

Creative Energy Solutions



# QUARTERLY REPORT

**For the Third Quarter  
Ended**

September 30, 2005 and 2004  
(unaudited)

# MAXIM POWER CORP.

## UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005 and 2004

The consolidated financial statements for the 3 and 9 months ended September 30, 2005 and the comparative operations from January 29, 2004 to September 30, 2004 have not been reviewed by the Corporation's auditors.

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# MAXIM POWER CORP.

## FORM 52-109FT2

### *CERTIFICATION OF INTERIM FILINGS DURING TRANSITION PERIOD*

I, JOHN R. BOBENIC, President and Chief Executive Officer of Maxim Power Corp., certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52- 109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Maxim Power Corp., (the issuer) for the interim period ending September 30, 2005;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

**Date: November 10, 2005**

MAXIM POWER CORP.

**“Signed”**

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John R. Bobenic  
President and Chief Executive Officer

# MAXIM POWER CORP.

## FORM 52-109FT2

### *CERTIFICATION OF INTERIM FILINGS DURING TRANSITION PERIOD*

I, VICTOR S. DUSIK, Vice-President, Finance and Chief Financial Officer of Maxim Power Corp., certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52- 109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Maxim Power Corp., (the issuer) for the interim period ending September 30, 2005;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

**Date: November 10, 2005**

MAXIM POWER CORP.

**“Signed”**

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Victor S. Dusik  
Vice-President, Finance and  
Chief Financial Officer

# MAXIM POWER CORP.

Consolidated Balance Sheets  
(in Thousands of Dollars)

	September 30, 2005 (unaudited)	December 31, 2004 (audited)
	(see basis of presentation – note 1)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 3)	\$ 10,184	\$ 5,283
Accounts receivable	9,675	6,635
Prepaid expenses and deposits	731	137
Coal inventory	2,702	1,046
Plant inventory	1,259	450
Other assets	230	–
	24,781	13,551
Property, plant and equipment (note 4)	116,404	18,914
Deferred costs	3,249	–
Coal contract	1,133	–
Investments	533	–
Due from related parties	1,619	–
Goodwill (note 2)	9,932	–
	\$ 157,651	\$ 32,465
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,943	\$ 4,526
Due to related parties (note 6)	25,186	–
Loans payable (notes 7 and 8(a))	5,590	–
Current portion of long-term debt (note 8)	3,723	–
Current portion of capital lease obligation (note 9)	419	–
Current portion of cash flow indenture (note 10)	826	2,762
	46,687	7,288
Long-term debt (note 8)	38,869	–
Capital lease obligation (note 9)	4,262	–
Cash flow indenture (note 10)	11,411	12,238
Deferred revenue	154	–
Asset retirement obligation (note 11)	128	–
Shareholders' equity:		
Share capital (note 12)	54,362	10,261
Cumulative translation adjustment	(2,600)	–
Retained earnings	4,378	2,678
	56,140	12,939
Commitments (note 13)		
Contingency (note 17)		
Subsequent events (note 18)		
	\$ 157,651	\$ 32,465

See accompanying selected notes to consolidated financial statements.

# MAXIM POWER CORP.

Statement of Operations and Retained Earnings  
(In Thousands of Dollars, except per share amounts)  
(unaudited)

	3 months ended		9 months	January 29
	September 30		ended	to
	2005	2004	September 30	September 30
	(see basis of presentation – note 1)			
<b>Revenue:</b>				
Electricity sales	\$ 12,000	\$ 10,970	\$ 41,290	\$ 33,861
<b>Expenses:</b>				
Plant operations	10,792	8,623	30,814	22,692
General and administration	1,420	599	4,036	1,488
Depreciation and amortization	1,389	655	3,227	1,386
	13,601	9,877	38,077	25,566
Income (loss) before the following items	(1,601)	1,093	3,213	8,295
Interest (income) expense	615	(58)	960	(77)
Foreign exchange loss	109	–	124	–
Equity loss	207	–	369	–
Income (loss) before income taxes	(2,532)	1,151	1,760	8,372
Income taxes	22	–	60	–
Net income (loss)	(2,554)	1,151	1,700	8,372
Retained earnings, beginning of period	6,932	7,221	2,678	–
Retained earnings, end of period	\$ 4,378	\$ 8,372	\$ 4,378	\$ 8,372
Basic and diluted income per share	\$ (0.01)	\$ 0.00	\$ 0.01	\$ 0.04

See accompanying selected notes to consolidated financial statements.

# MAXIM POWER CORP.

Consolidated Statements of Cash Flows  
(In Thousands of Dollars)  
(unaudited)

	3 months ended September 30		9 months ended September 30	January 29 to September 30
	2005	2004	2005	2004
(see basis of presentation – note 1)				
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ (2,554)	\$ 1,151	\$ 1,700	\$ 8,372
Items not involving cash:				
Depreciation and amortization	1,389	655	3,227	1,386
Foreign exchange loss	109	–	124	–
Equity loss	207	–	369	–
Asset retirement obligation	2	–	4	–
Fair value of stock based compensation	56	–	112	–
Partnership units issued for service	–	21	–	21
Funds from operations	(791)	1,827	5,536	9,779
Change in non-cash working capital (note 15)	5,102	4,419	(406)	1,229
	4,311	6,246	5,130	11,008
Financing:				
Advances from related parties (note 6)	–	–	29,686	–
Repayment of advances from related parties	–	–	(4,500)	–
Loans payable (note 7)	–	–	3,690	–
Issuance of long-term debt	3,048	–	30,479	–
Repayment of long-term debt	(999)	–	(2,755)	–
Repayment of advances from Finning (note 6(a))	–	–	(12,069)	–
Repayment of capital lease obligation	(43)	–	(55)	–
Repayment of cash flow indenture	–	–	(2,762)	–
Cash increase due to acquisition (note 2)	–	–	4,532	–
Issuance of common shares	75	–	809	–
Issuance of partnership units	–	–	–	9,700
Partners' distributions	–	(5,000)	–	(8,000)
	2,081	(5,000)	47,055	1,700
Investing:				
Property, plant and equipment	(6,221)	(496)	(32,629)	(4,902)
Acquisition, net of cash acquired (note 5)	–	–	(11,002)	–
Deferred costs	(192)	–	(3,225)	–
	(6,413)	(496)	(46,856)	(4,902)
Foreign exchange loss	(275)	–	(428)	–
Increase (decrease) in cash	(296)	750	4,901	7,806
Cash, beginning of period	10,480	7,156	5,283	100
Cash, end of period	\$ 10,184	\$ 7,906	\$ 10,184	\$ 7,906

See accompanying selected notes to consolidated financial statements.

# MAXIM POWER CORP.

## Selected Notes to Consolidated Financial Statements

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

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### 1. Basis of presentation:

On December 31, 2004, Maxim Power Corp. ("Maxim" or "Corporation") entered into an agreement to acquire the remaining partnership units (approximately 80.5%) of Milner Power Limited Partnership ("MPLP") from the existing partners of MPLP, each of whom acted at arm's length to the Corporation. The business combination became effective March 31, 2005 and resulted in a reverse take-over of Maxim. On March 31, 2005, the acquisition was finalized with the issuance of 242,398,584 common shares of Maxim at a price of \$0.32 per share, for aggregate consideration of \$77,568. For accounting purposes, MPLP is considered to have acquired Maxim (see Note 2) and these interim consolidated financial statements reflect the historical accounts of MPLP together with the accounts of Maxim and its wholly-owned and controlled subsidiaries from the effective date of the business combination, March 31, 2005.

The consolidated balance sheet at September 30, 2005 reflects the accounts of both MPLP and Maxim and the balance sheet at December 31, 2004 reflects only the accounts of MPLP. The statement of operations and retained earnings reflects the operating results of MPLP for the nine months ended September 30, 2005 plus six months of operations of Maxim compared to MPLP operations from January 29, 2004, the date of acquisition of the HR Milner power station, to September 30, 2004.

The Corporation accounts for its 51% interest in Jupiter Power Holdings (Bermuda) Ltd. ("JPH") using the proportionate consolidation method of accounting as the investment is considered to be of joint control.

The Corporation accounts for its 70% interest in Pouchon Cogen S.A.R.L., 50% interest in Mirail Cogen S.A.R.L. and its 45% interest in Cambo-Cana Power Corporation and Import Export Co. Ltd. using the purchase method of accounting for business combinations. Using this method, the Corporation has reflected 100% of the accounts of these entities in its consolidated financial statements with a deduction provided for the non-controlling interest's proportion of the accounts.

The interim consolidated financial statements have been prepared by Maxim's management in accordance with accounting principles generally accepted in Canada. The accounting principles and practices used in the preparation of these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements of the Corporation and those used in the audited annual financial statements of Milner Power Limited Partnership for the fiscal year ended December 31, 2004.

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 2

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

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## 2. Business combination:

On March 31, 2005, Maxim issued 242,398,584 common shares to acquire the remaining outstanding partnership units of MPLP. At the completion of this transaction, the existing shareholders of Maxim held 36% of the outstanding common shares and the former partners of MPLP held the remaining outstanding common shares, representing 64%. Consequently, the transaction has been accounted for as a reverse take-over and MPLP is deemed to have acquired Maxim. In conjunction with the MPLP acquisition, the major partners in MPLP (excluding the Corporation) on their own behalf and on behalf of certain nominees purchased 50,000,000 common shares owned by Finning International Inc. ("Finning"), formerly the largest shareholder of Maxim, for an aggregate purchase price of \$16,000, based on a price of \$0.32 per common share. As a result, the two largest shareholders of the Corporation control 58% of the outstanding common shares.

The acquisition is accounted at fair value using the purchase method of accounting and the purchase price of \$43,880, including transaction costs, is allocated as follows:

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Property, plant and equipment	\$ 60,196
Coal contract	1,200
Other long-term assets	2,600
Goodwill	9,932
Working capital, including cash of \$4,532	1,582
Due to related parties	(10,136)
Long-term debt and capital lease obligation	(16,591)
Cash flow indenture	(2,385)
Other long-term obligation	(2,518)
	<hr/>
	\$ 43,880

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## 3. Cash:

As at September 30, 2005, the Corporation has restricted cash of \$7,367. Of this balance, \$2,514 was used as collateral for various agreements and \$4,853 was restricted for construction of the Basin Creek project in Montana.

The Corporation's cash balance also includes \$508 relating to its interest in JPH. Any repatriation of funds requires agreement from the joint venture's partner.

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 3

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

## 4. Property, plant and equipment:

September 30, 2005	Cost	Accumulated depreciation	Net book value
Property, plant and equipment	\$ 85,886	\$ 4,724	\$ 81,162
Plant under construction	30,652	—	30,652
Capital lease	4,632	42	4,590
	\$ 121,170	\$ 4,766	\$ 116,404

  

December 31, 2004			
Property, plant and equipment	\$ 20,520	\$ 1,606	\$ 18,914

The Corporation calculates depreciation on all property, plant and equipment except at MPLP on a straight-line basis over the estimated useful life at average annual rates ranging from 4% to 25% and depreciation commences in the year the assets are put in use. At MPLP, the plant is depreciated at an annual rate of approximately 8% and the remaining equipment is depreciated on a declining balance basis at rates ranging from 8% to 30%.

- (a) Under the terms of the acquisition agreement for the HR Milner power station, MPLP will pay cash in relation to a cash flow indenture of 20% of future cash flows to a maximum of \$15,000. The contingent payments are based on a profit sharing arrangement whereby the estimated present value of future cash flows of \$15,000 was added to the purchase consideration for the HR Milner power station acquisition on January 29, 2004. The cash flow indenture was recognized in the accompanying consolidated financial statements as a long-term obligation (see note 10).
- (b) At September 30, 2005, property, plant and equipment includes the net book value of \$3,013 related to the capital lease assets at Cogenia S.A.S., the French company acquired by Maxim on June 22, 2005 and Hartland capital lease assets with fair value of \$1,619, accumulated amortization of \$42 and net book value of \$1,577.
- (c) At September 30, 2005, property, plant and equipment includes the fair value of \$12,000 and accumulated depreciation of \$334 for 25 megawatts of capacity related to the Corporation's gas-fired Alberta Power Project ("APP"). On August 31, 2004, the Corporation entered into a long-term Power Purchase Agreement ("PPA") for APP. The PPA is structured as a tolling agreement, obligating the other party to pay a fixed monthly capacity fee and variable operating and maintenance charges. The initial term of the arrangement is 10 years with an option to extend it for a further 15 years or acquire the asset.

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 4

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

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#### 4. Property, plant and equipment (continued):

(d) At September 30, 2005, plant under construction includes the costs incurred for the construction of the 51.8 megawatt ("MW") Basin Creek project in Butte, Montana and the 5.6 MW Bataneres project in France. Costs of \$28,364 have been incurred at Basin Creek and costs of \$2,288 have been incurred at Bataneres. It is expected that Basin Creek will become operational in January, 2006 and Bataneres will become operational on November 1, 2005, the start of the French co-generation season.

#### 5. Acquisition

Effective June 22, 2005, Maxim acquired the common shares of 3 French companies, Energieia S.A., Societe Electrique D'Arnas S.A. and Cogenia S.A.S. for cash consideration of \$13,200. The transaction including transaction costs, is accounted for at fair value using the purchase method of accounting. The total purchase consideration has been allocated to the financial statements as follows:

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Property, plant and equipment	\$ 14,058
Working capital (excluding cash)	134
Capital lease	(3,190)
	<hr/> 11,002
Cash	2,198
	<hr/> \$ 13,200

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The allocation of the purchase price to the Corporation's assets and liabilities will be finalized after certain post-closing adjustments have been completed and the fair values of the assets and liabilities have been finalized; accordingly, the above allocation will change.

#### 6. Related party transactions:

(a) At March 31, 2005, the two largest shareholders of Maxim provided interim financing of \$4,500 to facilitate the repayment of outstanding construction financing of \$12,100 previously provided by Finning International inc. ("Finning"). This interim financing bore interest at 10% per annum and was repayable on demand. No associated fees were incurred to place this interim financing. The Corporation had pledged the assets at Vancouver Landfill ("VLF") as collateral security for the bridge facility and provided a second charge on its other assets, approved by its principal lender, BMO Bank of Montreal. The interim financing of \$4,500 was repaid from loan proceeds of \$7,500 issued under Facility E from BMO Bank of Montreal (see note 8(a)).

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 5

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

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## 6. Related party transactions (continued):

- (b) On April 4, 2005, Maxim received approximately \$5,043 from each of the same two shareholders related to interim financing for the construction of Basin Creek. There are no associated fees with the interim financing of the Basin Creek project. The secured, demand promissory notes were issued bearing interest at 10% per annum payable on a monthly basis. The promissory notes can be repaid in whole or in part at any time by Maxim without notice or penalty.
- (c) On June 17, 2005, the same two shareholders each provided an additional \$7,550 of interim financing to Maxim to acquire three power companies in France (see note 5). Two secured, demand promissory notes, each in the amount of \$7,550, were issued and bear interest at 10% per annum payable on a monthly basis. In addition, a combined commitment fee of \$302 was paid to these related parties. The interest on each promissory note will increase by 1.5% per annum per quarter commencing on September 17, 2005. The promissory notes can be paid in whole or in part at any time by Maxim without notice or penalty.

## 7. Loans payable:

On April 4, 2005, Maxim received approximately \$3,690 for interim financing for the construction of Basin Creek in exchange for a demand promissory note which contains the same terms and collateral as the demand promissory notes issued to each of the two largest shareholders (see note 6(b)).

BMO Bank of Montreal credit facility, Facility B, has also been presented as loans payable (see note 8(a)).

## 8. Long-term debt:

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	September 30, 2005
Canadian projects (note 8(a))	\$ 14,538
United States project (note 8(b))	21,954
European projects (note 8(c))	5,810
Cambodian projects (note 8(d))	290
	<hr/> 42,592
Less current portion	3,723
	<hr/> \$ 38,869

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# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 6

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

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## 8. Long-term debt (continued):

- (a) The Corporation entered into a loan agreement with BMO Bank of Montreal on December 22, 2003. This loan agreement was amended on May 10, 2005. The amended debt arrangement is comprised of five facilities as follows:

Facility A is a \$3,000 demand revolving facility for general working capital purposes, margined up to 90% of current accounts receivable from the Power Pool of Alberta. Prior to May 10, 2005, Facility A was a \$1,000 demand revolving facility. At September 30, 2005, the amount of \$1,509 has been utilized under this facility and classified as an offset to cash and cash equivalents.

Facility B is a \$2,000 demand revolving facility for new project development. At September 30, 2005, the amount of \$1,900 has been utilized under this facility and classified as a component of loans payable.

Both Facilities A and B bear interest at the prime interest rate plus 0.75% per annum.

Facility C is a \$9,500 non-revolving reducing fixed rate term loan bearing interest at 6.79% per annum with blended monthly repayments of \$142 and matures in January 2009. In addition, the Corporation is required to make quarterly principal repayments of 50% of any defined excess cash flow. At September 30, 2005 the Corporation had an outstanding balance of \$7,156 under Facility C.

Facility D is a \$2,500 demand revolving facility for letters of credit required for general corporate purposes. The letters of credit are to be cash collateralized and bears interest at 1.25% per annum. As September 30, letters of credit in the amount of \$1,509 had been issued under Facility D and classified as cash and cash equivalents.

Facility E is a \$9,500 non-revolving fixed rate term loan used to refinance debt at the Vancouver Landfill project ("VLF") and to provide financing for expansion at VLF. At June 30, 2005, loan proceeds of \$7,500 from Facility E were used to repay \$4,500 of interim financing received from related parties. \$2,000 of additional financing under Facility E will be available upon completion of expansion at VLF which is expected to be in the second quarter of 2006. Facility E, which matures in 2010, bears interest at 5.25% per annum with blended monthly repayments of \$70. In addition, the Corporation is required to make quarterly principal repayments of 50% of any defined excess cash flow. At September 30, Facility E had an outstanding balance of \$7,382.

The Corporation granted a first priority security interest on all Alberta property and assets and a \$15,000 fixed and floating charge demand debenture constituting a first priority security interest in the Corporation's assets located in Alberta. The Corporation also pledged its partnership interests in the Milner Power Limited Partnership and its VLF assets in British Columbia.

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 7

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

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## 8. Long-term debt (continued):

- (b) Maxim entered into a construction and term loan agreement dated March 31, 2005 through its subsidiary, Basin Creek Equity Partners, L.L.C. ("Basin Creek") with CIT Capital Securities, L.L.C., lead arranger, and The Bank of New York, collateral agent. The construction and term loan can be for a maximum principal amount of USD\$29,000, with an interest rate of US treasury rate plus 2.5% per annum for each borrowing. The term loan matures 20 years after commercial operation date, estimated to be July 1, 2006 under the agreement, and carries quarterly principal and interest repayments. The construction loan advances will be converted to a term loan facility upon certification of completion of construction by the independent engineer and approval of project construction in accordance with the Capacity and Energy Sale Agreement. At September 30, 2005, Basin Creek was advanced approximately USD\$18,882 as construction loan advances. The amount has been classified as long-term debt.
- (c) The Corporation has six project bank term loans associated with projects in operation in Europe at September 30, 2005:
- (i) The Ravne project financing of 2,916 Euro is a 10 year term loan, which commenced May 1999 and terminates on October 31, 2009. The interest rate is Euribor plus 2.75% per annum. Security for the loan is an assignment of material sales contracts and equipment maintenance contracts for the project and a charge against the equipment. The loan agreement requires quarterly prepayments calculated at approximately 40% of the project cash flow for the preceeding quarter. These prepayments will reduce the term of the loan from 10 years to approximately 8 years.
  - (ii) The Ammann project financing of 279 Euro is a 7 year term loan, which commenced September 1999 and terminates on September 30, 2006. The interest rate is Euribor plus 0.75% per annum. Security for the loan is an assignment of material sales contracts and equipment maintenance contracts for the project and a charge against the equipment as well as a pledge of any undistributed cash in the project account.
  - (iii) The Ruegen project financing of 160 Euro is a 5 year term loan which commenced in 2003 and terminates in 2008. The interest rate is Euribor plus 1.75% per annum. Principal and interest is repayable quarterly. Security for the loan is an assignment of material sales contracts and a charge against the equipment.
  - (iv) Pouchon has project financing with Raiffeisen Zentralbank Osterreich Aktiengesellschaft AG ("RZB") bank for 1,530 Euro. The loan has a maturity date of November 15, 2012, an interest rate based on Euribor plus 1.80% per annum and 27 principal and interest repayments over the term of loan.
  - (v) Mirail has project financing with RZB bank for 1,390 Euro. The loan has a maturity date of November 15, 2012, an interest rate based on Euribor plus 1.80% per annum and 27 principal and interest repayments over the term of loan.

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 8

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

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## 8. Long-term debt (continued):

(vi) Bataneres project financing is for 3,370 Euro and with the RZB bank. The loan has a maturity date of November 15, 2014, an interest rate based on Euribor plus 2.75% per annum and 27 principal and interest repayments over the term of the loan.

Security for the three loans with RZB includes a mortgage on each project property and assignment of contracts to RZB from each project.

(d) The Corporation's long-term debt in Cambodia is non-recourse debt and composed of two term loans. During June, 2003, JPH closed a debt financing of USD\$3,375. The Corporation's share was USD\$1,688 which was retired in August 2005. The 3-year term loan bore interest at 15% with quarterly fixed principal payments of USD\$375 plus interest.

In 2002, JPH closed a debt financing of USD\$2,800 with the same lender. The Corporation's share was USD\$1,428. This 3-year term loan, bearing interest at 15%, was raised in conjunction with the expansion of the existing C-1 power station in Cambodia. JPH is required to make quarterly fixed principal payments of USD\$233 plus interest on this term loan. This term loan is secured by a first priority security interest issued by JPH to the lender. It is anticipated this term loan will be repaid by December, 2005.

Both term loans are secured by a first priority security interest issued by JPH to the lender.

The Corporation's anticipated repayment obligations as at September 30, 2005 on the above loans over the next five years are as follows:

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2006	\$	3,723
2007		3,838
2008		3,365
2009		3,199
2010 and thereafter		28,467
	\$	42,592

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## 9. Capital leases:

(a) The Corporation entered into an agreement with the Capital Regional District ("CRD") to lease equipment at Hartland and the capital lease obligation became effective in February 2004. The capital lease obligation bears interest at 6.5% per annum, is repayable on a monthly basis and is amortized over a 20 year term. Upon termination of the lease, the Corporation shall return the equipment to CRD or dispose of the equipment at the CRD's expense.

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 9

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

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## 9. Capital leases (continued):

(b) Maxim's newly acquired French subsidiary, Cogenia S.A.S, (see note 5) entered into an agreement with Caterpillar Finance France SA ("Caterpillar") in December 1998 to lease its production equipment. The capital lease obligation bears interest at 7.03% per annum, is repayable on a monthly basis and is amortized over a twelve year term. Upon termination of the lease, Cogenia S.A.S. has the option to purchase the leased equipment at the option price of \$566.

Future minimum payments under the two capital leases at September 30, 2005 are as follows:

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2006	\$	928
2007		928
2008		928
2009		928
2010 and thereafter		3,064
Total minimum lease payments		6,776
Amounts representing interest		(2,095)
Present value of net minimum lease payments		4,681
Less: current portion		419
		\$ 4,262

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## 10. Cash flow indenture:

Under the terms of the acquisition agreement, MPLP has an obligation to pay cash to the Balancing Pool in relation to a cash flow indenture of 20% of its future annual cash flows to a maximum of \$15,000. The payments are based on a profit sharing arrangement whereby the estimated present value of future cash flows of \$15 million was added to the purchase price consideration for the plant acquisition. The obligation is non-interest bearing and MPLP has pledged a second charge on its accounts receivable as collateral for the payments due under the cash flow indenture. At September 30, 2005, the outstanding balance was \$12,237 of which \$826 is classified as current portion of cash flow indenture.

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 10

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

## 11. Asset retirement obligation:

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Balance, September 30, 2005	\$	128
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At September 30, 2005, the total undiscounted cash flow required to retire the obligation is \$475. A credit-adjusted risk free rate of 7% was applied to obtain the net present value of the obligation. The asset retirement obligation will be settled in future years, ranging from 18 to 26 years.

## 12. Share capital:

(a) Authorized:

Unlimited number of common shares without nominal or par value

Unlimited number of Class A non-voting preferred shares

Unlimited number of Class B non-voting preferred shares

(b) Issued:

Share capital:

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	Number	Amount
Partnership units of Milner Power Limited Partnership		
Balance, December 31, 2003	300,000	\$ 300
Issued for cash	9,700,000	9,700
Issued for services	21,300	21
Issued for plant acquisition	240,000	240
Balance, December 31, 2004 and at March 31, 2005	10,261,300	10,261
Common shares of Maxim Power Corp.		
Balance, March 30, 2005	136,773,198	—
Issued on business combination (note 2)	242,398,584	43,180
Stock options exercised	2,312,167	809
Contributed Surplus		
Fair value of stock based compensation	—	112
Balance, September 30, 2005	381,483,949	\$ 54,362

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# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 11

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

## 12. Share capital (continued):

### (c) Stock options:

The Corporation has one employee stock option plan under which employees, directors and key consultants are eligible to receive grants. Under the stock option plan, the granted stock options will vest to the grantee over a three year period and the grantee has the right to exercise those stock options for five years from the date of the granting. The maximum number of outstanding stock options under the plan is limited to 10% of the number of common shares outstanding. The number of stock options and the exercise price is set by the Corporation's Board of Directors at the time of granting.

Details of the stock options outstanding at September 30, 2005 are as follows:

	Options Outstanding at September 30, 2005			Options Exercisable at September 30, 2005	
	Number Of Options	Weighted Average remaining contractual life	Weighted average exercise price	Number of options	Weighted average exercise price
Range of Exercise Prices					
\$0.13 to \$0.32	2,253,500	2.5	\$ 0.24	1,433,834	\$ 0.26
\$0.33 to \$0.58	2,742,500	2.9	\$ 0.47	1,499,498	\$ 0.52
\$0.59 to \$0.80	2,987,000	1.5	\$ 0.69	2,987,000	\$ 0.69
\$0.81 to \$1.34	892,000	1.0	\$ 1.12	892,000	\$ 1.12
	8,875,000	2.2	\$ 0.55	6,812,332	\$ 0.62

The fair value of each option granted is estimated at the date of grant using the Black-Scholes option pricing method with weighted average assumptions for grants at September 30, 2005:

Risk free interest rate (%)	3.00
Time to expiration (years)	5.00
Volatility (%)	50.00
Expected dividend	—

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 12

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
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## 12. Share capital (continued):

### (d) Income per share:

The weighted average number of shares outstanding for purposes of calculating basic and diluted income per share at September 30, 2005 was 335,123,815 and 217,537,191 at September 30, 2004.

## 13. Commitments:

- (a) MPLP has agreed to cease operations of the HR Milner power station no later than December 31, 2015 or earlier should there be 1) a change of applicable law that would materially increase the exposure of the Balancing Pool to decommissioning and reclamation costs or 2) pursuant to changes to the Electric Utilities Act, the Balancing Pool is to be wound up earlier than 2020.

The Balancing Pool is liable for decommissioning and reclamation of the power station lands. Should there be a material breach of environmental laws by MPLP during the period of ownership, then MPLP is required to contribute fully to the incremental costs caused by such material breach.

- (b) The Ravne facility has a long-term sales contract with Energetica Ravne d.o.o., a wholly-owned subsidiary of the state-owned Slovenian Steel Works, for the production of electricity and heat. This contract provides for minimum monthly fixed revenue of 43 Euro and a variable revenue on the basis of Kilowatt hours ("Kwh") of electricity generated.

The Corporation has a long-term operations and maintenance contract for the Ravne facility which is payable quarterly and is based on the number of Kwh produced from the facility for the preceding quarter.

- (c) All French projects, including those acquired on June 22, 2005 (see note 5), have original 12 year sales contracts with Electricite de France ("EDF") and all, except for two facilities, have original 12 year contracts for thermal heat sales. Sales to EDF are at fixed hourly rates with a bonus based on specific levels of efficiency. Thermal sales delivered must reach a specific minimum level. The gas supply for these French projects is completed under 3 year contracts with Gaz de France.

The French projects acquired on June 22, 2005 have operations and maintenance contracts with Wartsila France S.A.S. The remaining French projects have operating and maintenance contracts with La Societe Forclum.

- (d) Electricity generated from the Corporation's Cambodian facilities is sold under contract to various Governments of the Provinces and Electricite Du Cambodge ("EdC"), the central

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 13

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
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## 13. Commitments (continued):

- power supply agency for the Cambodian Government. The Corporation receives a fixed capacity payment and a variable fuel tariff. The fuel tariff is tied to the price of diesel used to generate the electricity and effectively provides a pass-through of the fuel costs into the sales price of the electricity produced.
- (e) The Corporation has entered into an agreement with the City of Vancouver to utilize its methane gas from the City's landfill. In exchange for gas from the landfill, the City of Vancouver will receive up to 10% of the electrical and thermal energy sales based on the volume of gas extracted from the landfill. The term of the agreement is 20 years. The Corporation has also entered into 20 year contracts to sell electricity to British Columbia Hydro ("BC Hydro"), at fixed hourly rates, and to sell thermal energy to a greenhouse facility. The operations and maintenance contract is with Finning at fixed rates based on the hours of electrical production.
- (f) The Corporation entered into an agreement with the Capital Regional District ("CRD") for the CRD to supply landfill gas from the Hartland landfill. The initial term of the agreement is five years and the parties shall enter into a new five-year landfill gas supply agreement unless the CRD is approved to enter into a longer term agreement. In exchange for landfill gas, the CRD will receive a percentage of the electrical revenues based on the volume of gas supplied from the Hartland landfill. In addition, the Corporation entered into a long-term equipment lease with the CRD as disclosed in Note 9. At Hartland, the Corporation also entered into a twenty- year contract to sell electricity to BC Hydro at fixed hourly rates. The operations and maintenance contract is with Finning at fixed rates based on the hours of electrical production.

## 14. Income taxes:

The amount and expiry date of unused tax losses are as follows:

	Canadian	Foreign	Total
2005	\$ —	\$ 514	\$ 514
2006	—	—	—
2007	—	—	—
2008	—	18	18
2009	—	—	—
After 2009	4,885	2,019	6,904
	\$ 4,885	\$ 2,551	\$ 7,436

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 14

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
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## 14. Income taxes (continued):

The potential benefit of the above loss carry forwards, which begin to expire at December 31, 2005, has not been recognized in the financial statements.

## 15. Change in non-cash working capital:

	3 months ended September 30		9 months ended September 30	January 29 to September 30
	2005	2004	2005	2004
Operations:				
Accounts receivable	\$ 6,697	\$ 2,903	\$ 6,094	\$ (1,820)
Prepaid expenses	(9)	11	(18)	48
Inventory	(768)	–	(2,066)	(962)
Other assets	(97)	–	(86)	–
Accounts payable and accrued liabilities	(794)	1,505	(4,484)	3,963
Deferred revenue	73	–	154	–
	\$ 5,102	\$ 4,419	\$ (406)	\$ 1,229

The following cash payments have been made to September 30:

	2005	2004
Taxes	\$ 62	\$ –
Interest	\$ 859	\$ 23

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 15

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
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## 16. Segmented information:

The Corporation is an independent power Corporation engaged in the ownership, development and operation of power generation facilities which produce electricity and heat for sale.

The location of the Corporation's capital assets by geographic area to September 30 are as follows:

	2005	2004
Canada	\$ 52,362	\$ 18,914
United States	29,176	—
Europe	32,577	—
Asia	2,289	—
Total	\$ 116,404	\$ 18,914

The Corporation's goodwill at September 30, 2005 is fully allocated to Canada.

The Corporation's revenue by geographic area is as follows:

	September 30, 2005		September 30, 2004	
	Revenue	Income (Loss) Before the following items	Revenue	Income (Loss) Before the following items
Canada	\$ 34,164	\$ 3,989	\$ 33,861	\$ 8,295
United States	—	—	—	—
Europe	686	(423)	—	—
Asia	6,440	(353)	—	—
Total	\$ 41,290	\$ 3,213	\$ 33,861	\$ 8,295

## 17. Contingency:

In July, 2003, ORS Organic Waste Recycling Stade GmbH of Germany ("ORS"), the Corporation's investee, initiated legal proceedings against A/S Cimbria the major contractor responsible to construct ORS. ORS initiated legal proceedings to recover damages resulting from the delayed construction of the facility. ORS is seeking remaining damages of \$2,900 plus interest from A/S Cimbria. To date, ORS has recovered \$850 from damages over the delayed construction. In addition, A/S Cimbria has issued a final construction invoice of \$1,945 to ORS, which has not been recorded by ORS. A trial date regarding the delayed construction damages will likely be set in December 2005.

# MAXIM POWER CORP.

Selected Notes to Consolidated Financial Statements, Page 16

Nine months ended September 30, 2005 and 2004

(Amounts in thousands of Canadian dollars, U.S. dollars or Euro, except shares and per share amounts)  
(unaudited)

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## 18. Subsequent events:

- (a) On October 3, 2005, the Corporation granted 9,055,000 stock options to certain directors, officers and employees. Each option entitles the holder to acquire one common share of the Corporation at an exercise price of \$0.60 per share for a period of five years after the date of issuance.
- (b) On October 28, 2005, the Corporation announced its intentions to proceed with a private placement of the Corporation's common shares for proceeds of up to \$35 million. The non-brokered private placement will be issued to investors, including current shareholders and related parties, at \$0.63 per common share. Investors in the offering will be subject to a hold period of four months following the issuance.

The proceeds may be used to repay interim financings received from shareholders including related parties and the remainder of the proceeds will be for general working capital purposes.

- (c) On November 1, 2005, Maxim entered into a one year power purchase agreement ("PPA") for 2006. The PPA is structured to sell 138,000 MWh or an approximate equivalent of 18.5 MW of power from Milner to Prairie Power Ltd. ("PPL") for the period from January 1, 2006 to December 31, 2006, on a fully unit contingent basis.

There are no credit requirements of Maxim and Maxim has the obligation to deliver power if, and only if, Milner is operational.

- (d) On November 10, 2005, Maxim acquired a 67 MW natural gas-fired cogeneration plant located in Pawtucket, Rhode Island. The expected total capital investment, including closing costs, working capital adjustments and major maintenance is approximately USD \$3,250. The acquisition has received approval from the Federal Energy Regulatory Commission ("FERC").

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management's Discussion and Analysis ("MD&A") dated November 10, 2005, should be read in conjunction with the unaudited interim consolidated financial statements of Maxim Power Corp ("Maxim") for the three and nine months ended September 30, 2005 and the audited financial statements for Milner Power Limited Partnership at December 31, 2004 and the audited annual consolidated financial statements for Maxim for the fiscal year ended December 31, 2004.

### **OVERVIEW**

On December 31, 2004, Maxim entered into an agreement to acquire the remaining partnership units (approximately 80.5%) of Milner Power Limited Partnership ("MPLP") from the existing partners of MPLP. The business combination became effective March 31, 2005 and resulted in a reverse take-over of Maxim. On March 31, 2005, the acquisition was closed with the issuance of 242,398,584 common shares of Maxim at a price of \$0.32 per share, for the aggregate consideration of \$77.6 million plus certain post-closing adjustments. For legal purposes, MPLP is wholly-owned by Maxim. For accounting purposes, MPLP is considered to have acquired Maxim. At September 30, 2005, the interim consolidated balance sheets reflect the historical accounts of MPLP together with the accounts of Maxim from the effective date of the business combination, March 31, 2005. The first quarter operating results of 2005 reflect only the operating results of MPLP. At September 30, 2005, the year-to-date operating results reflect nine months of operations from MPLP and six months of operations from Maxim. The comparative year-to-date operating results at September 30, 2004 reflect only the operating results of MPLP.

The Milner Power Limited Partnership acquired the 144 megawatt HR Milner power station ("Milner") on January 29, 2004 for \$19.0 million with the operations of HR Milner to be managed by Maxim under an operating services agreement. Prior to the acquisition of the remaining outstanding partnership units of Milner Power Limited Partnership, Maxim held a 19.5% ownership interest in MPLP.

### **OVERALL PERFORMANCE**

Traditionally, the third quarter for the Corporation reflects lower power production as a result of seasonality from its European operations and the opportunity to perform planned facility turnarounds. The only European co-generation facility that operated during the third quarter was Ravne which re-started its operations during September. The French co-generation facilities did not operate during the third quarter and will resume operations at the beginning of the next French co-generation season, November 1. However, the French projects completed their annual turnarounds and maintenance programs during the third quarter.

The Milner facility began its annual turnaround on August 13 during the same month as 2004. The 2005 turnaround, which was originally planned to begin on August 13 and be completed by September 2, was extended to September 19. During the turnaround, it became apparent that there were opportunities to further upgrade and improve the operations which caused the extended turnaround. During that period, Alberta spot prices increased significantly with the result that Milner missed an opportunity to sell electrical production at higher prices.

The net loss during the third quarter of 2005 was \$2.6 million compared to net income of \$1.2 million for the same quarter of 2004, a decrease of \$3.8 million. The decrease reflects the effects of the Milner extended turnaround. Milner produced 132,973 MWh during the third quarter of 2005 which was 76.5% of the Corporation's total MWh production, compared to 205,029 MWh for the same period of 2004. This resulted in a negative production variance of 72,056 MWh. During the extended turnaround, the average Alberta spot price was \$85.65 per MWh. Milner received an average of \$54 per MWh during its abbreviated period of operations in the third quarter of 2005 which was the same price as the third quarter of 2004.

Year-to-date, Milner produced 588,112 MWh compared to 615,822 MWh during 2004, a decrease of 27,710 MWh or 4.5%. However, 2004 MWh production from Milner reflects only 8 months of operations as the facility was acquired on January 29, 2004. Milner's year-to-date average power price in 2005 was \$51 per MWh which was \$4 per MWh lower than the 2004 year-to-date average power price of \$55 per MWh. Year-to-date net income for 2005 was \$1.7 million compared to 2004 net income of \$8.4 million, a decrease of \$6.7 million.

Maxim's remaining facilities contributed a net loss of approximately \$1.3 million during the third quarter of 2005. The negative contribution was principally due to 3 factors: 1) seasonality of the European operations which operate during the first and fourth quarters of the calendar year but incur expenses such as depreciation, general and administrative and interest expenses throughout the year 2) lower demand for power in Cambodia during non-peak hours resulting in a 2005 third quarter decrease of 7,419 MWh compared to the third quarter of 2004 and 3) an equity loss of \$0.2 million from Maxim's investee, Organic Waste Recycling Stade ("ORS"), located in Germany.

## RESULTS OF OPERATIONS

As stated previously, the results of operations reflect those of Milner for the nine months ended September 30, 2005 plus Maxim's operations since March 31, 2005.

Summary of 2005 Third Quarter MWh generation by major facility and geographic location:

<b>Facility</b>	<b>Third Quarter MWh Generation</b>	<b>Percentage of Third Quarter MWh</b>
Milner	132,973	76.5%
Alberta projects (2)*	9,754	5.6%
British Columbia projects (2)	13,398	7.7%
Cambodia (2)	11,200	6.5%
Europe (12)	6,426	3.7%
<b>Total</b>	<b>173,751</b>	<b>100%</b>

\* The table does not include power generation from the 25 MW APP project (4 sites). Maxim entered into a power purchase agreement with AltaGas Limited Partnership ("AltaGas"), effective September 1, 2004. The agreement with AltaGas is a tolling arrangement whereby Maxim provides the 25 MW capacity at APP in exchange for fixed monthly capacity payments.

## **Revenue**

2005 third quarter revenue was \$12.0 million compared to \$11.0 million for the third quarter of 2004. The increase of \$1.0 million was the result of revenue generated from Maxim's projects other than Milner. Year-to-date revenue of \$41.3 million at September 30 recognizes revenue from Maxim's projects since April 1, 2005 resulting in 2005 revenue being \$7.4 million higher than 2004 revenue of \$33.9 million.

Milner revenue was lower during the third quarter of 2005 when compared to the third quarter of 2004, \$7.2 million versus \$11.0 million. Milner received \$54 per MWh during the third quarter of 2005 which was the same average price as the third quarter of 2004. The Alberta average spot price for the third quarter of 2005 was \$67 per MWh but Milner's extended turnaround precluded it from receiving the higher average price. Milner produced 132,973 MWh during the third quarter but 59% of that production was generated in July which had the lowest average power price (\$42 per MWh), during the quarter. Power prices improved to \$72 per MWh for August and September but Milner generated only 41% of its third quarter production during these two months due to the extended turnaround. Milner's third quarter of 2005 experienced a 72,056 MWh production variance compared to the same period of 2004.

Other Canadian operations in Alberta and British Columbia contributed \$2.0 million of revenue during the third quarter of 2005 and Cambodian operations contributed the majority of the remaining revenue.

Alberta facilities produced 9,754 MWh from two facilities (combined 7.3 MW capacity) which receive higher Alberta spot power prices during the quarter. The other four Alberta projects collectively known as APP, received tolling revenues under agreement with AltaGas. APP's generators were made available to AltaGas at a 98% availability rate during the third quarter. The two British Columbia facilities (combined net 6.0 MW capacity) produced 13,398 MWh under fixed contract price contracts.

In Cambodia, 11,200 MWh, representing Maxim's 51% interest in the Cambodian joint venture, were generated during the quarter. The MWh production in the third quarter was lower due to two generators at the C-1 facility being out of service for virtually the entire quarter. In addition, MWh production from the Cambodian operations decreased over the last 2 quarters as demand continued to decrease during non-peak hours. Cambodia has increased access to local power suppliers which reduced opportunities to generate power in Phnom Penh.

European facilities produced 6,426 MWh, primarily from the Ravne facility in September.

## **Plant Operations**

Plant operations expenses increased by \$2.2 million or 25%, from \$8.6 million in the third quarter of 2004 to \$10.8 million during the third quarter of 2005, due primarily to the inclusion of Maxim facilities in 2005. 2004 comparative results included only Milner operations.

Fuel is the major component of plant operations. Milner's fuel costs accounted for 29% of 2005 third quarter plant expenses and Cambodian fuel costs accounted for 20%. Coal is the primary source of fuel at Milner and is purchased primarily from Luscar Ltd. at fixed prices under a long-term supply agreement. Cambodian fuel costs "flow through" to affect both revenues and fuel expenses with no effect on operating income.

Excluding fuel, Milner incurred \$4.6 million of plant operations expenses during the third quarter of 2005. In comparison, Milner incurred \$4.1 million of plant operations expenses (also excluding fuel) during the third quarter of 2004. The increase was due to maintenance and repair costs incurred to fix tube leaks, maintenance projects, increased costs as a result of the extended turnaround and higher gas prices in 2005. The use of low-cost coal tailings in 2004 resulted in a different fuel blend which also led to lower plant operations expense in 2004.

### **General and Administration**

General and administration (“G&A”) expenses of \$1.4 million during the third quarter of 2005 were higher by \$0.8 million than G&A expenses of \$0.6 million during the third quarter of 2004. 2004 G&A expenses are solely the result of Milner operations. Of the 2005 third quarter G&A expenses, Milner accounted for \$0.5 million. Maxim’s G&A was slightly higher during the quarter as more business development opportunities were pursued related to opportunities in the United States and France. However, G&A expenditures of Maxim and Milner were substantially in line with budget for the period.

### **Depreciation**

Depreciation expense increased to \$1.4 million during the third quarter of 2005 compared to \$0.7 million for the third quarter of 2004. On a year-to-date basis, 2005 depreciation was \$3.2 million compared to \$1.4 million in 2004. There were no changes to depreciation policy during the third quarter of 2005.

The Milner plant assets are depreciated over a 12 year term. Other assets such as computer hardware and software and leaseholds are depreciated on a declining balance basis utilizing rates of 8% to 30%. The Maxim facilities are amortized based on their fair values as determined on March 31, 2005 (the date of the reverse take-over), over terms varying from 15 months to 16 years.

### **Interest expense**

At September 30, 2005, Maxim incurred \$0.6 million of interest expense for the third quarter from 3 sources of financing: 1) interim financing provided by shareholders, 2) corporate debt facilities with BMO Bank of Montreal and 3) project financing in conjunction with Maxim’s facilities in Cambodia and Europe.

The interim financing bears interest at 10% per annum. As mentioned in Subsequent Events and Proposed Transactions, the interim financing may be repaid with proceeds from the private placement. BMO Bank of Montreal provides two operating lines of credit at the prime lending rate plus 0.75% per annum and two term loan facilities at interest rates of 6.79% and 5.25% per annum respectively. Cambodian operations had two non-recourse term loans at the beginning of the third quarter, each bearing interest at 15% per annum. One term loan was repaid in August and the other term loan is expected to be repaid in December, 2005. Each of the six European projects have project financing with interest rates based on Eurobor plus 0.75% to 2.75% per annum. Construction loan interest from Basin Creek has been capitalized in 2005 as Basin Creek will not commence operations until January 2006.

### Equity loss

The equity loss of \$0.2 million during the third quarter of 2005 was from Maxim's investment in ORS. Maxim also recorded a \$0.2 million equity loss from ORS during the second quarter of 2005. During the second quarter, a digester was damaged and disabled by lightening which also reduced the project's ability to generate power. ORS will receive \$0.7 million from insurance proceeds, sufficient to cover both business interruption insurance and expenditures to re-build the digester.

### Income taxes

Maxim does not anticipate paying income taxes in 2005, other than large corporation taxes in Canada and income taxes in Cambodia. At September 30, 2005, Maxim recorded an immaterial amount related to these taxes. Maxim has sufficient non-capital loss carryforwards to eliminate 2005 taxable income.

## SELECTED QUARTERLY FINANCIAL INFORMATION

### Financial Quarters Ended in 2005 (Unaudited)

(\$000's except per share amounts and \$ per MWh)	September 30	June 30	March 31*
Revenue	12,000	17,810	11,480
Net income (loss)	(2,554)	1,523	2,731
Net income (loss) per share	(\$0.01)	\$ 0.01	\$ 0.01
Total assets	157,651	158,162	103,860
Average Milner Price (\$ per MWh)	\$54	\$54	\$49

### Financial Quarter Ended in 2004 (Unaudited)

(\$000's except per share amounts and \$ per MWh)	December 31*	September 30*	June 30*	March 31*
Revenue	11,584	10,970	16,032	6,859
Net income	2,306	1,151	6,153	1,068
Net income per share	\$ 0.01	\$ 0.00	\$ 0.03	\$ 0.01
Total assets	32,465	29,596	31,940	30,499
Average Milner Price (\$ per MWh)	\$55	\$54	\$62	\$46

\* Reflects only results of operations from MPLP from the date of acquisition on January 29, 2004 to March 31, 2005. Financial quarter ended June 30 and September 30, 2005 reflects operations from MPLP and Maxim. Average Milner Price by quarter reflects power prices received by Milner.

Selected quarterly unaudited financial information was prepared in accordance with Canadian generally accepted accounting principles.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **a) Capital Expenditures**

2005 third quarter capital expenditures of \$6.2 million are primarily the result of continuing construction of the Basin Creek project in Montana, completion of construction of the Bataneres project in France, and the additional of a transformer at Milner. During the second quarter of 2005, Maxim incurred significant capital expenditures totaling \$37.4 million. \$11.0 million was the result of the June 22, 2005 French acquisition and \$25.3 million to begin construction at Basin Creek during the second quarter. The total construction cost of Basin Creek will be \$48.0 million. The 2004 third quarter capital expenditures of \$0.5 million represents capital projects that were completed during Milner's annual turnaround.

The development of the coal lease at Milner has resulted in \$0.3 million of capital expenditures at September 30, 2005. Milner began plans to develop the coal lease during the second quarter of 2005 with preliminary expenditures for marketing and transportation studies, detailed mine designs and permitting at the site. Environmental studies are 75% complete during the first phase of this project.

### **b) Working Capital**

The working capital deficiency at September 30, 2005 was \$21.9 million, an increase of \$4.9 million from the working capital deficiency of \$17.0 million at June 30, 2005 and an increase of \$17.0 million from the working capital deficiency of \$4.9 million at March 31, 2005.

The increase of the working capital deficiency at September 30, 2005 from June 30, 2005 reflected the decrease in electrical generation from Milner. The overall increase since March 31, 2005 was primarily the result of \$28.8 million of interim financing provided by three major shareholders of Maxim during the second quarter of 2005. The interim financing, which is due and payable on demand, was required to fund two projects: \$13.8 million to begin construction at Basin Creek and \$15.1 million for the acquisition of three French companies on June 22. \$25.2 million of the interim financing was disclosed as due to related parties and \$3.7 million was disclosed as loans payable at June 30, 2005. Proceeds from the private placement, as described in Subsequent Events and Proposed Transactions, may be used to repay the interim financing, and will result in a positive working capital position.

As of March 31, 2005, Maxim repaid \$12.1 million of outstanding construction financing from its former largest shareholder, Finning International Inc ("Finning"). The repayment was financed from internal cash flow and from two major shareholders who provided \$4.5 million of interim financing. The \$4.5 million due to the major shareholders was repaid on June 30, 2005 from the proceeds of a \$9.5 million credit facility from BMO Bank of Montreal.

### **c) Canadian Credit Facilities**

On May 10, 2005, Maxim amended its existing Canadian credit with BMO Bank of Montreal. Prior to May 10, 2005, Maxim had \$13.5 million of credit with BMO Bank of Montreal and subsequently negotiated an increase to \$26.5 million. Maxim increased its demand revolving facilities by \$3.5 million and added a new \$9.5 million credit facility to finance its Vancouver Landfill operations. The amended BMO Bank of Montreal credit is comprised of five facilities (Facilities A through E). Except for Facility C and Facility E, the loans are demand in nature bearing various rates of interest and available for working capital purposes or new project development.

Facility C is a non-revolving reducing fixed rate term loan bearing interest at 6.79% per annum with blended monthly repayments as well as quarterly repayments based on available cash flow. Facility E

is a non-revolving reducing term loan with floating interest rates. Maxim was advanced \$7.5 million under Facility E and used the proceeds to repay \$4.5 million owing to two Maxim shareholders. An additional \$2.0 million from Facility E will be advanced to Maxim upon completion of the expansion at the Vancouver Landfill project which is expected to be completed during the second quarter of 2006.

At September 30, 2005 the credit facilities are in compliance with the BMO Bank of Montreal credit agreement.

**d) Long-Term Debt**

Maxim increased long-term debt by \$3.0 million during the third quarter of 2005. Maxim had also increased long-term debt by \$27.4 million during the second quarter of 2005. The increase related to construction financing for the Basin Creek project and Bataneres drawing on its project financing with the RZB Bank to complete its construction. Maxim also repaid \$1.0 million of long-term debt during the third quarter. At September 30, 2005, the Corporation had long-term debt of \$42.6 million compared to \$40.6 million at June 30, 2005 and \$15.0 million at March 31, 2005.

Under a USD\$29 million construction and term loan facility, Maxim utilized USD\$18.9 million from the facility as of September 30, 2005 for the construction of Basin Creek. Under the construction agreement, advances are made at US treasury rate plus 2.5% per annum with the construction loans to be converted to a term loan. It is expected the conversion will occur on July 1, 2006 and the term loan will have a maturity of 20 years. Maxim also received \$7.5 million from Facility E of the BMO Bank of Montreal credit during the second quarter of 2005.

The Cambodian operations retired one term loan which was originally issued in June 2003 for USD\$3.4 million and bore interest at 15% per annum. The other term loan in Cambodia, which was issued in December 2002 for USD\$2.8 million and also bears interest at 15% per annum, will be retired by December 31, 2005.

**e) Cash Flow Indenture**

Under the terms of the acquisition agreement and a cash flow indenture, MPLP will pay annually to the Balancing Pool 20% of cash flows to a maximum of \$15 million. The obligation is non-interest bearing and MPLP has pledged accounts receivable as collateral for the payments due under the cash flow indenture. The current portion at September 30, 2005 was \$0.8 million compared to \$2.3 million at September 30, 2004. The decrease year over year reflects the lower MWh production from Milner during 2005. During the first quarter of 2005, MPLP repaid \$2.8 million of the obligation to the Balancing Pool with respect to 20% of cash flows to December 31, 2004.

**f) Equity Issuances**

On March 31, 2005 Maxim issued 242,398,584 common shares to complete the acquisition of MPLP. Since March 31, 2005, 2,312,167 stock options were exercised for proceeds of \$0.8 million.

**TRANSACTIONS WITH RELATED PARTIES**

See Note 6 of the September 30, 2005 unaudited interim financial statements for details of related party transactions during 2005. There were no new transactions with related parties during the third quarter of 2005 except for the payment of interest on amounts outstanding at prescribed rates.

## **SUBSEQUENT EVENTS AND PROPOSED TRANSACTIONS**

### **a) Private Placement**

On October 28, 2005, the Corporation announced its intentions to proceed with a private placement of the Corporation's common shares for proceeds of up to \$35 million. The non-brokered private placement will be issued to investors, including current shareholders and related parties, at \$0.63 per common share. Investors in the offering will be subject to a hold period of four months following the issuance.

The proceeds from the private placement may be used to repay interim financings received from shareholders including related parties (see Liquidity and Capital Resources – Working Capital) and the remainder of the proceeds will be for general working capital purposes.

### **b) Power Purchase Agreement**

On November 1, 2005, Maxim entered into a one year power purchase agreement ("PPA") for 2006. The PPA is structured to sell 138,000 MWh or an approximate equivalent of 18.5 MW of power from Milner to Prairie Power Ltd. ("PPL") for the period from January 1, 2006 to December 31, 2006, on a fully unit contingent basis.

There are no credit requirements of Maxim and Maxim has the obligation to deliver power if, and only if, Milner is operational.

### **c) Acquisition**

On November 10, 2005, Maxim acquired a 67 MW natural gas-fired cogeneration plant located in Pawtucket, Rhode Island. The expected total capital investment including closing costs, working capital adjustments and major maintenance is approximately USD\$3,250. The acquisition has received approval from the Federal Energy Regulatory Commission ("FERC").

## **OUTLOOK**

Alberta power pool prices averaged \$67 per MWh during the third quarter of 2005 which was an improvement over the Alberta power pool average price of \$51 per MWh during the second quarter and \$46 per MWh during the first quarter. At September 30, 2005, Maxim had 151 MW of its total net installed capacity of 267 MW exposed to Alberta spot prices. For October, 2005 the average Alberta power pool price was \$122 per MWh. For the remainder of 2005, it is anticipated that Alberta forward contracts prices will be available in the range of \$77 per MWh to \$81 per MWh. Current estimates for Alberta power prices in 2006 are approximately \$71 to \$74 per MWh. Should natural gas prices remain high, power prices will likely follow as the two commodity prices are highly correlated.

With increased Alberta power prices, Maxim has pursued discussions with various counterparties regarding the possibility of contracting Milner's power generation under either firm or unit contingent contracts. The intent is to contract a portion of Milner's production for all or part of 2006 beyond that already contracted to Prairie.

The three French power companies, acquired on June 22, 2005 and accounting for 54 MW of capacity including 8 MW of merchant capacity, have begun to generate power and thermal energy as of November 1, 2005. The 5.6 MW Bataneres project in France also commenced operations on this date. Except for the 8 MW of merchant capacity, all French projects have power purchase agreements indexed to the price of natural gas with the state utility, Electricite de France, and

agreements for the purchase of natural gas with Gaz de France. The Basin Creek project (net 50.2 MW) is expected to begin operations in January, 2006. When Basin Creek is completed, Maxim is expected to have 385 MW of net installed capacity.

Beyond Basin Creek, Maxim plans to continue adding generation capacity primarily through acquisitions. In addition, Maxim will begin to incur developments costs to exploit coal leases at Milner and to expand VLF.

With this additional capacity, Maxim expects to generate approximately 1 million MWh in 2005. Revenue is forecasted in the range of \$78.0 million to \$83 million but can be affected by power prices, foreign exchange rates and fuel prices. These estimates do not include the operations of Maxim facilities during the first quarter of 2005. In addition, the Corporation released a revised outlook with 2005 EBITDA in a range between \$20.0 million and \$21.0 million. Like revenues, EBITDA can be affected by power prices, foreign exchange rates and fuel prices.

Maxim continues to review alternatives in Cambodia for the period post June 30, 2006. Maxim and its joint venture partner have received notification from Electricite du Cambodge (“EdC”) that the power purchase agreement at C-1 has been extended to June 30, 2006. This PPA is the only remaining Cambodian PPA and governs 12.2 MW of net generation. Discussions with the Cambodian state owned utility, EdC, are underway to extend the PPA beyond June 30, 2006. If the PPA is not extended, alternatives for the generators in Phnom Penh are likely to be the sale of the generators and equipment or using the existing Cambodia generators in a different opportunity within Cambodia. Businesses within Cambodia have approached the Cambodian joint venture with proposals to utilize the generators at C-1.

The one remaining term loan facility issued to the Cambodian operations will be repaid by the end of 2005. At that juncture, Maxim and its joint venture partner will review methods of repatriating cash from the Cambodian project back to each joint venture partner.

## **OTHER INFORMATION**

### **Outstanding Share Data**

Maxim Power Corp. common shares at March 30, 2005	136,773,198
Issued on acquisition of Milner Power Limited Partnership on March 31, 2005	242,398,584
Exercised share options from April 1 to November 9, 2005	2,312,167
<b>Total issued common shares at November 9, 2005</b>	<b>381,483,949</b>
Outstanding share options	17,930,500
<b>Total diluted common shares at November 9, 2005</b>	<b>399,414,449</b>

Additional information relating to the Corporation is posted on SEDAR at [www.sedar.com](http://www.sedar.com) under Maxim Power Corp. and at the Corporation’s website [www.maximpowercorp.com](http://www.maximpowercorp.com).

## **FORWARD- LOOKING INFORMATION**

Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include the ability of the Corporation to implement its strategic initiatives, the availability and price of energy commodities, government and regulatory decisions, plant availability, competitive factors in the power industry and prevailing economic conditions in the regions that the Corporation operates. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “plan”, “estimate”, “expect”, “may”, “project”, “predict”, “potential”, “could”, “might”, “should” and other similar expressions. The Corporation believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements speak only to of the date of this MD&A. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.