

CERTAIN TAX CONSIDERATIONS FOR U.S. HOLDERS OF EISs

THE INFORMATION CONTAINED HEREIN EXPRESSES THE VIEWS OF PRIMARY ENERGY RECYCLING CORPORATION (THE “ISSUER”) AND IS AN EXCERPT OF A DOCUMENT THAT WAS PREPARED ON AUGUST 16, 2005 FOR CERTAIN U.S. QUALIFIED INSTITUTIONAL BUYERS AND ACCREDITED INVESTORS WHO PURCHASED ENHANCED INCOME SECURITIES (“EISs”) OF THE ISSUER THROUGH A PRIVATE PLACEMENT 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 U.S. 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.

THIS MEMORANDUM 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 U.S. 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-U.S., STATE, 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. Capitalized terms used herein and not otherwise defined have the meanings ascribed thereto in the Canadian Prospectus.

Certain United States Federal Income Tax Considerations

The following summary describes certain U.S. federal income tax considerations associated with the acquisition, ownership and disposition of EISs by U.S. Holders (as defined below). This summary does not cover all aspects of U.S. federal income taxation that may be relevant to the acquisition, ownership or disposition of EISs by prospective investors in light of their particular circumstances. In particular, this summary does not address all of the tax

considerations that may be relevant to certain types of investors subject to special treatment under U.S. federal income tax laws, such as:

- dealers in securities or currencies;
- financial institutions or “financial services entities”;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt entities (including private foundations);
- insurance companies;
- persons holding EISs as a part of a hedging, integrated, conversion or constructive sale transaction or straddle;
- traders in securities or foreign currency that elect to use a mark-to-market method of accounting;
- persons liable for alternative minimum tax;
- investors in pass-through or other entities;
- U.S. Holders whose “functional currency” is not the U.S. dollar; or
- U.S. expatriates.

This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as currently in effect, and all subject to differing interpretations or change, possibly on a retroactive basis. This summary is based in part on facts described in the Canadian Prospectus and on various assumptions, representations and determinations. Any alteration or incorrectness of such facts, assumptions, representations or determinations could materially and adversely change the tax consequences described in this summary. This summary does not address any U.S. federal estate or gift, state, local or non-U.S. tax considerations. This summary assumes that the U.S. Holder should not be subject to backup withholding tax under Code section 3406 and has provided the Issuer or its agent with a valid IRS Form W-9 (if required to do so in order to avoid the application of backup withholding tax).

For purposes of this summary, a “U.S. Holder” means a beneficial owner of EISs that is, for U.S. federal income tax purposes:

- an individual who is (or, in certain cases, was) a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the “substantial presence” test under section 7701(b) of the Code;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (x) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (y) such trust was in existence on August 20, 1996 and has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

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 a partner thereof generally will depend upon the status of the partner and the activities of the partnership. U.S. Holders who are partners of a partnership holding EISs should consult their own tax advisors.

Certain U.S. federal income tax considerations that are relevant to all holders are discussed in the Canadian Prospectus and are not repeated in this summary, including the U.S. federal income considerations applicable to the Issuer, including the deductibility of interest on the Subordinated Notes and the classification of the Subordinated Notes as debt or equity for U.S. federal income tax purposes, the “earnings stripping rules” of Code section 163(j), and penalties for failing to properly report OID. Prospective purchasers of EISs are strongly encouraged to review “Certain U.S. Federal Income Tax Considerations —Taxation of the Issuer” in the Canadian Prospectus.

In addition, this summary does not address the tax treatment of any subsequent issuance of subordinated Notes, as more fully described in the Canadian Prospectus under “Description of Subordinated Notes—Additional Issuances of EISs and 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.

Investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax issues discussed in this summary. 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, the IRS or the courts may not agree with the tax consequences described herein. A different treatment from the treatment described below could adversely affect the amount, timing and character of income, gain or loss in respect of an investment in the EISs or Subordinated Notes.

THE FOLLOWING SUMMARY 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 U.S. 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-U.S., STATE, LOCAL OR OTHER TAXING JURISDICTION.

Anti-Deferral Provisions Not Expected to Apply

The Issuer is not expected to be (and the remainder of this summary assumes that the Issuer will not be) a controlled foreign corporation (“CFC”) or passive foreign investment company (“PFIC”) for U.S. federal income tax purposes. If the Issuer is or becomes a CFC or PFIC, then the consequences summarized herein could be materially and adversely different.

Allocation of Purchase Price

For U.S. federal income tax purposes, the purchase price of each EIS will be allocated between the Common Share and the Subordinated Note in proportion to their respective fair market values at the time of purchase. Such allocation will establish a U.S. Holder’s initial tax bases in the Common Share and the Subordinated Note underlying the EIS. However, this allocation is not binding on the IRS, and the IRS might challenge it. If the Subordinated Note were treated as having been issued with OID, then a U.S. Holder generally would have to include OID in income in advance of the receipt of cash attributable to that income. If the Subordinated Note were treated as having been issued with amortizable bond premium, then a U.S. Holder may be able to elect to amortize such bond premium over the term of the Subordinated Note.

Except where noted, the remainder of this discussion assumes that the allocation of the purchase price of an EIS described above will be respected for U.S. federal income tax purposes.

Separation and Combination of EISs

If a U.S. Holder separates an EIS into the underlying Common Share and the underlying Subordinated Note or combines a Common Share and a Subordinated Note to form an EIS, such holder generally will not recognize gain or loss for U.S. federal income tax purposes. Such holder will continue to take into account items of income otherwise includible with respect to the Common Share and the Subordinated Note, and such holder’s tax bases and holding period in the Common Share and the Subordinated Note will not be affected by such separation or recombination.

Subordinated Notes

Stated Interest; Deferral of Interest

Under applicable Treasury regulations, the Issuer's right to defer payments of stated interest on the Subordinated Notes will not cause the Subordinated Notes to be issued with OID if the likelihood that the Issuer will exercise such right, based on all of the facts and circumstances, is "remote." The Issuer believes that the likelihood that it would defer interest payments on the Subordinated Notes issued in this offering is remote within the meaning of the Treasury regulations. Based on the foregoing determination made by the Issuer, such Subordinated Notes should not be considered to be issued with OID. Accordingly, stated interest on such Subordinated Notes generally will be included in a U.S. Holder's gross income as ordinary interest income at the time accrued or received, in accordance with such holder's method of accounting for U.S. federal income tax purposes. It is possible that the IRS could disagree with our view that the likelihood of deferral of interest payments on the Subordinated Notes issued in this offering is "remote."

Under the Treasury regulations, if the likelihood that the Issuer will defer any payment of interest were determined not to be "remote," or if the Issuer actually deferred an interest payment, then the Subordinated Notes would be treated as issued with OID at the time of issuance or as retired and reissued with OID (solely for this purpose) at the time of such deferral, as the case may be. All stated interest on the Subordinated Notes would thereafter be treated as OID. In such event, all of the taxable interest income relating to the Subordinated Notes would constitute OID that would be included in a U.S. Holder's income on an economic accrual basis, possibly before the receipt of the cash attributable to the interest, regardless of such holder's method of tax accounting. Actual payments of stated interest would not be reported as taxable income, any amount of OID included in a U.S. Holder's gross income (whether or not during a deferral period) with respect to the holder's Subordinated Notes would increase such holder's tax basis in such Subordinated Notes, and payments in respect of such accrued OID would reduce such holder's tax basis in such Subordinated Notes. Consequently, during a deferral period, a U.S. Holder would be required to include OID in its gross income, even though Primary Energy would not make any actual cash payments on the Subordinated Notes.

A U.S. Holder who uses the cash method of accounting for U.S. federal income tax purposes and who receives interest on a Subordinated Note in Canadian dollars will be required to include in income the U.S. dollar value of such Canadian dollars, determined using the spot rate in effect on the date such payment is received, regardless of whether the payment is in fact converted to U.S. dollars at that time. No additional currency exchange gain or loss will be recognized by such holder if the Canadian dollars received are converted into U.S. dollars on the date received at that spot rate.

A U.S. Holder who uses the accrual method of accounting for U.S. federal income tax purposes will be required to include in income the U.S. dollar value of the amount of interest income accrued with respect to a Subordinated Note in a taxable year. Unless the U.S. Holder makes the election discussed below, the U.S. dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the relevant interest

accrual period, or with respect to an accrual period that spans two taxable years, at the average rate for the portion of such accrual period within the taxable year. The average rate of exchange for an interest accrual period (or portion thereof) is the simple average of the spot rates for each business day of such period (or such other average that is reasonably derived and consistently applied). Alternatively, an accrual basis U.S. Holder may elect to translate such accrued interest income using the spot rate in effect on the last day of the accrual period or, with respect to a partial accrual period, using the spot rate in effect on the last day of the taxable year. If the last day of an accrual period is within five business days of the receipt of the accrued interest, a U.S. Holder may translate such interest using the spot rate in effect on the date of receipt. The above-described election must be made in a statement filed with the U.S. Holder's first U.S. tax return for which the election is effective and must be applied consistently to all debt obligations held by the U.S. Holder from year to year and may not be changed without the consent of the IRS. If a U.S. Holder does not translate accrued interest income at the spot rate in effect on the date of receipt, then the U.S. Holder will recognize additional exchange gain or loss (which will be treated as ordinary income or loss) with respect to accrued interest income on the date such interest income is actually paid or received (including, upon a sale or other disposition of the Subordinated Note, the receipt of proceeds attributable to accrued interest previously included in income). The amount of ordinary income or loss recognized will be equal to the difference, if any, between the U.S. dollar value of the Canadian dollars received (determined using the spot rate in effect on the date such payment is received) in respect of such accrued interest and the U.S. dollar value of the interest previously accrued into income. No additional exchange gain or loss will be recognized by such holder if such Canadian dollars are converted to U.S. dollars on the date received at that spot rate.

If a Subordinated Note were treated as issued with OID, OID on a Subordinated Note for any accrual period would be computed in Canadian dollars, and then translated into U.S. dollars generally on the same basis as the stated interest on the Subordinated Notes is determined for an accrual method holder of Subordinated Notes as described above.

Sale, Exchange or Other Disposition of Subordinated Notes

Upon the sale, exchange, retirement, redemption, or other disposition of an EIS, a U.S. Holder will be treated as having sold, exchanged, retired, redeemed, or disposed of the Subordinated Notes represented by the EIS. A U.S. Holder that sells, exchanges, retires, redeems, or otherwise disposes of Subordinated Notes (whether such Subordinated Notes are represented by an EIS or separately held) generally will recognize taxable gain or loss with respect to the Subordinated Notes equal to the difference between (A) the amount realized with respect to the Subordinated Notes upon the sale, exchange, retirement, redemption, or other disposition (less any portion attributable to accrued but unpaid interest not previously included in income, which will be treated as ordinary income for U.S. federal income tax purposes as discussed above) and (B) such U.S. Holder's adjusted tax basis in the Subordinated Notes. The amount realized with respect to the Subordinated Notes by a U.S. Holder on a sale, exchange, retirement, redemption, or other disposition of an EIS generally will be based on the portion of proceeds allocable to the Subordinated Notes, calculated by using the U.S. dollar value of the Canadian dollar proceeds on the trade date, and the U.S. Holder's adjusted tax basis in the Subordinated Notes will equal the U.S. Holder's initial tax basis in the Subordinated Notes

(determined as described above under “Allocation of Purchase Price”), adjusted, in the event that the Subordinated Notes are treated as issued or retired and reissued with OID as discussed above, for accruals of OID and amortizable bond premium and payments of stated interest.

Assuming the Subordinated Notes are traded on an established securities market (which it is assumed they will be unless the holder has separated the EIS into Common Shares and Subordinated Notes, in which case it is unclear whether the Subordinated Notes would be so treated), a special rule applies for the determination of the amount realized from the disposition of Subordinated Notes by a cash basis taxpayer. Pursuant to this rule, units of foreign currency received are translated into U.S. dollars at the spot rate on the settlement date of the sale. In that case, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of such sale. An accrual basis taxpayer may elect the same treatment required of cash basis taxpayers with respect to sales of Subordinated Notes that are traded on an established securities market, provided the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. An accrual basis taxpayer who does not make such election may recognize exchange gain or loss based on currency fluctuations between the trade date and the settlement date.

Except as discussed below with respect to foreign currency gain or loss, a U.S. Holder’s gain or loss realized upon the sale, exchange, retirement, redemption, or other disposition of a Subordinated Note generally will be treated as U.S. source gain or loss and will be long-term capital gain or loss if, at the time of the sale, exchange, retirement, redemption, or other disposition of a Subordinated Note, the U.S. Holder has held the Subordinated Note for more than one year. If a U.S. Holder is an individual and the Subordinated Note being sold, exchanged, or retired is a capital asset held for more than one year, the U.S. Holder may be eligible for reduced rates of taxation on any gain recognized. The ability to deduct losses is subject to limitations.

Gain or loss realized by a U.S. Holder upon the sale, exchange, or retirement, or other disposition of a Subordinated Note that is attributable to fluctuations in the rate of exchange between the U.S. dollar and Canadian dollar will be ordinary income or loss and generally will be treated as U.S. source gain or loss. Any foreign currency exchange gain will be realized only to the extent of the total gain, if any, realized by the U.S. Holder on the sale, exchange, retirement, redemption, or other disposition of the Subordinated Note; similarly, any foreign currency loss will be realized only to the extent of the total loss, if any, realized by the U.S. Holder on the sale, exchange, retirement, redemption, or other disposition of the Subordinated Note.

Reporting of OID

As discussed under “Certain U.S. Federal Income Tax Considerations—Taxation of the Issuer—Penalties for Failing to Properly Report OID” in the Canadian Prospectus, the Code generally requires the payor of interest and OID to report to its payees and to 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 subsequently issued Subordinated Notes are issued with OID, the Issuer 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 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 may not be able to properly report OID to the IRS and to the proper payees. In such circumstances, the Issuer 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 U.S. Holder 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. 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.

Common Shares

Dividends

The gross amount of distributions to a U.S. Holder on Common Shares (other than distributions in liquidation and distributions in redemption of stock that are treated as exchanges) will be treated as a dividend, only to the extent paid out of the Issuer's positive current and accumulated earnings and profits (as determined under U.S. federal income tax principles). Such dividend will be includible in a U.S. Holder's gross income as ordinary income. The gross amount of any distribution will include any Canadian withholding tax deducted from the distribution. Distributions to a U.S. Holder in excess of positive earnings and profits, and likewise distributions made in the case that the Company does not have earnings and profits (i.e. it is negative), will be treated first as a return of capital that reduces a U.S. Holder's tax basis in such Common Shares (and generally is not taxable), and then as gain from the sale or exchange of such Common Shares. Pursuant to current legislation, which is scheduled to "sunset" at the end of 2008, dividend income will generally be taxed to individuals at the rates applicable to long-term capital gains, provided that the Issuer is a "qualified foreign corporation," the applicable instrument is held for a minimum holding period, and other requirements are satisfied. In the absence of intervening legislation, dividends received by a U.S. Holder after 2008 generally will be taxed to such holder at ordinary income rates.

A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States, if such treaty contains an exchange of information provision and the United States Treasury Department has determined that the treaty is satisfactory for purposes of the legislation. The United States Treasury has determined that the Convention between the United States of America and Canada with respect to Taxes on Income and on Capital (the "Canadian Treaty") meets these requirements. It is expected that the Issuer will be eligible for the benefits of the Canadian Treaty and therefore will be a qualified foreign

corporation. There is, however, no eligibility with regard to crediting Canadian withholdings of a return of capital as foreign income as it is not income under the Canadian Treaty.

A U.S. Holder will be taxed on the U.S. dollar value of any Canadian dollars received as dividends, generally determined at the spot rate as of the date the payment is received. No additional currency exchange gain or loss will be recognized by a U.S. Holder if the Canadian dollars received are converted into U.S. dollars on the date received at that spot rate. The U.S. federal income tax consequences of the conversion of Canadian dollars to U.S. dollars are described below. See “—Exchange of Foreign Currencies.”

Sale, Exchange or Other Disposition of Common Shares

Upon the sale, exchange or other taxable disposition of an EIS, a U.S. Holder will be treated as having sold, exchanged or disposed of the Common Share represented by the EIS. A U.S. Holder that sells, exchanges or otherwise disposes of a Common Share (whether such Common Share is represented by an EIS or separately held) will recognize gain or loss with respect to the Common Share in an amount equal to the difference between (A) the amount realized with respect to the Common Share upon the sale, exchange, or other disposition and (B) a U.S. Holder’s tax basis in such Common Share. The amount realized with respect to a Common Share by a U.S. Holder on a sale, exchange, or other disposition of an EIS generally will be based on the portion of proceeds allocable to the Common Share, calculated by using the U.S. dollar value of the Canadian dollar proceeds on the trade date, and as described above under “Allocation of Purchase Price,” a U.S. Holder’s adjusted tax basis in the Common Share will equal the U.S. dollar cost of the Common Share to such holder on the date of purchase less any distributions that reduced such tax basis.

Assuming the Common Shares are traded on an established securities market (which it is assumed they will be unless the holder has separated the EIS into the Common Share and Subordinated Notes, in which case it is unclear whether the Common Shares would be so treated), a special rule applies for the determination of the amount realized from the disposition of Common Shares by a cash basis taxpayer. Pursuant to this rule, units of foreign currency received are translated into U.S. dollars at the spot rate on the settlement date of the sale. In that case, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of such sale. An accrual basis taxpayer may elect the same treatment required of cash basis taxpayers with respect to sales of Common Shares that are traded on an established securities market, provided the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. An accrual basis taxpayer who does not make such election may recognize exchange gain or loss based on currency fluctuations between the trade date and the settlement date.

Except as discussed below with respect to foreign currency gain or loss, a U.S. Holder’s gain or loss realized upon the sale, exchange, or other disposition of a Common Share will generally be treated as U.S. source gain or loss and will be long-term capital gain or loss if, at the time of the sale, exchange, or other disposition of a Common Share, the U.S. Holder has held the Common Share for more than one year.

Exchange of Foreign Currencies

A U.S. Holder will have a tax basis in any Canadian dollars received as interest, dividends, or on the sale, exchange, redemption, retirement or other disposition of a Subordinated Note or Common Shares equal to such currency's U.S. dollar value at the time described above. Any gain or loss realized by a U.S. Holder on a subsequent sale or other disposition of Canadian dollars (including the exchange of such currency for U.S. dollars) will be ordinary income or loss and generally will be U.S. source gain or loss.

Disclosure of Reportable Transactions

If a U.S. Holder sells or disposes of the Common Shares or the Subordinated Notes at a loss (or otherwise incurs certain losses) that meets certain thresholds (generally US\$10 million for corporate U.S. Holders, other than S corporations, and US\$2 million for other U.S. Holders), such U.S. Holder may be required to file a disclosure statement with the IRS. With respect to certain types of U.S. Holders (including individuals and trusts), this threshold is lowered to \$50,000 in the case of losses arising from certain foreign currency transactions. Failure to comply with these and other reporting requirements could result in the imposition of significant penalties. U.S. Holders are strongly urged to consult their tax advisors regarding any potential disclosure requirements arising from an investment in EISs.

Foreign Tax Credit Limitations

As discussed below under "Certain Canadian Tax Considerations," U.S. Holders may be subject to a Canadian withholding tax on payments with respect to the Common Shares. Subject to certain conditions and limitations, such withholding taxes may be treated as foreign taxes eligible for credit against a U.S. Holder's U.S. federal income tax liability. The rules governing the foreign tax credit are complex. Potential purchasers of EISs are urged to consult their tax advisors regarding the availability of the foreign tax credit in their particular circumstances, including the possible adverse impact on creditability of the taxation of dividends at long-term capital gains rates (as discussed above) or any entitlement to a refund of Canadian tax withheld or to a reduced rate of withholding.

Certain Canadian Tax Considerations

The following is, as of August 16, 2005, a summary of the principal Canadian federal income tax considerations generally applicable under the Income Tax Act (Canada) (the "Tax Act") to a holder who acquires Common Shares and Subordinated Notes as represented by EISs pursuant to the Offering and who, for the purposes of the Tax Act and the Canadian Treaty, at all relevant times (a) is a resident of the United States and not resident, or deemed to be resident, in Canada, (b) holds the Common Shares and Subordinated Notes as represented by EISs as capital property, (c) deals at arm's length with the Issuer, (d) is not affiliated with the Issuer, and (e) does not use or hold and is not deemed to use or hold the Common Shares and Subordinated Notes as represented by EISs in connection with a trade or business that the prospective purchaser carries on, or is deemed to carry on, in Canada at any time (a "Holder"). For the purpose of the Tax Act, related persons (as defined therein) are deemed not to deal at

arm's length, and it is a question of fact whether persons not related to each other deal at arm's length. Special rules which are not discussed in this summary may apply to "financial institutions" (as defined in the Tax Act) and to a Holder that is an insurer carrying on business in Canada and elsewhere and, accordingly, such persons should consult their own tax advisors.

It is the present published policy of the Canada Revenue Agency (the "CRA") that most entities (including most limited liability companies) that are treated as being fiscally transparent for United States federal income tax purposes will not qualify as residents of the United States under the provisions of the Canadian Treaty and are therefore not entitled to any benefits under the Canadian Treaty. Prospective purchasers of EISs are urged to consult with their tax advisors to determine their entitlement to relief under the Canadian Treaty based on their particular circumstances.

This summary is of a general nature only and is based upon the facts set out in the accompanying Canadian Prospectus, the provisions of the Tax Act and the regulations thereunder, the Canadian Treaty and the current published administrative policies and assessing practices of the CRA, all in effect as of the date hereof. This summary is based on the assumption that the Common Shares will at all relevant times be listed on a prescribed stock exchange for purposes of the Tax Act (which currently includes the Toronto Stock Exchange). This summary takes into account all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof. There can be no assurance that any such 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 or in the administrative policies and assessing practices of the CRA, whether by legislative, governmental or judicial decision or action, and does not take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed in this memorandum.

This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Common Shares and Subordinated Notes as represented by EISs. Moreover, the Canadian tax consequences of acquiring, holding or disposing of Common Shares and Subordinated Notes as represented by EISs will vary depending on the Holder's particular circumstances. Accordingly, this summary is of a general nature only and is not intended to be, and should not be interpreted as, legal or tax advice to any prospective investor and no representation with respect to the tax consequence to any particular Holder is made. Prospective investors should consult their own tax advisors with respect to the Canadian tax consequences of an investment in Common Shares and Subordinated Notes as represented by EISs based on their particular circumstances.

Prospective investors may also be subject to certain Canadian provincial tax consequences as a result of acquiring, holding or disposing of Common Shares and Subordinated Notes as represented by EISs. Accordingly, prospective investors are urged to consult with their tax advisors for advice with respect to Canadian provincial tax consequences of an investment in Common Shares and Subordinated Notes as represented by EISs based on their particular circumstances.

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of Common Shares and Subordinated Notes as represented by EISs, including income, gain or profit, adjusted cost base and proceeds of disposition, must be converted into Canadian dollars based on the prevailing United States dollar exchange rate at the time such amounts arise.

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 cost to the Holder for purposes of the Tax Act. Such cost will establish a Holder's initial adjusted cost base of the Common Share and Subordinated Notes represented by the Holder's EIS. 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 CRA.

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 in return for 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 in return for 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 Dividends, Interest and Capital Gains

Subordinated Notes

Under the Tax Act, the payment by the Issuer of interest, principal or premium (if any) on the Subordinated Notes to a Holder will be exempt from Canadian withholding tax. A

Holder will not be subject to tax under the Tax Act in respect of a gain realized upon the disposition or deemed disposition of the Subordinated Notes (including, on a sale, redemption, repurchase, retirement or payment on maturity).

If any additional Subordinated Notes are issued by the Issuer on or after the seventh anniversary of the Closing, a Holder will be required under the Note Indenture to provide the Issuer with evidence satisfactory to the Issuer acting reasonably that the Holder holds Subordinated Notes that were signed on or prior to the seventh anniversary of the Closing. If a Holder does not satisfy this requirement, amounts paid or credited or deemed to be paid or credited as, on account or in lieu of payment of, or in satisfaction of interest (or amounts deemed to be interest for purposes of the Tax Act) in respect of the Subordinated Notes will generally be subject to withholding by the Issuer at a rate of 10% of the gross amount thereof.

Common Shares

Amounts in respect of the Common Shares paid or credited or deemed to be paid or credited as, on account or in lieu of payment of, or in satisfaction of dividends to a Holder will generally be subject to Canadian nonresident withholding tax on the gross amount of such dividends at a rate of 15%.

A Holder generally will not be subject to tax under the Tax Act in respect of a capital gain, or entitled to deduct any capital loss, realized upon the disposition or deemed disposition of the Common Shares unless the Common Shares represent “taxable Canadian property” to such Holder and the Holder is not entitled to relief under the Canadian Treaty. The Common Shares will be taxable Canadian property to a Holder if the Holder and/or persons with whom the Holder does not deal at arm’s length, owned 25% or more of any class or series of the capital stock of the Issuer at any time during the 60-month period preceding the time of such disposition. Where the Common Shares held by a Holder are taxable Canadian property, a capital gain from their disposition generally will be exempted by the Canadian Treaty from tax under the Tax Act unless, at that time, the Common Shares derived their value principally from real property situated in Canada (as defined in the Canadian Treaty). To the extent the Common Shares disposed of constitute taxable Canadian property, a Holder will be required to file a Canadian tax return for the taxation year in which the disposition occurs even if the gain arising from such a disposition is exempt from tax because of the Canadian Treaty.

Tax Exempt Holders

Amounts paid or credited or deemed to be paid or credited as, on account or in lieu of payment of, or in satisfaction of dividends or interest to a Holder that is a resident of the United States for purposes of the Canadian Treaty and is exempt from tax in the United States may not be subject to Canadian non-resident withholding tax in respect of such dividends or interest. Such Holders should consult their own tax advisors with respect to the availability of an exemption from Canadian withholding tax pursuant to Article XXI of the Canadian Treaty.