CERTAIN TAX CONSIDERATIONS FOR CANADIAN HOLDERS OF EISs

THE INFORMATION CONTAINED HEREIN EXPRESSES THE VIEWS OF PRIMARY ENERGY RECYCLING CORPORATION (THE "ISSUER") AND IS ONLY AN EXCERPT OF THE CANADIAN PROSPECTUS PREPARED ON AUGUST 16, 2005 IN CONNECTION WITH THE CANADIAN INITIAL PUBLIC OFFERING OF THE ISSUER. **THE INFORMATION CONTAINED HEREIN HAS NOT BEEN UPDATED SINCE AUGUST 16, 2005 AND THE ISSUER ASSUMES NO OBLIGATION FOR UPDATING SUCH INFORMATION IN THE FUTURE.** FURTHERMORE, THE INFORMATION CONTAINED HEREIN MAY NOT BE RELEVANT FOR ALL CANADIAN HOLDERS OF EISs ("INVESTORS").

IN COMPLIANCE WITH CERTAIN REQUIREMENTS IMPOSED BY THE INTERNAL REVENUE SERVICE (THE "IRS") (A) ANY U.S. TAX ADVICE CONTAINED HEREIN IS NOT INTENDED TO BE USED, AND CANNOT BE USED BY ANY INVESTOR FOR THE PURPOSE OF AVOIDING PENALTIES IMPOSED FOR U.S. FEDERAL INCOME TAX PURPOSES; (B) SUCH ADVICE WAS WRITTEN IN CONNECTION WITH THE MARKETING OF THE EISs; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR. THE FOREGOING LANGUAGE IS INTENDED TO SATISFY THE REQUIREMENTS UNDER THE NEW REGULATIONS IN SECTION 10.35 OF CIRCULAR 230.

THE INFORMATION CONTAINED HEREIN IS OF A GENERAL NATURE ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE. INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS CONCERNING THE CANADIAN FEDERAL INCOME TAX CONSIDERATIONS ASSOCIATED WITH ACQUIRING, OWNING AND DISPOSING OF EISs IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES, AS WELL AS ANY CONSIDERATIONS ARISING UNDER THE LAWS OF ANY NON-CANADIAN, PROVINCIAL, LOCAL OR OTHER TAXING JURISDICTION.

Reference is made to the Canadian prospectus of the Issuer dated as of August 16, 2005 (the "Canadian Prospectus"), available on SEDAR at www.sedar.com.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Torys LLP, Canadian counsel to the Issuer and Primary Energy, and Stikeman & Elliot LLP, Canadian counsel to the Underwriters, the following is, as of the date of this Prospectus, a summary of the principal Canadian federal income tax considerations generally applicable under the Tax Act to a Holder who acquires Common Shares and Subordinated Notes as represented by EISs pursuant to the Offering and who, for purposes of the Tax Act and at all relevant times, is resident or is deemed to be resident in Canada, holds the Common Shares and Subordinated Notes represented by EISs as capital property and deals at arm's length and is not affiliated with the Issuer (a "Holder" for purposes of this section only). Generally, the Common Shares and Subordinated Notes will be considered to be capital property to a Holder provided that the Holder does not hold such securities in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Holders who might not otherwise be considered to hold their Common Shares and Subordinated Notes represented by EISs as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a Holder that is a "financial institution" (as defined in the Tax Act for purposes of the mark-to-market rules), a "specified financial institution" or a Holder an interest in which is a "tax shelter investment" (all as defined in the Tax Act).

This summary is based upon the facts set out in this Prospectus, the provisions of the Tax Act in force on the date of this Prospectus, counsels' understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency, and a certificate of the Issuer as to certain factual matters. This summary takes into account all specific proposals to amend the Tax Act which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Prospectus. There can be no assurance that any such tax proposals will be implemented in their current form or at all. This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, or administrative policies or assessing practices, and does not take into account any provincial, territorial or foreign tax legislation or considerations which may differ significantly from those discussed in this Prospectus.

This summary is of a general nature only and is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Common Shares and Subordinated Notes represented by EISs. Moreover, the income or other tax consequences of acquiring, holding or disposing of Common Shares and Subordinated Notes represented by EISs will vary depending on the Holder's particular circumstances, including the province or territory or provinces or territories in which the Holder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Common Shares and Subordinated Notes represented by EISs. Investors should consult their own tax advisors for advice with respect to the tax consequences of an investment in Common Shares and Subordinated Notes represented by EISs based on their particular circumstances.

Nature of EISs

In acquiring an EIS, a Holder will be acquiring ownership of the Common Share and Subordinated Notes represented by such EIS. The Common Share and Subordinated Notes represented by an EIS are separate properties and, accordingly, the price paid by a Holder for an EIS must be allocated on a reasonable basis between the Common Share and Subordinated Notes represented by the EIS in order to determine their respective costs to the Holder for purposes of the Tax Act. Such costs will establish a Holder's initial adjusted cost base of the Common Share and Subordinated Notes represented by the Holder's EIS (subject to the identical property averaging rules). The Issuer proposes to allocate the price paid for each EIS on the basis of Cdn$7.50 to the Common Share and Cdn$2.50 to the Subordinated Notes and, by purchasing an EIS, a Holder is deemed to agree to such allocation. Although the Issuer believes this allocation to be reasonable, such allocation is not binding on the Canada Revenue Agency.

In disposing of an EIS, a Holder will be disposing of the Common Share and Subordinated Notes represented by such EIS. Any proceeds from the disposition (or deemed disposition) of an EIS must be allocated on a reasonable basis between the Common Share and Subordinated Notes represented by such EIS.

The separation by a Holder of an EIS into the Common Share and Subordinated Notes represented by such EIS will not be a disposition for purposes of the Tax Act, and, as such, the Holder will not realize a gain or loss upon such separation of the EIS into a Common Share and Subordinated Notes. The Holder's adjusted cost base of the Common Share and Subordinated Notes represented by an EIS will not be affected by such separation of an EIS into a Common Share and Subordinated Notes. Similarly, the combination by a Holder of a Common Share and Subordinated Notes and the contemporaneous receipt of an EIS representing such Common Share and Subordinated Notes by the Holder from CDS will not be a disposition for purposes of the Tax Act, and, as such, the Holder will not realize a gain or loss upon such delivery of the Common Share and Subordinated Notes in return for an EIS representing such Common Share and Subordinated Notes. The Holder's adjusted cost base of the Common Share and Subordinated Notes will not be affected by such delivery of the Common Share and Subordinated Notes in return for an EIS representing such Common Share and Subordinated Notes.

Taxation of the Issuer

The Issuer will be taxable on its income determined under the Tax Act for each taxation year. The Issuer has advised counsel that it expects that all or substantially all of the actual revenues of the Issuer will consist of distributions from Primary Energy. Primary Energy will be considered to be a corporation for Canadian income tax purposes and will be a "foreign affiliate" and a "controlled foreign affiliate" of the Issuer for Canadian income tax purposes. Distributions from Primary Energy to the Issuer will be considered to be dividends paid by Primary Energy to the Issuer and will be included in computing the income of the Issuer. However, to the extent that such dividends are considered to have been paid out of the "exempt surplus" of Primary Energy with respect to the Issuer, the amount of such dividends will be deductible in computing the taxable income of the Issuer. Furthermore, to the extent dividends are considered to have been paid out of the "pre-acquisition surplus" of Primary Energy with respect to the Issuer, the amount of such dividends will also be deductible in computing the taxable income of the Issuer. However, the adjusted cost base to the Issuer of its membership interest in Primary Energy will be reduced to the extent that such dividends are considered to have been paid out of the "pre-acquisition surplus" of Primary Energy with respect to the Issuer. If the adjusted cost base to the Issuer of its membership interest in Primary Energy becomes a negative amount, the Issuer will be deemed to realize a capital gain equal to such amount for that year. To the extent that Primary Energy or any other controlled foreign affiliate of the Issuer earns income that qualifies as "foreign accrual property income" ("FAPI"), the FAPI allocable to the Issuer must be included in computing the income of the Issuer for Canadian income tax purposes, whether or not the Issuer actually receives a distribution of FAPI. Any amount so included in the income of the Issuer will increase the adjusted cost base to the Issuer of its membership interest in Primary Energy. At such time as the Issuer receives a dividend of this type of income that was previously treated as FAPI ("previously included FAPI"), that dividend will effectively not be taxable to the Issuer and there will be a corresponding reduction in the adjusted cost base to the Issuer of its membership interest in Primary Energy. FAPI earned by a non-controlled foreign affiliate of the Issuer will be treated as "taxable surplus" which will only be taxed when distributed to the Issuer. The Issuer has advised counsel that it reasonably expects that dividends to be paid by Primary Energy to the Issuer will be considered to be paid substantially out of the "exempt surplus" and "pre-acquisition surplus" of Primary Energy with respect to the Issuer and, to a much lesser extent, out of "previously included FAPI" or "taxable surplus". The Issuer has advised counsel that it reasonably expects that the total of (i) the amount of FAPI allocable to the Issuer, (ii) the amount of dividends considered to have been paid by Primary Energy to the Issuer out of the "taxable surplus" of Primary Energy with respect to the Issuer (other than those paid out of "previously included FAPI"), (iii) the amount of taxable capital gains arising from the receipt of dividends out of the "pre-acquisition surplus" of Primary Energy with respect to the Issuer, and (iv) other taxable income of the Issuer, if any, in respect of a period will be less than the amount of interest payable on the Subordinated Notes in respect of the period.

To the extent that the proceeds from the issuance of the Subordinated Notes are used for the purpose of earning income, the Issuer will generally be entitled to deduct the interest paid by it on the Subordinated Notes in computing its income, to the extent such amount is reasonable in the circumstances. To the extent that the deduction for interest on the Subordinated Notes and other deductible expenses of the Issuer creates a loss in a taxation year of the Issuer that loss will be a non-capital loss which may be carried back for three taxation years and forward for ten taxation

years and applied against the income of the Issuer (including taxable capital gains) for such years subject to the detailed rules in the Tax Act in that regard. Tax proposals released on October 31, 2003 (the "October 31 Tax Proposals"), applicable to taxation years that begin after 2004, will only allow a taxpayer to recognize a loss for a taxation year from a source which is a business or property if, in the taxation year in question, it is reasonable to expect the taxpayer to realize a cumulative profit from that business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on that business, or has held, or can reasonably be expected to hold, that property. Profit, for these purposes, is intended to mean profit determined in accordance with generally accepted commercial principles. The Issuer has advised counsel that it reasonably expects to realize a cumulative profit from its properties during the period it reasonably expects to hold such properties. In the 2005 Budget, it was announced that the Department of Finance would replace the October 31 Tax Proposals with a more modest legislative initiative which is to be released for public comment.

Taxation of Dividends, Interest and Capital Gains

Since a Holder who holds an EIS will own the Common Share and Subordinated Notes represented by such EIS, the income tax consequences under the Tax Act of owning and disposing of an EIS (including the taxation of dividends and interest on the Common Share and Subordinated Notes, respectively, and the tax treatment of disposing of the Common Share and Subordinated Notes upon the disposition of an EIS representing such securities) will not differ from those associated with owning and disposing of those securities separately, as described below.

Interest on the Subordinated Notes

A Holder that is a corporation, partnership, unit trust or a trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year all interest that accrues to such Holder on the Subordinated Notes to the end of that year or that becomes receivable or is received by the Holder before the end of that year, except to the extent that such interest was included in computing the Holder's income for a preceding taxation year. Any other Holder, including an individual, will be required to include in computing its income for a taxation year all interest on the Subordinated Notes that is received or receivable by such Holder in that year (depending on the method regularly followed by the Holder in computing income) to the extent that such interest was not included in computing the Holder's income for a preceding taxation year. In addition, a Holder may be required to include in computing its income for a taxation year any interest that accrues to the Holder on the Subordinated Notes up to any "anniversary day" (as defined in the Tax Act) of the Subordinated Notes in the year to the extent that such amount was not otherwise included in the Holder's income for that or a preceding taxation year. If interest on the Subordinated Notes is deferred, a Holder will be required to include such amount in computing its income in accordance with the forgoing, even though the Holder has not received a cash interest payment.

A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax of 6 2/3% on investment income, including interest income on the Subordinated Notes.

The amount of interest on the Subordinated Notes to be included in a Holder's income as described above will include United States withholding tax, if any, imposed in respect of the interest. To the extent that United States withholding tax is imposed in respect of interest on the Subordinated Notes, the amount of such tax generally will be eligible for foreign tax credit or deduction treatment where applicable, subject to the detailed rules and limitations under the Tax Act, and provided the imposition of such United States withholding tax is in accordance with the Canadian Treaty. Holders are advised to consult their own tax advisors with respect to the availability of a credit or deduction to them having regard to their particular circumstances.

Disposition of Subordinated Notes

On a disposition or a deemed disposition (which will include a redemption of the Subordinated Notes or repayment at maturity) of Subordinated Notes, a Holder will generally be required to include in computing its income for the taxation year in which the disposition occurs the amount of interest accrued on the Subordinated Notes from the date of the last interest payment to the date of disposition, except to the extent that such interest has otherwise been included in computing the Holder's income for that year or a preceding taxation year.

Any amount paid by the Issuer as a penalty or bonus because of early repayment of all or part of the principal amount of the Subordinated Notes will be deemed to be received by the Holder as interest on the Subordinated Notes and included in computing the Holder's income as described above, to the extent such amount can reasonably be considered to relate to, and does not exceed the value at the time of payment of, interest that would otherwise have been payable on the Subordinated Notes for periods ending after the payment of such amount.

In general, a disposition or a deemed disposition of a Subordinated Note by a Holder will give rise to a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition, net of any amount included in computing the Holder's income as interest and any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Subordinated Note to the Holder immediately before the disposition. See "— Capital Gains and Losses" below.

Dividends on the Common Shares

Dividends received or deemed to be received by a Holder on the Common Shares will be required to be included in computing the Holder's income for purposes of the Tax Act. Dividends received or deemed to be received by a Holder who is an individual will be subject to the gross-up and dividend tax credit rules generally applicable to taxable dividends received by an individual from taxable Canadian corporations. A Holder that is a corporation generally will be entitled to deduct the amount of the dividend received or deemed to be received in computing its taxable income. A Holder that does not own more than 10% of the issued Common Shares and that is a "private corporation" or "subject corporation" (as such terms are defined in the Tax Act) will generally be liable under Part IV of the Tax Act to pay a refundable tax of 33 1/3% of the dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing the Holder's taxable income.

Disposition of the Common Shares

A disposition or deemed disposition of Common Shares by a Holder will generally give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Holder of the Common Shares immediately before the disposition. See "— Capital Gains and Losses" below.

Capital Gains and Losses

One-half of the amount of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in computing such Holder's income for that year, and one-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year may be deducted from any taxable capital gains realized by the Holder in the year. Allowable capital losses in excess of taxable capital gains realized in a taxation year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any following taxation year against taxable capital gains realized in such years, subject to and in accordance with the provisions of the Tax Act. A capital loss realized by certain Holders in respect of the disposition or deemed disposition of Common Shares may be reduced in certain circumstances by the amount of any dividends, including deemed dividends, that have been received by such Holders on the Common Shares to the extent and in the manner provided for in the Tax Act.

A holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 2/3% on investment income, including taxable capital gains.

Alternative Minimum Tax

Individuals, including certain trusts, are subject to an alternative minimum tax. Dividends received or deemed to be received on the Common Shares and capital gains realized on a disposition or deemed disposition of Common Shares or Subordinated Notes may increase a Holder's liability for alternative minimum tax. Holders should consult their own advisors with respect to alternative minimum tax.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Torys LLP, U.S. tax counsel to the Issuer and Primary Energy, and Vinson & Elkins LLP, U.S. tax counsel to the Underwriters, together, "U.S. Tax Counsel", the following discussion is a fair and adequate summary, as of the date of this Prospectus, of the material U.S. federal income tax considerations applicable to Non-U.S. Holders, as defined below, with respect to the ownership and disposition of EISs, Subordinated Notes and/or Common Shares. Such opinions are based in part on facts described in this Prospectus and on various other assumptions, representations and determinations. Any alteration or incorrectness of such facts, assumptions, representations or determinations could adversely affect such opinions. This summary is directed only to prospective purchasers of EISs who are not U.S. persons under the Code. In addition to this summary, see "Risk Factors — Risks Related to the Structure of the Issuer and the Offering". For purposes of this discussion, unless otherwise provided, references to Subordinated Notes include Subordinated Notes as part of an EIS. This discussion does not address the tax treatment of any subsequent issuance of Subordinated Notes. The classification of subsequently issued Subordinated Notes as debt or equity for U.S. federal income tax purposes will depend on the facts and circumstances at the time of the subsequent issuance and thereafter.

Prospective purchasers of EISs should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax issues addressed in this discussion. No statutory, administrative or judicial authority directly addresses the treatment of EISs or instruments similar to EISs for U.S. federal income tax purposes. As a result, there can be no assurance that the IRS will not successfully challenge the conclusions reached in this discussion. U.S. federal income tax treatment that is different from the conclusions reached in this discussion could result in reduced payments to Non-U.S. Holders.

In compliance with certain requirements imposed by the IRS (i) any U.S. tax advice contained in this Prospectus is not intended to be used, and cannot be used by any investor for the purpose of avoiding penalties imposed for U.S. federal income tax purposes; (ii) such advice was written in connection with the marketing of the EISs; and (iii) investors should seek advice based on their particular circumstances from an independent tax advisor.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to Non-U.S. Holders in light of their personal circumstances. This discussion does not address the U.S. federal income taxation of Non-U.S. Holders whose income from the ownership or disposition of EISs, Subordinated Notes and/or Common Shares is effectively connected with the conduct of a trade or business within the United States under the Code, nor does this discussion address the U.S. federal income taxation of Non-U.S. Holders subject to special treatment under U.S. federal income tax laws, such as financial institutions, broker-dealers, life insurance companies and tax-exempt organizations. This discussion does not address the tax considerations applicable to persons who hold EISs, Subordinated Notes and/or Common Shares through a partnership. The U.S. federal income tax rules covering partnerships are complex. Persons that hold EISs, Subordinated Notes and/or Common Shares through one or more partnerships should consult their own tax advisors regarding the application of the U.S. federal income tax considerations addressed in this discussion. This discussion does not address the U.S. state or local tax considerations applicable to Non-U.S. Holders, nor does it address any tax consequences applicable to U.S. Holders.

This discussion is not exhaustive of all possible U.S. federal income tax considerations applicable to an investment in EISs. This discussion is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of EISs. Prospective purchasers are urged to consult their own tax advisors in determining the application to them of the U.S. federal income tax consequences set forth below and any other U.S. federal, state, local, non-U.S. or other tax consequences to them of the ownership and disposition of EISs, Subordinated Notes or Common Shares.

This discussion is based on the Code, Treasury Regulations, IRS rulings and official pronouncements, judicial decisions and the Canadian Treaty, all as in effect on the date of this Prospectus and all of which are subject to change, possibly with retroactive effect, or different interpretations, which could affect the accuracy of the statements and conclusions set forth below and the U.S. federal income tax consequences to Non-U.S. Holders. This discussion is also based on certain representations, certifications and determinations made by the Issuer and an independent financial advisor. Except to the extent specified with respect to U.S. federal estate tax, this discussion does not address any U.S. federal estate or gift, state, local or non-U.S. tax considerations.

For purposes of this discussion, a “Non-U.S. Holder” means a Holder; other than an entity or arrangement classified as a partnership for U.S. federal income tax purposes, that is not: (i) an individual who is (or, in certain cases, was) a citizen or resident in the United States including an alien resident who is a lawful permanent resident of the United States or meets the “Substantial Presence” test under Section 7701(b) of the Code; (ii) a corporation or other entity taxable as a corporation created or organized under the laws of the United States or a political subdivision thereof; (iii) an estate, the income of which is subject to U.S. federal income tax regardless of its source; or (iv) a trust, if (A) a court within the United States is able to exercise primary supervision over the trust’s administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (B) the trust was in existence on August 20, 1996 and has properly elected under applicable Treasury Regulations to continue to be treated as a U.S. person. A “U.S. Holder” means any Holder that is not a Non-U.S. Holder.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds EISs, Subordinated Notes or Common Shares, the tax treatment of the partner generally will depend upon the status of the partner and the activities of the partnership. Non-U.S. Holders who are partners of a partnership holding EISs, Subordinated Notes or Common Shares should consult their own tax advisors.

Special rules may apply to certain Non-U.S. Holders, such as: (i) former U.S. citizens (U.S. expatriates) or long-term residents; (ii) corporations that are considered “controlled foreign corporations” (“CFCs”), or “passive foreign investment companies” (“PFICs”) for U.S. federal income tax purposes; (iii) corporations that accumulate earnings to avoid U.S. federal income tax; (iv) investors in pass-through entities that are subject to special treatment under the Code; and (v) Non-U.S. Holders that are engaged in the conduct of a U.S. trade or business. Such Non-U.S. Holders are urged to consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

Taxation of Non-U.S. Holders

Allocation of Purchase Price

Ownership of EISs should be treated for U.S. federal income tax purposes as direct ownership of the Subordinated Notes and Common Shares constituting the EISs. The Issuer intends to treat the EISs in this manner for all such purposes and, by purchasing EISs, the Non-U.S. Holder agrees to such treatment. If the treatment of the EISs as ownership of the two underlying securities is not respected, or if the Subordinated Notes themselves are re-characterized as equity rather than debt for U.S. federal income tax purposes, then the EISs could be treated as only a single security, which likely would be treated as equity of the Issuer rather than debt from a U.S. federal income tax perspective. See “Classification of Subordinated Notes as Debt”. The remainder of this discussion assumes that the Issuer’s intended treatment of ownership of an EIS as direct ownership of two separate securities, the Subordinated Notes and Common Shares, will be respected for U.S. federal income tax purposes.

For U.S. federal income tax purposes, the purchase price of an EIS will be allocated between its constituent Common Share and Subordinated Note in proportion to the respective fair market values of each at the time of purchase. Such allocation will establish a Holder’s initial tax basis in the Common Share and the Subordinated Note underlying the EIS. For each EIS in this Offering, the Issuer will report the initial fair market value of the constituent Common Share as Cdn$7.50 and the initial fair market value of the constituent Subordinated Note as equal to their face amount of Cdn$2.50 and, by purchasing EISs in this Offering, the Non-U.S. Holder agrees to such allocation and agrees to not take a contrary position for any purpose, including tax reporting purposes. This allocation, however, is not binding on the IRS or the courts, and the IRS may challenge this allocation. If this allocation is not respected, it is possible that the Subordinated Notes will be treated as having been issued with original issue discount (“OID”). Assuming a Non-U.S. Holder satisfies the Portfolio Interest Exemption requirements described below under “Interest Received on Subordinated Notes”, that Non-U.S. Holder would not be subject to a withholding tax with respect to such OID. If a Non-U.S. Holder failed to satisfy those requirements, OID on the Subordinated Notes would be subject to a 30% U.S. withholding tax, unless that Non-U.S. Holder otherwise establishes an exemption from or reduced rate of withholding under a tax treaty and satisfies certain documentation requirements. In general, under the Canadian Treaty, Canadian residents would be subject to a 10% U.S. withholding tax rate. The remainder of this discussion assumes that the Issuer’s allocation of the Offering purchase price will be respected for U.S. federal income tax purposes.

Interest Received on Subordinated Notes

Provided that the Subordinated Notes are respected as debt for U.S. federal income tax purposes (see "Taxation of the Issuer — Classification of Subordinated Notes as Debt" below), because more than 80% of the assets of the Issuer are U.S. assets (and/or, because the Subordinated Notes are properly reflected as a liability on books maintained with respect to the Issuer's U.S. trade or business arising from its investment in Primary Energy), interest paid on the Subordinated Notes will be "branch interest" under Code section 884 and will be treated as if paid by a U.S. corporation directly to Non-U.S. Holders. As such, subject to the discussion below concerning "Information reporting and Backup Withholding", interest paid on the Subordinated Notes to Non-U.S. Holders should qualify for the "Portfolio Interest Exemption", and no withholding of U.S. federal income tax should be required with respect to the payment of such interest on a Subordinated Note owned by a Non-U.S. Holder, provided that:

- interest paid on the Subordinated Notes is not effectively connected with such Non-U.S. Holder's conduct of a trade or business in the United States ("ECI Income"),
- Non-U.S. Holder does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of the Issuer entitled to vote within the meaning of section 871(h)(3) of the Code and the regulations thereunder,
- Non-U.S. Holder is not a CFC, within the meaning of section 957(a) of the Code, that is related to the Issuer through stock ownership,
- Non-U.S. Holder is not a bank whose receipt of interest on the Subordinated Note is an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business as described in section 881(c)(3)(A) of the Code, and
- Non-U.S. Holder satisfies the documentation requirement (described generally below) set forth in section 871(h) and section 881(c) of the Code and the regulations thereunder.

To satisfy the documentation requirement (referred to in the final bullet above), a Non-U.S. Holder, or a financial institution holding the Subordinated Notes on a Non-U.S. Holder's behalf, must provide, in accordance with specified procedures, the Issuer or the Issuer's paying agent with a statement to the effect that such Non-U.S. Holder is not a U.S. person as defined in the Code. Currently, this requirement will be met if: (1) that Non-U.S. Holder provides his name and address, and certifies, under penalties of perjury, that he is not a U.S. person (which certification may be made on an IRS Form W-8BEN), or (2) a "qualified intermediary" (as defined in applicable Treasury Regulations) holding the Subordinated Notes on his behalf receives documentation under penalties of perjury, upon which it can rely, to treat the Non-U.S. Holder as not a U.S. person and furnishes the Issuer or the Issuer's paying agent with an IRS Form W-8IMY. The statement requirement also may be satisfied with other documentary evidence with respect to a Subordinated Note held in an offshore account or through certain foreign intermediaries.

If a Non-U.S. Holder cannot satisfy the requirements of the "Portfolio Interest Exemption" described above, payments of interest made to him (including payments in respect of any OID, if any, on the Subordinated Notes) will be subject to a 30% withholding tax, unless he provides the Issuer or the Issuer's paying agent, as the case may be, with a properly executed:

- IRS Form W-8BEN claiming an exemption from or reduction in withholding under the benefit of an applicable income tax treaty,
- IRS Form W-8ECI stating that interest paid on the Subordinated Notes is not subject to withholding tax because it is effectively connected with his conduct of a trade or business in the United States, or
- IRS Form W-8 EXP stating that the interest paid on the Subordinated Notes is not subject to withholding tax because the payee is a foreign government or international tax-exempt organization.

Applicable Treasury regulations provide for the use of alternative documentation in certain situations. Under these Treasury Regulations, in the case of Subordinated Notes held by a foreign intermediary (other than a "qualified intermediary" or a foreign partnership, as the case may be), generally must provide an IRS Form W-8IMY and attach thereto an appropriate certification by each beneficial owner or partner. In general, under the Canadian Treaty, Canadian residents are entitled to the reduced U.S. withholding tax rate of 10% on U.S. source interest.

Distributions with Respect to Common Shares

Provided a Non-U.S. Holder satisfies certain documentation requirements (generally as just described under "Interest Received on Subordinated Notes" above), distributions paid with respect to the Common Shares to such Non-U.S. Holder should not be subject to U.S. federal withholding tax. If such documentation requirements are not satisfied, the Non-U.S. Holder may be subject to backup withholding. See "Information Reporting and Backup Withholding" below.

Disposition, Separation and Recombination of EISs

Upon the sale, exchange, redemption or other disposition of an EIS, a Non-U.S. Holder will be treated as having sold, exchanged, redeemed or disposed of the underlying Subordinated Note and Common Share represented by the EIS. Any gain realized upon the sale, exchange, redemption or other disposition of the Subordinated Note and Common Share (other than any amount in satisfaction of accrued or unpaid interest, which will be subject to tax as set forth above) generally will not be subject to U.S. federal income tax unless:

- that gain is effectively connected with such Non-U.S. Holder's conduct of a trade or business in the United States (or, if certain income tax treaties apply, is attributable to a U.S. permanent establishment);
- that Non-U.S. Holder is an individual, who is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption or other disposition and meets certain other requirements; or
- that Non-U.S. Holder is subject to tax pursuant to the provisions of U.S. federal income tax law applicable to certain U.S. expatriates.

If a Non-U.S. Holder is an individual and is described in the first bullet above, he will be subject to tax on any gain derived from the sale, exchange, redemption or other disposition of an EIS under regular graduated U.S. federal income tax rates. If a Non-U.S. Holder is an individual and is described in the second bullet above, he will be subject to a flat 30% tax on any gain derived from the sale, exchange, redemption or other disposition of an EIS, which may be offset by U.S. source capital losses (even though such holder is not considered a resident of the U.S.). If, a Non-U.S. Holder is a corporation and is described in the first bullet above, it will be subject to tax on any gain under regular graduated U.S. federal income tax rates and, in addition, may be subject to the branch profits tax equal to 30% (or lesser rate under an applicable income tax treaty, which in the case of Canada would be 5%) on such holder's effectively connected earnings and profits for the taxable year subject to adjustments, including a reduction for regular corporate taxes paid.

If a Non-U.S. holder separates an EIS into its constituent Common Share and Subordinated Note or recombines a Common Share with a Subordinated Note to form an EIS, he should not recognize gain or loss for U.S. federal income tax purposes upon such separation or recombination. The U.S. federal income tax consequences described in this summary should not be affected by a separation or recombination.

U.S. Federal Estate Tax

Subordinated Notes beneficially owned by an individual who at the time of death is a Non-U.S. Holder should not be subject to U.S. federal estate tax, provided that the Subordinated Notes are considered debt for U.S. federal income tax purposes and any payment to such individual on the Subordinated Notes would be eligible for exemption from the 30% U.S. federal withholding tax under the "Portfolio Interest Exemption" described above under "— Subordinated Notes — Interest Received on Subordinated Notes" without regard to the statement requirement

described therein. Otherwise, unless an applicable estate tax treaty provides an exemption, Subordinated Notes held by an individual Non-U.S. Holder at the time of death would be included in such holder's gross estate for U.S. federal estate tax purposes.

U.S. Trade or Business

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest and/or gain on the Subordinated Notes or dividends and/or gain on Common Shares is effectively connected with the conduct of such trade or business (or, if certain income tax treaties — including the Canadian Treaty — apply, and the income is attributable to a U.S. permanent establishment), that Non-U.S. Holder, although exempt from U.S. federal withholding tax discussed above (provided the certification requirements described above are satisfied), will be subject to U.S. federal income tax on such interest, dividends and/or gain on a net income basis in the same manner as if he were a U.S. resident. In addition, if a Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax on its effectively connected earnings and profits at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty (which, in the case of Canada, would be 5%).

Information Reporting and Backup Withholding

A Non-U.S. Holder may be subject to information reporting requirements and backup withholding with respect to interest and principal payments on and the proceeds from dispositions of EISs or Subordinated Notes, unless such non- U.S. Holder complies with certain reporting procedures (usually satisfied by providing an IRS Form W-8BEN) or otherwise establishes an exemption. Additional information reporting requirements and backup withholding with respect to the payment of proceeds from the disposition of EISs or Subordinated Notes are as follows:

- If the proceeds are paid to or through the U.S. office of a broker, they generally will be subject to backup withholding and information reporting unless the Non-U.S. Holder certifies under penalties of perjury (usually on an IRS form W-8BEN) or otherwise establishes an exemption.

- If the proceeds are paid to or through a non-U.S. office of a broker that is not a U.S. person and is not a foreign person with certain specified U.S. connections (a "U.S. Related Person"), they will not be subject to backup withholding.

- If the proceeds are paid to or through a non-U.S. office of a broker that is a U.S. person or a U.S. Related Person, they generally will be subject to information reporting (but not backup withholding) unless a Non-U.S. Holder certifies that he is not a U.S. person under penalties of perjury (usually on an IRS form W-8BEN) or otherwise establishes an exemption.

The Issuer will, where required, report to the IRS the amount of any interest paid on the Subordinated Notes and dividends paid on its Common Shares and the amounts, if any, of U.S. federal income tax withheld with respect to such payments. Backup withholding tax, currently at a rate of 28%, may apply to amounts paid by the Issuer with respect to Common Shares held by a Non-U.S. Holder if he fails to satisfy certain documentation requirements (generally as described under "Interest Received on Subordinated Notes" above). Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against such holder's U.S. federal income tax liability, provided certain required information is provided to the IRS.

Taxation of the Issuer

Generally

For U.S. federal income tax purposes, the Issuer's share of Primary Energy's income arising from each of the Projects' business operations in the U.S. generally will be treated as income that is effectively connected with a U.S. trade or business (i.e., "ECI"), and all or a portion of the Issuer's other income, including the Issuer's distributive share of other income of Primary Energy, could be treated as ECI. The Issuer generally will be subject to a maximum 35% U.S. federal income tax on its net taxable income which is ECI or, if applicable, the "alternative minimum tax" of 20% on "alternative minimum taxable income" which is ECI. In computing its U.S. taxable

income, however, subject to the discussion under "Classification of Subordinated Notes as Debt" and "Earnings Stripping Rules — Section 163(j)" below, the Issuer should be able to deduct interest paid on the Subordinated Notes or other deductible expenses incurred by the Issuer, including the Issuer's distributive share of expenses of Primary Energy, in each case to the extent that any such deductions are allocable to the Issuer's income which is ECI. In addition to the U.S. federal income tax on taxable income which is ECI, the Issuer will be liable for a 5% branch profits tax on its after-tax earnings attributable to ECI. See "Branch Profits Tax" below.

The Issuer also may be subject to a 30% U.S. withholding tax on certain types of income which are not ECI, but which are derived by the Issuer from U.S. sources (whether directly or indirectly through one or more partnerships it owns), unless the Issuer otherwise establishes an exemption from, or reduced rate of, withholding under the Canadian Treaty. These types of income generally include dividends, rents, royalties, compensation, certain interest and other "fixed or determinable annual or periodical" income (collectively referred to as "FDAP"). Unless an exception applies, the Issuer will be subject to withholding tax on the gross amount of any FDAP income, and will not be entitled to a U.S. federal income tax deduction for any expenses, including interest on the Subordinated Notes, to the extent allocable to FDAP income. However, the Issuer may elect to treat rents from real property situated in the U.S. and certain other income that would otherwise be FDAP as ECI, in which case the income and its allocable expenses would be taxable as described in the preceding paragraph.

Recent U.S. Federal Income Tax Legislation

Recently enacted U.S. federal income tax legislation dealing with corporate "inversions" (e.g. certain transactions in which a non-U.S. corporation acquires substantially all of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the transaction, former equity owners of the U.S. corporation or partnership own a specified level of stock in the non-U.S. corporation) provides in certain cases that a non-U.S. corporation will be treated as a U.S. corporation for U.S. federal income tax purposes. As enacted, this legislation should not apply to Issuer, because Ventures, the indirect holder of the Class B Preferred and Class B Common Interests of Primary Energy, will not own any stock in Issuer as a result of the Offering and related transactions. The legislation grants authority to the IRS to promulgate implementing regulations that could, if exercised broadly, cause this legislation to apply to the Issuer and result in the Issuer being treated as a U.S. corporation for U.S. federal income taxes purposes and U.S. withholding taxes being imposed on dividends paid on the Common Shares to Non-U.S. Holders. In such a case, there would be no U.S. branch profits tax imposed on the Issuer, and there would be no U.S. withholding tax imposed on dividends paid on the Common Shares to U.S. Holders.

Issuer Taxed on Share of Projects' Income

Each of the Projects is directly or indirectly wholly-owned by Primary Energy and will be treated as wholly-owned by Primary Energy for U.S. federal income tax purposes. Primary Energy will be treated as a partnership for U.S. federal income tax purposes for any period during which it has more than one owner, and as a disregarded branch of its owner (e.g., the Issuer) if at any time it has only one owner for U.S. federal income tax purposes. As such, the Projects and Primary Energy will not themselves be subject to U.S. federal income tax. Rather, Primary Energy will compute its income gains, losses, deductions and credits under U.S. federal and state income tax rules, and it will allocate such items to its partners, including the Issuer, generally in accordance with each partner's percentage interests. In doing so, Primary Energy will take into account any items it realizes directly or through each of the Projects. However, the Issuer's taxable income from Primary Energy (including its indirect income from each Project) should be reduced by depreciation and amortization deductions in amounts generally determined in a manner similar to what they would have been if the Issuer had purchased a ratable portion of the assets of Primary Energy and each Project for an aggregate amount equal to the amount paid for its subscription interest in Primary Energy, increased by the Issuer's portion of any debt of the Projects or Primary Energy. Furthermore, depreciation and amortization deductions will increase as Ventures, ownership interest is reduced.

Primary Energy will be subject to the U.S. federal withholding tax rules of Code section 1446. Therefore, Primary Energy generally will be required to deduct and withhold, on a quarterly basis, 35% of the taxable income realized by it (whether directly or through Projects) that is effectively connected with a U.S. trade or business and is allocable to the Issuer. Any amounts so withheld generally will be treated for all purposes as distributed to the Issuer. The amounts withheld will be calculated using only income, gains, losses, deductions and credits realized by Primary Energy, whether directly or through Projects (including depreciation and amortization deductions allocated

to the Issuer), and only to the extent that such income, gains, losses, deductions and credits are effectively connected with a U.S. trade or business. Other deductions, including deductions attributable to income of Primary Energy which is not ECI and deductions for any expenses incurred directly by the Issuer, including interest paid on the Subordinated Notes, generally will not reduce the amount withheld. However, the Code section 1446 withholding tax is not an additional tax and will be credited against the U.S. tax liability of the Issuer. Thus, if the amount withheld by Primary Energy under Section 1446 for a taxable year exceeds the Issuer's actual U.S. federal income tax liability attributable to its net income which is ECI, such excess will be refundable. Provided that the Subordinated Notes are respected as debt for U.S. federal income tax purposes (see "Classification of Subordinated Notes as Debt" below), in determining its net income which is ECI the Issuer should be able to deduct interest payments on the Subordinated Notes as discussed above, and accordingly expects a significant portion of such withheld amount to be refundable for periods during which the Subordinated Notes are outstanding.

Classification of Subordinated Notes as Debt

As discussed in more detail in the following paragraphs, U.S. Tax Counsel has provided an opinion to the Issuer and the Underwriters, as applicable, that the Subordinated Notes issued in this Offering should be treated as debt for U.S. federal income tax purposes. Such opinion is based in part on facts described in this Prospectus and on various other opinions, assumptions, customary representations and determinations discussed in more detail in the following paragraphs. Any alteration or incorrectness of such facts, opinions, assumptions, representations or determinations could adversely affect such opinion, and such opinion is not binding on the IRS or the courts, which could disagree. The Issuer intends, and by acquiring Subordinated Notes (directly or as part of an EIS) each holder of Subordinated Notes agrees, to treat the Subordinated Notes as debt of the Issuer for all purposes.

The determination of whether the Subordinated Notes are treated as debt or equity for U.S. federal income tax purposes is based on an analysis of all the relevant facts and circumstances. Generally, the IRS will not issue an advanced ruling on whether an instrument is to be treated as debt or equity for U.S. federal income tax purposes. There is no clear statutory definition of debt, and its characterization of an instrument as debt or equity is governed by principles developed in case law, which analyzes numerous factors (with no one factor being dispositive) that are intended to identify the economic substance of the investor's interest in the issuer of the instrument. U.S. Tax Counsel's determination that the Subordinated Notes should be treated as debt for U.S. federal income tax purposes relies upon certain customary representations and determinations by the Issuer and independent financial advisors, including, among others, representations and determinations substantially to the effect that:

- When taken together and considered as a whole, the principal amount, term, interest rate, issue price, financial covenants, security and other material economic provisions of the Notes are commercially reasonable and are substantially similar to those terms to which an unrelated third party lender, not owning equity in the Issuer or Primary Energy and bargaining at arm's length with the Issuer and Primary Energy, would be expected to reasonably agree.

- Based on the detailed 15-year financial projections provided by Primary Energy (and assuming without verifying that those projections are materially correct), and assuming that market conditions in 2017 are substantially similar to current market conditions, (i) the Issuer and Primary Energy should be able to pay interest and principal on the Notes when due and (ii) it would be reasonable to expect that the Issuer and Primary Energy would be able to repay principal on the Notes at the Maturity Date with cash, sale of assets, and/or short-term debt financing obtained in the bank or corporate bond markets.

- After giving effect to the Offering, the ratio of (A) the sum of (i) the principal amount of the EIS Notes and Separate Notes and (ii) the principal amount of the other debt of Primary Energy to (B) the sum of the fair market values of (i) the Issuer's equity and (ii) the Existing Investor's equity in Primary Energy is approximately 0.85 to 1.0. This ratio is commercially reasonable under the circumstances and is reasonably comparable to those of similarly situated corporate bond issuers.

- Although there will likely be a more liquid market in the EISs for any period in which the EISs are (and the EIS Notes and Common Shares are not) listed and posted for trading on a securities exchange, an investor holding EISs may, subject to any restrictions set out in the Indenture or provisions attaching to the Common Shares separate the EISs into EIS Notes and Common Shares and separately transfer either or both of the EIS

Notes and Common Shares, and an investor holding Notes and Common Shares in the appropriate denominations may combine them to create EISs, in each case without material, economic or market impediments.

- Although there will likely be a more liquid market in the EISs for any period in which the EISs are (and the EIS Notes and Common Shares are not) listed and posted for trading on a securities exchange, there is a reasonable possibility that there will be circumstances when a holder of EISs would find it economically advantageous or desirable from an investment perspective to separate the EISs into EIS Notes and Common Shares and separately transfer either or both of the EIS Notes and Common Shares.

In addition, U.S. Tax Counsel has relied on representations and determinations by Primary Energy substantially to the effect that:

- Primary Energy reasonably expects to generate net cash flow from the Projects sufficient to pay the Issuer a fixed cumulative preferred return of 11.75% plus an amount equal to all of the Issuer's ongoing expenses and costs which percentage yields an amount sufficient to pay (i) the interest due on the Subordinated Notes, and (ii) all of the Issuer's ongoing expenses and costs (the "Class A Preferred Return"); and

- Primary Energy reasonably expects to be able to repay the Subordinated Notes on their maturity date with either available cash on hand after agreed upon distribution levels, and/or with the proceeds from short-term debt.

The lead Underwriter has made similar determinations in connection with the due diligence investigations of the Issuer's board of directors. In light of the representations and determinations described above and their relevance to several of the factors analyzed in case law, and taking into account the facts and circumstances relating to the issuance of the Subordinated Notes, in the opinion of U.S. Tax Counsel the Subordinated Notes should be treated as debt for U.S. federal income tax purposes. However, there is no authority that directly addresses the tax treatment of securities with terms substantially similar to the terms of the Subordinated Notes which are offered in circumstances similar to this Offering (i.e., as part of a unit that includes common shares of the Issuer). In light of this absence of direct authority, U.S. Tax Counsel cannot conclude with certainty that the Subordinated Notes will be treated as debt for U.S. federal income tax purposes. Although the Issuer intends to take the position that the Subordinated Notes are debt for U.S. federal income tax purposes, there can be no assurance that this position will not be challenged by the IRS. If such a challenge were sustained, and the Subordinated Notes were treated as equity rather than debt for U.S. federal income tax purposes, interest payments on the Subordinated Notes would be recharacterized as non-deductible distributions with respect to the Issuer's equity, and the Issuer's net taxable income which is ECI and thus its U.S. federal income tax liability would be materially increased. As a result, the Issuer's after-tax cash flow would be reduced and the Issuer's ability to make interest payments on Subordinated Notes and distributions with respect to Common Shares could be materially and adversely impacted. In addition, if such challenge were sustained, interest payments on the Subordinated Notes would be treated for U.S. federal income tax purposes in the same manner as distributions with respect to Common Shares, as could all or a portion of any repayment of principal on the Subordinated Notes. See "Taxation of Non-U.S. Holders — Distributions with Respect to Common Shares" above.

Even if the IRS accepts the characterization of the Subordinated Notes as debt, there can be no assurance that the IRS will not claim that the interest rate on the Subordinated Notes is in excess of an arm's length rate, or that the allocation of a portion of a Non-U.S. Holders purchase price for Subordinated Notes exceeded their face amount. If any such challenge were sustained, the Issuer would not be able to deduct all of the interest paid on the Subordinated Notes and the Issuer's taxable income and U.S. federal income tax liability could be materially increased. As a result, the Issuer's after-tax cash flow could be reduced and the Issuer's ability to make interest payments on Subordinated Notes and/or distributions with respect to Common Shares could be materially and adversely impacted.

Earnings Stripping Rules — Section 163(j)

Code section 163(j) is another potential limiting factor on the Issuer's ability to deduct interest paid on the Subordinated Notes. In general, Code section 163(j) limits a corporation's deductions for interest paid to related

foreign persons exempt from U.S. tax in years that: (i) the debt-to-equity ratio of the U.S. corporate taxpayer exceeds 1.5 to 1 (based on the tax basis of assets), and (ii) the corporation's net interest expense (i.e., the excess of interest expense over interest income) exceeds 50% of "adjusted taxable income". Adjusted taxable income is generally defined as the corporation's taxable income before net interest expense, depreciation, and amortization. For purposes of Code section 163(j), a corporation and a creditor of the corporation will generally be "related" if the creditor owns, directly or by attribution, more than 50% of the corporation by vote or value. Under current law, assuming no Non-U.S. Holder owns more than 50% of the Common Shares directly or by attribution, Code Section 163(j) should not apply to limit the Issuer's ability to deduct interest paid on the Subordinated Notes.

Various proposals have been introduced in the U.S. Congress to amend Code section 163(j). Prospects for the enactment of such legislation are uncertain. Although U.S. Tax Counsel believes that none of the current proposals to amend Code section 163(j) would affect the deductibility of interest paid by the Issuer on the Subordinated Notes, the ultimate form of legislation amending Code section 163(j), if any is enacted, is uncertain.

Branch Profits Tax

Under the "branch profits tax" rules of Code section 884 (as modified by the Canadian Treaty), distributions from Primary Energy to the Issuer, to the extent such distributions are not in excess of the Issuer's earnings and profits attributable to ECI, will be subject to a 5% tax. If deductions for interest paid on the Subordinated Notes are denied or limited (as discussed above) the Issuer's earnings and profits and hence its liability for branch profits tax could increase substantially. As a result, the Issuer's after-tax cash flow could be reduced and/or the Issuer's ability to make interest payments on Subordinated Notes and distributions with respect to Common Shares could be materially and adversely impacted.

Penalties for Failing to Properly Report OID

Non-U.S. Holders who qualify for the Portfolio Interest Exemption generally should not be subject to OID reporting, and hence generally should not be impacted by such reporting. Notwithstanding, the Code generally requires the payor of interest and OID to report to its payees and the IRS the amounts of interest and OID includable in income with respect to such payees, unless an exception to reporting applies. If the Subordinated Notes issued as part of an EIS or issued separately in this Offering are issued with OID and there is a subsequent issuance of Subordinated Notes or if any subsequent issuance of Subordinated Notes issued as part of an EIS or separately are issued with OID and, in either case, no exception to reporting applies, Primary Energy or other payor may not be able to properly report the amount of OID to the proper payee because all of the Subordinated Notes are being issued and will be traded under the same CUSIP number and will be held in book-entry form in the name of the CDS or its nominee, CDS & Co. As a result, the identity of the holders of the Subordinated Notes issued with OID may not be known, and hence the Issuer or other payor may not be able to properly report OID to the IRS and to the proper payees.

In such circumstances, the Issuer or other payor may choose to report such OID to all holders of Subordinated Notes regardless of whether such holders acquired the Subordinated Notes in this Offering or a subsequent issuance, unless an exception to reporting applies. The Issuer believes that such reporting may satisfy the OID reporting requirements and hence reduce or eliminate any exposure of the Issuer to penalties for not properly reporting.

As a result, a holder subject to OID reporting may be required to report OID even though such holder purchased Subordinated Notes having no OID unless such holder can establish to the IRS that its Subordinated Notes do not have OID. The IRS might assert that, unless a holder can establish that it is not holding Subordinated Notes with OID, all Subordinated Notes held by such holder will have OID. Prospective investors should consult their own tax advisor to determine the particular U.S. federal income tax consequences of OID, including the proper reporting of OID in these circumstances and the applicability and effect of U.S. state and local tax laws.

The penalties for failure to properly file and report such OID amounts to the IRS is generally capped at $250,000 for all such failures during any calendar year, but if such failure is due to the intentional disregard of the filing requirement, the penalty is the greater of $100 for each return with respect to which a failure occurs or 10% of the aggregate amount of items required to be reported correctly. The penalties for failure to properly furnish and report such amounts to a payee of OID is generally capped at $100,000 for all such failures during any calendar year, but if

such failure is due to the intentional disregard of the filing requirement, the penalty is the greater of $100 for each return with respect to which a failure occurs or 10% of the aggregate amount of items required to be reported correctly. A failure is due to intentional disregard if it is a knowing or willful failure to file timely or to include the correct information, which determination is made based on all the facts and circumstances of the particular case. A failure by the Issuer or other payor to properly report in the case of the EISs and Subordinated Notes may be treated as due to an intentional disregard, and therefore could result in substantial penalties.

THE PRECEDING DISCUSSION OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE EISs, SUBORDINATED NOTES AND COMMON SHARES IS FOR GENERAL INFORMATION ONLY. ACCORDINGLY, EACH INVESTOR IS URGED TO CONSULT THAT INVESTOR'S OWN TAX ADVISOR AS TO PARTICULAR TAX CONSEQUENCES TO IT OF PURCHASING, HOLDING AND DISPOSING OF THESE SECURITIES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY FEDERAL, STATE, LOCAL OR FOREIGN TAX LAWS, AND OF ANY PROPOSED CHANGES IN APPLICABLE LAW.