained in this MD&A 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 MD&A and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

Overview

General

The Company owns a majority interest in Primary Energy Recycling Holdings LLC ("PERH") which is headquartered in Oak Brook, Illinois. PERH 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 1.8 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.

On August 24, 2005, the Company completed an initial public offering (the "Offering") through the issuance of 28.5 million enhanced income securities ("EISs") at a price of Cdn$10.00 per EIS, each representing one common share of the Company ("Common Share") and Cdn$2.50 principal amount of 11.75% subordinated notes ("Subordinated Notes"). In addition, the Company issued Cdn$18.5 million separate Subordinated Notes (not forming part of EISs) ("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 loan facility of $135.0 million and a $15.0 million revolving credit facility (the "Credit Facility"). On September 27, 2005, the underwriters of the Offering exercised their over-allotment option to purchase 2.5 million additional EISs.

The Company used the proceeds of the Offering, and the proceeds of the over-allotment, to acquire an ownership interest in PERH. On completion of the Offering and closing of the over-allotment, the Company owned 85.8% of the preferred interests and 83.0% of the common interests in PERH, through its ownership of all of the issued and outstanding Class A preferred membership interests and all of the issued and outstanding Class A common membership interests of PERH. Primary Energy Ventures LLC (the "Manager"), indirectly holds the remaining 14.2% of the preferred interests and 17.0% of the common interests in PERH, through its ownership of all of the issued and outstanding Class B preferred membership interests and all of the issued and outstanding Class B common membership interests in PERH.

Matters Affecting Comparability

The Company began operations on August 24, 2005, the same day the Company completed the Offering. There are no financial statements for the 2005 fiscal year for the Company (or its subsidiaries) that can be used on a comprehensive basis for comparing the year ended December 31, 2006 operating results to the comparative period in the prior period. In order to enhance its usefulness, this MD&A includes a summary of the operating results of the Company for the year ended December 31, 2006 and comparative pro forma operating results for the corresponding year ended December 31, 2005. The pro forma operating results for the year ended December 31, 2005 have been prepared by combining the financial results of the Company for the period from August 24, 2005 to December 31, 2005 (representing the results of the Company for the period subsequent to the Offering) with the financial results of the predecessor Company for the period from January 1, 2005 to August 23, 2005 (representing the results of the Company for the period prior to the Offering). As a portion of the fiscal 2005 period represents a period prior to the closing of the Offering, this information is provided for reference purposes only, and is not intended as a comprehensive comparison of financial results. In addition, the results for the year ended December 31, 2006 reflect a net reduction in unrealized gain on derivative hedge contracts of $0.5 million for excess unrealized gain recognized in the prior periods.

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 Credit Facility and interest on the Separate Subordinated Notes. EBITDA and Distributable Cash are not recognized measures under Canadian GAAP and do not have standardized meanings prescribed by Canadian 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. However, EBITDA and Distributable Cash should not be construed as an alternative to net earnings or loss determined in accordance with Canadian GAAP as an indicator of the Company's performance or to cash flows from operating, investing and financing activities, as a measure of liquidity and cash flows.

Results of Operations

(in 000's of US$, except per share data)	For the Years Ended December 31,			
	Actual 2006	Actual 130 Days 8/24/05–12/31/05	Predecessor Pro forma 235 Days 1/1/05–8/23/05 (Note 1)	Pro forma 2005 (Note 1)
Revenue:				
Capacity	$ 36,071	$ 12,800	$ 23,271	$ 36,071
Energy Service	51,001	19,599	25,942	45,541
	87,072	32,399	49,213	81,612
Expenses:				
Operations and maintenance	31,423	7,549	15,895	23,444
General and administrative	9,286	5,744	5,287	11,031
Depreciation and amortization	40,400	14,405	8,295	22,700
Total Operating Expenses	81,109	27,698	29,477	57,175
Operating income	$ 5,963	$ 4,701	$ 19,736	$ 24,437
Other income (expense):				
Interest income (expense), net	(20,594)	(7,211)		
Unrealized gain (loss) on derivative hedge contracts	(1,297)	4,612		
Unrealized loss on foreign currency translation	(36)	(2,310)		
Loss before income taxes	(15,964)	(208)		
Income tax benefit (expense)	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)		
Weighted average number of shares outstanding	31,000,000	30,326,923		
Basic and Diluted net loss per share (Note 2)	$ (0.60)	$ (0.03)		

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: 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.

Balance Sheet Data

(In 000's of US$)	As of December 31,	
	2006	2005
Total assets	$ 465,521	$ 511,807
Total long-term liabilities	$ 224,893	$ 278,687

For the Year Ended December 31, 2006 Compared to the Pro forma for the Year Ended December 31, 2005

The Company's revenue of $87.1 million in 2006 increased $5.5 million, or 6.77% compared with pro forma revenue of $81.6 million in 2005. This increase reflects an improvement in Energy Service revenue, primarily resulting from increased revenue at the Company's Harbor Coal facility of $5.7 million due to increases in volume of $2.1 million and pricing of $3.6 million which is due to the spread between the cost of coal supplied and the prices of the fuels that coal replaces (coke, natural gas and fuel oil).

Operating and maintenance expense in 2006 was $31.4 million compared to $23.4 million for pro forma 2005, an increase of $8.0 million or 34.0%. The increase was due to additional plant maintenance expenses in 2006 comprised of planned steam turbine overhaul expenses of $0.8 million and additional processing expenditures of $3.5 million (corresponding to increased revenue at the Company's Harbor Coal facility). In addition, Harbor Coal also experienced higher prices for production commodities including oxygen, nitrogen and labor resulting in increased costs of $3.7 million. As a percentage of revenue, operating and maintenance expenses increased to 36.1% in 2006 from 28.7% in pro forma 2005.

General and administrative expense in 2006 was $9.3 million compared to $11.0 million for pro forma 2005, a decrease of $1.7 million or 16.0%. The decrease was the result of a $1.8 million reduction in property tax expense inclusive of property tax refunds and a reduction in accrued property taxes based upon completion of a successful appeal to the state taxing authorities for designation as a non-utility taxpayer. In addition, there was a $1.2 million reduction in incentive fees in 2006. These reductions are offset by additional general and administrative expenses associated with professional fees of $0.4 million, plant and liability insurance of $0.3 million, management fees of $0.2 million, accretion of $0.2 million and board compensation fees of $0.2 million. As a percentage of revenue, general and administrative expenses decreased to 10.7% in 2006 from 13.5% in pro forma 2005.

Depreciation expense in 2006 was $10.5 million compared to $9.9 million for pro forma 2005, an increase of $0.6 million. The increase in depreciation expense was associated with the fair value adjustment to fixed assets resulting from the allocation of purchase price upon the completion of the Offering. As a percentage of revenue, depreciation expense decreased to 12.0% in 2006 from 12.1% in pro forma 2005.

Amortization expense in 2006 was $29.9 million compared to $12.8 million for pro forma 2005, an increase of $17.1 million. The increase was due to the additional amortization associated with the allocation of purchase price to Contract Value intangible asset upon the completion of the Offering. The Contract Value intangible asset is being amortized over an average term of 8 years. As a percentage of revenue, amortization expense increased to 34.3% in 2006 from 15.7% in pro forma 2005.

Operating income in 2006 was $6.0 million compared to $24.4 million for pro forma 2005, a decrease of $18.4 million, or 75.6%. The decrease was primarily driven from the net effect of the items discussed above.

Interest Expense, Unrealized Loss on Derivative Contracts and Income Tax Benefit Reflected in the Year Ended December 31, 2006 Net Loss

Interest expense recorded in 2006 was $20.6 million comprised of $10.7 million of interest on the term loan facility, $9.6 million of interest on the Subordinated Notes and Separated Subordinated Notes and $1.4 million of interest related to the amortization of deferred finance fees. These amounts are offset by $1.1 million of interest income.

An unrealized loss on derivative hedge contracts of $1.3 million was recorded in 2006 and reflects the change in fair value from December 31, 2005 to December 31, 2006 associated with financial hedges.

The income tax benefit recorded in 2006 of $54.9 million was primarily the result of the elimination of the remaining deferred tax liability balance of $57.3 million ascribed to the non-controlling interest upon the sale of the non-controlling interest on November 1, 2006, offset by tax expense of $2.4 million. The deferred tax liability originated on August 24, 2005, the closing of the Offering, and represents the tax basis differential associated with the assets and liabilities contributed to PERH by the non-controlling interest in conjunction with the Offering. As this deferred tax liability was ascribed to the non-controlling interest, the elimination recorded in 2006 is allocated to the non-controlling interest through the "Non-controlling interest in Class B Common" line in the Statement of Operations.

Fourth Quarter 2006 compared to Fourth Quarter 2005

The Company's revenue of $18.3 million in the fourth quarter of 2006 decreased by $4.9 million, or 21.3% compared with revenue of $23.2 million for the fourth quarter of 2005. The decline in revenue for the quarter was primarily the result of decreased revenue at the Company's Harbor Coal facility driven by an annual consumption adjustment recorded at year end based on physical inventory counts completed by Harbor Coal's joint venture host customer. In 2006, the effect of the adjustment was to increase coke consumption which impacted the amount of revenue recorded by the joint venture. The effect of this adjustment reduced fourth quarter revenue at Harbor Coal by $3.2 million. Additionally, decreased volume at Harbor Coal during the fourth quarter of 2006 compared to corresponding activity in the fourth quarter of 2005 resulted in an additional reduction in fourth quarter 2006 revenue of $1.2 million. Additionally, revenue in the fourth quarter of 2006 decreased by $0.8 million due in large part to an outage and increased by $0.3 million due to increased volume.

Operating and maintenance expense for the fourth quarter of 2006 was $6.8 million compared to $4.6 million for the fourth quarter of 2005, an increase of $2.2 million or 47.1%. The increase was primarily due to additional plant maintenance expenses at the Harbor Coal's joint venture facility. In the fourth quarter of 2005, Harbor Coal's joint venture investment was favorably impacted by an annual consumption adjustment associated with coal consumption which reduced fees charged to operating and maintenance expense by $2.2 million compared to fourth quarter of 2006.

General and administrative expense for the fourth quarter of 2006 was $2.0 million compared to $4.8 million for the fourth quarter of 2005, a decrease of $2.8 million or 58.2%. The decrease was comprised of fourth quarter 2006 reductions in management incentive fee of $1.8 million, property taxes of $0.6 million, professional fees of $0.3 million and board compensation fees of $0.1 million.

Summary of Quarterly Results

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

	Period from 8/24–9/30 2005	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006	4th Quarter 2006
Revenues	$ 9,165	$ 23,234	$ 25,718	$ 21,902	$ 21,177	$ 18,275
Net income (loss)	$ 510	$ (1,474)	$ (1,316)	$ 1,874	$ (4,175)	$(14,840)
Net income (loss) per share	$ 0.02	$ (0.05)	$ (0.04)	$ 0.06	$ (0.14)	$ (0.48)

Outstanding Share Data

At February 28, 2007, the Company had 31,000,000 Common Shares outstanding, of which 223,900 Common Shares were held separately and the remaining 30,776,100 Common Shares were held as a component of EIS's. Each EIS consists of one Common Share and Cdn$2.50 principal amount of 11.75% Subordinated Notes of the Company.

Loss Per Share

Basic loss per share is computed based on the weighted average number of Common Shares outstanding. During the year ended December 31, 2006, there were no potentially dilutive securities issued and outstanding. Accordingly, diluted loss per share is equivalent to basic loss per share.

Liquidity and Capital Resources

During 2006, the Company increased cash and cash equivalents by $3.6 million to a balance of $15.6 million as of December 31, 2006. The Company believes these funds, in addition to cash generated from future operations and available credit facilities of $15.0 million are expected to be sufficient to finance known or foreseeable liquidity and capital needs. The Company's primary source of liquidity has historically been cash flow from operations. Additionally, management believes that the Company's ability to generate positive cash flow from operations will be sufficient to meet anticipated maintenance requirements associated with the Company's facilities in the near term and over the long term. The Company has one overhaul planned for 2007 with an estimated cost of $0.9 million.

Cash Flows for the Year Ended December 31, 2006

Net cash provided by operating activities for the year ended December 31, 2006 was $31.8 million, which resulted from a $18.5 million net loss, plus $45.7 million of net non-cash items charged to the Consolidated Statement of Operations, plus $4.6 million representing the net change in the Company's operating assets and liabilities. The net non-cash items consisted primarily of depreciation of property, plant and equipment. The net change in operating assets and liabilities resulted primarily from a decrease in accounts receivable and an increase in accounts payable, offset by reductions in accrued property taxes, accrued expenses and amounts owed to affiliates.

Net cash used in financing activities for the year ended December 31, 2006 was $28.2 million resulting primarily from interest and distribution payments of $26.7 million to holders of Class A common membership and B common membership interests in PERH.

Cash Flows for the Period from August 24, 2005 to December 31, 2005

Net cash provided by operating activities for the period from August 24, 2005 to December 31, 2005 was $9.6 million, which resulted from a $1.0 million net loss, plus $13.4 million of net non-cash items charged to the Consolidated Statement of Operations, less $2.8 million representing the net change in the Company's operating assets and liabilities. The net non-cash items consisted primarily of depreciation of property, plant and equipment offset by unrealized gains on derivative hedge contracts. The net change in operating assets and liabilities resulted primarily from a decrease in accounts receivable and an increase in accounts payable offset by reductions in accrued property taxes, accrued expenses and amounts owed to affiliates.

Net cash provided by financing activities for the period from August 24, 2005 to December 31, 2005 was $180.6 million resulting primarily from proceeds from the issuance of EIS securities and long term debt totaling $393.6 million. This amount was offset by payments of debt totaling $206.1 million and interest and distribution payments of $6.9 million to Class A and B equity holders.

Outstanding Debt

At December 31, 2006, the amount of outstanding debt under the Credit Facility was $135.0 million, with $15.0 million in additional borrowing capacity available under the revolving credit facility for working capital purposes. Also included in outstanding debt is $82.4 million in Subordinated Notes and Separate Subordinated Notes. The Credit Facility has a maturity date of August 24, 2009. The Subordinated Notes and Separate Subordinated Notes have a 12-year term and are due and payable on August 24, 2017. The Credit Facility, as well as the terms of the Subordinated Notes and Separate Subordinated Notes, requires the Company to meet certain financial covenants including, among other things, maintaining certain defined leverage and coverage ratios. As of December 31, 2006, the Company was in compliance with all such debt covenant requirements.

Cash Available for Distribution

The Company pays interest on the Subordinated Notes as stipulated and distributions on the Common Shares (when declared) in equal monthly amounts. Declarations of distributions on the Common Shares are based on periodic reviews of its estimated annual earnings and related estimated annual cash flows. For the year ended December 31, 2006, the Company generated Cdn$39.5 million of Distributable Cash and distributed Cdn$42.3 million, for a payout ratio of 107.1%. For the period from August 24, 2005 to December 31, 2005, the Company generated Cdn$17.6 million of Distributable Cash and distributed Cdn$14.5 million, for a payout ratio of 82.6%. Since inception, the Company has generated Cdn$57.1 million and distributed Cdn$56.8 million, for a payout ratio of 99.5%. The Board of Directors monitors the distribution policy of the Company with respect to excess cash, forecasted cash flows, debt levels and spending plans for the long term and may adjust distributions to retain appropriate liquidity for business operations. The Company expects to follow its distribution policy summarized in its Annual Information Form dated March 8, 2007 available on SEDAR at *www.sedar.com*.

Distributable Cash Summary

(in 000's of US$, except per share data and as otherwise indicated)

	Year Ended December 31, 2006	130 Days Ended December 31, 2005	August 24, 2005 to December 31, 2006
Reconciliation of net loss to EBITDA:			
Net loss	$ (18,457)	$ (964)	$ (19,421)
Plus:			
Depreciation and Amortization	40,400	14,405	54,805
Interest expense	20,594	7,211	27,805
Unrealized (gain) loss on foreign currency exchange	36	2,310	2,346
Unrealized (gain) loss on derivative hedge contracts	1,297	(4,612)	(3,315)
Income tax expense (benefit)	(54,884)	1,925	(52,959)
Non-controlling interest	55,854	(1,706)	54,148
Distributions on Class B preferred interest	1,523	537	2,060
EBITDA (Note 1)	$ 46,363	$ 19,106	$ 65,469
Less:			
Interest and related charges on new credit facility	10,744	3,409	14,153
Interest on separate subordinated notes	1,856	659	2,515
Distributable Cash (Note 1)	$ 33,763	$ 15,038	$ 48,801
Per Common and equivalent Common Share (Note 2)	$ 0.91	$ 0.40	$ 1.31
Interest on EIS Subordinated Notes	$ 7,776	$ 2,759	$ 10,535
Distributions on Common Shares	22,293	7,572	29,865
Distributions on non-controlling Class B preferred interest	1,523	537	2,060
Distributions on non-controlling Class B common interest	4,558	1,548	6,106
Total distributions (Note 3)	$ 36,150	$ 12,416	$ 48,566
Per Common and equivalent Common Share (Note 2)	$ 0.97	$ 0.33	$ 1.30
Hedge rate (Cdn$ per US$) (Note 4)	$ 1.1687	$ 1.1712	$ 1.1695
Distributable Cash (Cdn$) (Note 1)	$ 39,459	$ 17,613	$ 57,073
Per Common and equivalent Common Share (Cdn$) (Note 2)	$ 1.06	$ 0.47	$ 1.53
Excess (shortfall) distributable cash (Cdn$)	$ (2,790)	$ 3,071	$ 275
Per Common and equivalent Common Share (Cdn$) (Note 2)	$ (0.07)	$ 0.08	$ 0.01

Note 1: EBITDA and Distributable Cash are not recognized measures under Canadian GAAP and do not have standardized meanings prescribed by Canadian 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 Canadian GAAP.

Note 2: Common and equivalent Common Share computation for Distributable Cash purposes assumes 31,000,000 Common Shares are outstanding for the full period and the conversion of Class B interests into equivalent Common Shares. For the year ended December 31, 2006 and for the period from August 24, 2005 to December 31, 2006, the number of Common and equivalent Common Shares outstanding is 37,265,455.

Note 3: Includes distributions declared, but not distributed in reporting period.

Note 4: Hedge rate is based on weighted average of outstanding hedge contracts in place in each respective period.

	Year Ended December 31, 2006	130 Days Ended December 31, 2005	August 24, 2005 to December 31, 2006
Reconciliation of cash flows from operating activities to Distributable Cash:			
Cash provided by operating activities	$ 31,774	$ 9,598	$ 41,372
Interest on EIS Subordinated Notes	7,776	2,759	10,535
Interest income	(1,027)	(55)	(1,082)
Accretion of asset retirement obligations	(202)	(67)	(269)
Changes in operating assets and liabilities	(4,558)	2,803	(1,755)
Distributable Cash (Note 1)	$ 33,763	$ 15,038	$ 48,801

Note 1: Distributable Cash is not a recognized measure under Canadian GAAP and does not have a standardized meaning prescribed by Canadian GAAP. Therefore, 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 Distributable Cash is an important measure 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 Canadian GAAP.

Foreign Currency Exchange Contracts

On closing of the Offering, the Company entered into forward contracts to purchase Canadian dollars sufficient to make monthly distributions through September 2010 at the initial distribution level to all EIS holders, including non-controlling investors, as well as interest payments on the Separate Subordinated Notes. These forward contracts applicable for distributions to EIS holders and the non-controlling interest 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 forward contracts for the Separate Subordinated Notes have an exchange rate of Cdn$1.1713 to U.S. $1.00. For the year ended December 31, 2006, the net impact of the change in the foreign exchange rate on the aggregate value of the hedges resulted in an unrealized loss of $1.5 million. At December 31, 2006, the fair value of these contracts was a net amount of $2.4 million of which $0.3 million is recorded in current assets. For the period from August 24, 2005 to December 31, 2005, the net impact of the change in the foreign exchange rate on the aggregate value of the hedges resulted in an unrealized gain of $3.9 million. At December 31, 2005, the fair value of these contracts was a net amount of $3.9 million of which $0.4 million is recorded in current assets.

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 on 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. For the year ended December 31, 2006, the net impact of the exchange in the fair value of the agreements resulted in an unrealized gain of $0.2 million. 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. For the period from August 24, 2005 to December 31, 2005, the net impact of the exchange in the fair value of the agreements resulted in an unrealized gain $0.7 million. 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.

Commitments and Contractual Obligations

The following table reflects the Company's contractual obligations and commitments related to outstanding indebtedness as of December 31, 2006, including payments due for each of the next five years and thereafter.

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

	December 31, 2006 Balance	2007	2008	2009	2010	2011	Thereafter
Term Loan Facility	$ 135,000	$ –	$ –	$135,000	$ –	$ –	$ –
Subordinated debt	82,376	–	–	–	–	–	82,376
Total	$ 217,376	$ –	$ –	$135,000	$ –	$ –	$ 82,376

The Company pays a management fee under the Management Agreement which continues through August 2025. 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

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 Common Share 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 which commenced August 24, 2005.

On November 1, 2006, the Manager was acquired by EPCOR Power L.P. ("EPCOR Power"), a Canadian public company. As a result of the acquisition, all the employees of the Manager were transferred to EPCOR Operations (U.S.) Inc. ("EPCOR Operations"), a wholly owned subsidiary of EPCOR Utilities Inc. and an affiliate of EPCOR Power. EPCOR Operations now provides all management and administrative services to the Manager which continues to act as Manager 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*.

A detailed description of the principal terms of the Management Agreement is included in the Company's Annual Information Form dated March 8, 2007 and a copy of the Management Agreement is available for review on SEDAR at *www.sedar.com*.

Critical Accounting 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, 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 the Company's accounting policies that management believes require subjective and complex judgments, and could potentially have a material effect on reported financial condition and results of operations.

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.

Intangible Assets
Identifiable intangible assets were fair valued based on valuation techniques for the purpose of applying purchase accounting to the acquisition on August 24, 2005 and represent contract rights associated with customer contracts and nitrogen oxide allowances. The respective intangible values are amortized over specified time horizons and evaluated for impairment if events or changes in circumstances indicate that the asset might be impaired. Fair value under Canadian GAAP is defined as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act". Assessing the fair value of intangible assets requires management estimates on future cash flows to be generated by the assets.

Impairment of Long-Lived Assets
Management continually evaluates whether events or circumstances have occurred that indicate that the remaining estimated useful lives of property, buildings and equipment may warrant revision or that the remaining balances may not be recoverable. If this review indicates that the assets will not be recoverable, as determined based on the undiscounted future cash flows from the use of the assets, the carrying value of the assets will be reduced to their estimated fair value.

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 fair value of asset retirement obligations depends on the total undiscounted amount of the estimated cash flows required to settle the obligations and the appropriate credit-adjusted risk-free discount rate. 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, and are included in general and administrative expenses in the consolidated statement of operations and shareholders' deficit. Actual expenditures incurred are charged against the accumulated obligation.

Revenue Recognition
Revenue is recorded as services are delivered. Revenue is recorded on the accrual basis 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 services performed and delivered 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 allowances were recorded at December 31, 2006 and 2005.

Future Income Taxes
The Company utilizes the liability method of accounting for income taxes under which future income tax assets and liabilities are recognized based upon the differences between the tax basis of an asset or liability and its reported amount in the financial statements. Future tax balances are determined by using estimates of future tax rates expected to be in effect when the taxes will actually be paid or refunds received.

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 estimated fair value, with changes in fair value recognized currently in earnings.

Risk Factors

The Company'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 results of operations, business prospects, financial condition, the cash available 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 partial listing of primary risks facing the Company. Additional risks are discussed in the Company's Annual Information Form dated March 8, 2007 and are available for review on SEDAR at *www.sedar.com*.

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

Dependence on Key Personnel
PERH's success is largely dependent on the skills, experience and efforts of the senior management team of the Manager and other key personnel of EPCOR Operations. The loss of the services of any key employee could materially harm PERH's business, financial condition, future results and cash flow. Although to date PERH has been successful in retaining the services of senior management, such members of senior management may terminate their employment agreements without cause. The Manager may also not be able to locate or employ on acceptable terms qualified replacements for its senior management or key employees if their services were no longer available. PERH has entered into agreements with such members of senior management which prohibit them from competing with or soliciting employees or customers of PERH during and for 12 months following cessation of their employment.

Dependence on the Manager and Potential Conflicts of Interest
PERH and the Company are dependent on the Manager and EPCOR Operations in respect of the administration and management of PERH and the Company and the operations of the Projects. Although the Management Agreement has an initial 20-year term, the Management Agreement may be terminated earlier in certain circumstances, including by the Manager upon 180 days' prior written notice. Upon termination, PERH and the Company are required to establish replacement arrangements. If PERH and the Company are not able to obtain such arrangements on favorable terms, revenues and profits may decline and Distributable Cash of the Company may be negatively affected.

Certain officers of the Manager are full-time employees of EPCOR Operations and will devote their time and efforts exclusively to or for the benefit of the business of PERH and the Company. The Manager and its affiliates (which, for greater certainty, includes EPCOR Power and its subsidiaries) and employees or agents may be engaged or invest directly or indirectly in a variety of other companies or other entities involved in owning, managing or advising on or otherwise engaged in the business of the generation, production, transmission, distribution, purchase and sale of electricity, other forms of energy-related projects, infrastructure projects, utility projects or other businesses.

Other than the specific requirements of the Allocation Agreement, neither the Manager or its affiliates are prohibited by the Management Agreement or any other agreement with PERH or the Company from competing with PERH or the Company, or from acquiring, investing in, or providing administrative or managerial services to, a competitor of PERH or the Company. Accordingly, the Manager's and its affiliates' other business activities may result in conflicts.

To manage certain potential conflicts with respect to new and existing development opportunities and acquisition opportunities, the Company, EPCOR Power, EPCOR Operations, the Manager and Thomas Casten (former Chair and Chief Executive Officer of the Manager) are parties to an Allocation Agreement.

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

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

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

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

In its rules implementing the EPAct 2005, the Federal Energy Regulatory Commission ("FERC") added a new requirement that Qualifying Facilities must certify as such with FERC. Existing Qualifying Facilities that were not already certified with FERC were given until April 17, 2006 to certify their status. The Recycled Energy Projects filed self-certifications with FERC on March 16, 2006 certifying their Qualifying Facility status.

EPAct 2005 also eliminated, subject to certain conditions to be determined by FERC and subject to the grandfathering of existing contracts, the requirement under the United States Public Utility Regulatory Policies Act of 1978, as amended, that electric utilities must purchase electric energy and capacity from, and sell electric energy and capacity to, Qualifying Facilities. FERC has issued a final rule to implement this change. While the Recycled Energy Projects do not currently sell power to or purchase power from electric utilities, these amendments may limit or eliminate their rights to compel such sales or purchases in the future.

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

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

Timely and Accurate Reporting of Financial Results May Depend on the Ability of the Manager to Successfully Ensure that Internal Controls over Financial Reporting Function Properly

In connection with their audit of the consolidated financial statements for the period from August 24, 2005 to December 31, 2005, the Company's independent auditors reported a condition, relating to the proper and timely reporting of contracts and other agreements, that constituted a material weakness in internal control over the financial reporting that affected the Company's ability to produce and issue financial statements free from material misstatements on a timely basis. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. This control deficiency resulted in post closing year end adjustments to the Company's 2005 financial statements for the period from August 24, 2005 to December 31, 2005.

The Company has implemented controls and procedures such that this material weakness was alleviated as of December 31, 2006. These measures, along with existing controls cannot provide absolute assurance that the potential for misstatements will not exist. In addition, other deficiencies in the Company's internal controls over financial reporting may be identified in the future. The Company's development of internal controls over financial reporting continues to progress. Any failure to execute the effectiveness of controls in place or implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause failure to meet reporting obligations on a timely basis or result in material misstatements in the annual or interim financial statements. Inadequate internal controls over financial reporting could also cause investors to lose confidence in the reported financial information, which could cause the stock price to decline.

The Company is Dependent on PERH and the Projects for all Cash Available for Distributions

The Company is dependent on the operations and assets of the Projects through its indirect ownership of the Projects. The Company'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 PERH to make distributions to the Company, which in turn will be dependent on the ability of the Projects to make distributions to PERH. 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 PERH will reduce the amount of cash available for the Company to make payments to holders of Subordinated Notes and distributions to holders of EISs and Common Shares. While the Company is contractually obligated to make interest payments on the Subordinated Notes, cash distributions by the Company on the Common Shares, including the Common Share component of an EIS, are not guaranteed and will fluctuate with the performance of the Projects.

Distribution of All or a Significant Amount of Available Cash May Restrict Potential Growth of PERH and the Company

The payout by the Company and PERH 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 Company and PERH and their cash flow.

See the Company's Annual Information Form dated March 8, 2007, which can be found on SEDAR at *www.sedar.com*, for a full description of the Company's risk factors.

Recent Accounting Pronouncements

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 reference "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.

The Company does not expect adoption of these standards as of January 1, 2007 to have a material impact on the consolidated financial statements.

Conditional Asset Retirement Obligations

In December 2005, the CICA Emerging Issues Committee issued Abstract No. 159, "Conditional Asset Retirement Obligations" (EIC-159). EIC-159 clarifies that the term conditional asset retirement obligation, as used in CICA Handbook Section 3110, "Asset Retirement Obligations" refers to a legal obligation to perform an asset retirement activity where the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. EIC-159 also clarifies when there would be sufficient information to reasonably estimate the fair value of an asset retirement obligation. EIC-159 is effective for interim and annual reporting periods ending after March 31, 2006. The adoption of EIC-159 did not have an impact on the Company's consolidated financial statements.

Capital Disclosures

In December 2006, the CICA released new Handbook Section 1535, Capital Disclosures, effective for interim and annual financial statements beginning on or after October 1, 2007. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's objectives, policies and processes for managing capital. The Company does not expect adoption of Section 1535 to have a material impact on the consolidated financial statements.

Financial Instruments – Disclosures and Presentation

In December 2006, the CICA released new Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentations effective for interim and annual financial statements beginning on or after October 1, 2007. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The Company does not expect adoption of Section 3862 and Section 3863 to have a material impact on the consolidated financial statements.

Disclosure Controls and Procedures

Disclosure Controls and Procedures are controls and procedures designed and implemented by, or under the supervision of the Company's President, who performs similar functions to a Chief Executive Officer (the "President") and Chief Financial Officer ("CFO") to ensure that material information relating to the Company is communicated to management of the Company, including the President and CFO as it becomes known and is appropriately disclosed as required under the continuous disclosure requirements of applicable securities legislation. In essence, these types of controls are related to the quality and timeliness of disclosure of the Company's financial and non-financial information in securities filings.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted as of December 31, 2006, by and under the supervision of the Company's management, including the President and CFO. Based on this evaluation, the President and CFO have concluded that, the Company's disclosure controls and procedures, as defined in the Canadian Securities Administrators' Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", are effective to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by applicable securities legislation.

Internal Control over Financial Reporting

Internal control over financial reporting, designed by management, has the objective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles. For the financial reporting period from August 24, 2005 to December 31, 2005 a material weakness was noted related to the proper and timely reporting of contracts and other agreements. During 2006, management implemented internal control procedures that successfully alleviated the material weakness.

Additional Information

Additional information relating to the Company, including the audited consolidated financial statements for the year ended December 31, 2006 and for the period from August 24, 2005 to December 31, 2005 and the Company's Annual Information Form dated March 8, 2007, is available on SEDAR at *www.sedar.com*.

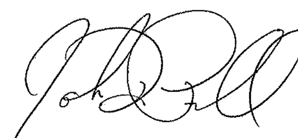
Manager's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Primary Energy Recycling Corporation (PERC) for the period from January 1, 2006 to December 31, 2006 and all information in this annual report are the responsibility of Primary Energy Ventures, LLC, the Manager of PERC.

The consolidated financial statements have been prepared by the Manager in accordance with Canadian generally accepted accounting principles. The preparation of these financial statements requires the Manager to make estimates and assumptions that affect certain reported amounts which the Manager believes are reasonable.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with the Manager and the independent auditor. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

PricewaterhouseCoopers LLP, an independent auditing firm, has audited PERC's 2006 consolidated financial statements in accordance with Canadian generally accepted auditing standards and has provided an independent audit opinion. The auditors have full and unrestricted access to the Audit Committee to discuss the results of their audit.



John D. Prunkl
President

V. Michael Alverson
Vice President & Chief Financial Officer

March 7, 2007

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.

"PricewaterhouseCoopers LLP"

Chicago, Illinois USA
March 7, 2007

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.

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.

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 acquistions, 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.

Notes To Consolidated Financial Statements

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

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.

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.

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 (NO_x) 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. NO_x allowances amortize through 2009. As of August 24, 2005, $219.5 million was assigned to contract rights and $0.9 million was assigned to NO_x 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 NO_x allowance amortization of $0.2 million and $0.1 million, respectively.

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

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.

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

	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 and $0.03 million, respectively. As of 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

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

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 whereas 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.

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 8, 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.

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)

Shareholder Information

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Annual General Meeting

April 27, 2007, 10 a.m. ET
TSX Broadcast & Conference Centre
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