

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following Management's Discussion and Analysis ("MD&A") dated March 30, 2006, should be read in conjunction with the audited annual consolidated financial statements for the fiscal year ended December 31, 2005.*

### 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 an adjusted 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 December 31, 2005, the 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 December 31, 2005, the year-to-date operating results reflect twelve months of operations from MPLP and nine months of operations from Maxim. The comparative year-to-date operating results at December 31, 2004 reflect only the operating results of MPLP.

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

### OVERALL PERFORMANCE

2005 was the most successful year in Maxim's history in terms of operating profitability and adding generation capacity. Maxim recorded operating income of \$20.1 million in 2005 from \$10.6 million in 2004. Generating capacity increased from 144 MW in 2004 (reflecting only Milner's operations) to 375 MW in 2005. Record levels were also achieved for revenues, \$82.9 million versus \$45.4 million in the prior year, and funds from operations of \$25.2 million versus \$12.3 million in 2004. Maxim also completed a \$35 million private placement during 2005. A significant portion of the 2005 interim financings were repaid from proceeds from the private placement. With greater access to capital, Maxim executed its strategy of acquiring and developing larger scale projects. Maxim acquired 54 MW of co-generation capacity in France in June, 67 MW of co-generation capacity at Pawtucket, Rhode Island in November and substantially completed construction of the 52 MW (net 50.2 MW) Basin Creek project in Montana. Capital expenditures in 2005 were \$53.6, another record level.

With additional generation capacity, Maxim produced 1,008,981 MWh in 2005 compared to 808,855 MWh in 2004, an increase of 24.7% or 200,126 MWh. On a stand alone basis, the Milner facility produced 836,852 MWh in 2005 compared to 2004 production of 808,855 MWh, an increase of 3.5%. This positive production increase combined with higher Alberta spot prices in 2005 accounted for the higher revenues and operating profitability. Alberta spot prices averaged \$70 per MWh in 2005 compared to \$56 per MWh during 2004. Alberta power prices were significantly stronger during the fourth quarter of 2005, averaging \$117 per MWh versus \$55 per MWh in 2004.

Maxim's generation capacity at December 31, 2005 was as follows: 182 MW in Canada (9 projects), 117 MW in the United States (2 projects), 63 MW in France (10 projects), 12 MW in Cambodia (1 project) and 10 MW (4 projects) in European regions outside of France. The combined projects, 26, include 4 projects (10 MW of generation) in Europe classified as assets held for sale as of December 31, 2005.

Net income for 2005 was \$11.6 million compared to net income of \$10.7 million for 2004, an increase of \$0.9 million. With significant income generated in 2005, Maxim has fully utilized all Canadian tax losses available for carry forward and has provided for deferred income taxes of \$6.0 million. 2004 income was attributed to Milner and did not include a provision for income taxes as Milner operations are conducted as a partnership.

## SELECTED ANNUAL FINANCIAL INFORMATION

(\$000's except per share amounts)	2005	2004
Revenue	82,875	45,445
EBITDA	26,700	12,177
Net income	11,567	10,678
Net income per share (basic and diluted)	\$ 0.03	\$ 0.05
Funds from operations – continuing operations	25,203	12,304
Total assets	196,829	32,465
Total short term and long term debt	49,284	-

Selected annual financial information was derived from the audited consolidated financial statements for the most recent year and is prepared in accordance with Canadian generally accepted accounting principles, except for funds from operations and EBITDA. Funds from operations and EBITDA are provided to assist management and investors in determining the Corporation's cash flow from operations and do not have any meaning prescribed in Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other companies.

The increase in 2005 over 2004 in the table above reflects inclusion of Maxim's assets and liabilities and results of operations from April 1 to December 31, 2005. Prior to March 31, 2005, the financial statements reflect Milner's accounts and operations only. In addition, 2004 represents only 11 months of operations at Milner as the facility was acquired on January 29, 2004.

On a Milner standalone basis and comparison year over year, Milner recorded \$58.6 million of revenue in 2005 versus \$45.4 million in 2004 with the average Alberta power price in 2005 being \$70 per MWh versus \$55 per MWh in 2004. The increased revenue was also the result of increased MWh production as Milner produced 836,852 MWh in 2005 versus 808,855 MWh in 2004. The improved production and higher Alberta power prices primarily contributed to increased funds from operations and net income for Milner on a standalone basis. Milner's 2005 net income was \$23.6 million versus \$10.7 million in 2004, excluding any provision for income taxes for both years, and Milner's 2005 funds from operations were \$25.5 million versus \$12.3 million in 2004.

The increase of \$164.3 million in total assets in 2005, from \$32.5 million in 2004 to \$196.8 million in 2005, reflects 231 MW of capacity of Maxim's other facilities.

## RESULTS OF OPERATIONS

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

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

Facility	2005 MWh Generation	Percentage of 2005 MWh
Milner	836,852	83.0%
Alberta projects (6)*	27,643	2.7%
British Columbia projects (2)	37,299	3.7%
Cambodia (1)	37,440	3.7%
France (10)	40,683	4.0%
Europe – Assets held for Sale	29,064	2.9%
<b>Total</b>	<b>1,008,981</b>	<b>100%</b>

\* The table excludes 2 facilities in the United States, Pawtucket acquired on November 10, 2005 and Basin Creek, which is under construction. The table does not include power generation from the 25 MW Alberta Power Project (“APP”) (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 revenue was \$82.9 million compared to \$45.4 million for 2004. The increase of \$37.5 million or 83% was the result of stronger Alberta spot prices during the fourth quarter and from Maxim’s projects other than Milner. Maxim’s projects since April 1, 2005 contributed revenue of \$24.3 million.

Milner revenue was higher during 2005 when compared to 2004, \$58.6 million versus \$45.4 million. Milner earned \$69 per MWh during 2005 which was \$13 per MWh higher than the \$56 per MWh received in 2004. Milner’s revenues per MWh do approximate Alberta spot prices per MWh but vary slightly due to production levels at varying prices. In addition, Milner MWh production was 3.5% higher in 2005 over 2004. Milner produced 836,852 MWh in 2005 versus 808,855 MWh in 2004. The increase was largely a result of operational benefits from the maintenance work completed during the annual turnaround.

During 2005, other operations contributed revenue as follows: Canadian operations in Alberta and British Columbia \$6.3 million, Cambodia \$8.9 million, Europe \$8.9 million and United States \$0.2 million.

Alberta facilities produced 27,643 MWh from two facilities (combined 7.3 MW capacity) which earned higher Alberta power prices during the fourth 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 2005. The two British Columbia facilities (combined net 6.0 MW capacity) produced 37,299 MWh under fixed price contracts with BC Hydro.

Maxim’s 51% interest in its Cambodian joint venture generated 37,440 MWh during 2005. The MWh production in 2005 was lower due to two generators at the C-1 facility being out of service for virtually the entire third quarter. In addition, MWh production from the Cambodian operations decreased over the first and second 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. Revenue from Cambodia is based on actual electricity output delivered on a “flow through” of fuel costs. The “flow through” effect of higher fuel costs resulted in both higher revenue and fuel expenses but does not affect operating income. The current PPA at Phnom Penh is due to expire on June 30, 2006. The proposal from the Cambodian joint venture will be for a long term extension rather than short term extensions of six months.

European facilities produced 69,747 MWh in 2005. The French facilities produced 40,683 MWh of the European total. The seven acquired French facilities produced 30,314 MWh in their 2 months of operations in 2005. France's other three facilities produced 10,369 MWh, the remaining balance of the French generation. Assets held for sale produced 29,064 MWh which primarily comes from the Ravne facility which is the largest facility within the group of assets held for sale.

### **Plant Operations**

Plant operations expenses were \$48.9 million for 2005 compared to \$30.7 for 2004, 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 expenses. Milner's fuel costs accounted for 36% of 2005 plant operations expenses compared to 51% in 2004. 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, which accounted for 15% of plant operations expenses for 2005, "flow through" to affect both revenue and fuel expense with no effect on operating income.

Excluding fuel, Milner incurred \$13.0 million of plant operations expenses during 2005. In comparison, Milner incurred \$15.0 million of plant operations expenses during 2004. The decrease was primarily due to decreased interconnection costs. Overall plant operations expense increased with increased MWh production. MWh production increased by 200,126 MWh in 2005 which contributed to higher plant operations expense.

At Milner, operations are managed by Maxim and the facility has approximately 69 employees who conduct the operations and maintenance. The remainder of the Canadian operations are managed through contracts with external parties. The two projects in the United States are contract managed also. The French projects, except one, have their operations and maintenance provided under contracts with La Societe Forclum.

### **General and Administration**

General and administration ("G&A") expenses of \$7.3 million during 2005 were higher by \$4.7 million than G&A expenses of \$2.6 million during 2004. 2004 G&A expenses are solely attributed to Milner operations. Of the 2005 expenses, Milner accounted for \$2.0 million. Maxim's G&A during 2005 included significant business development initiatives related to opportunities in the United States and France as well as substantial TSX listing fees and associated public company costs.

### **Depreciation and Amortization**

Depreciation expense increased to \$6.6 million for 2005 compared to \$1.6 million for 2004. There were no changes to depreciation policy during 2005. Maxim facilities accounted for \$4.8 million of the increase in 2005 depreciation expense from 2004.

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 up to 16 years.

### **Interest expense**

During 2005, Maxim incurred \$1.8 million of interest expense relative to three 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 France.

The interim financing bore interest at 10% per annum and was primarily repaid with proceeds from a private equity placement. Interim financings were used to conclude the acquisitions in France, construct Basin Creek and to payout financing from a previous shareholder, Finning International Inc. At December

31, 2005 Basin Creek had capitalized US\$642 of interest as the project will not commence operations until the second quarter of 2006.

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 prime lending rate plus 1% per annum respectively. The BMO financing was utilized for the Vancouver Landfill project, the APP facilities and for general working capital purposes.

Cambodian operations had two non-recourse term loans at the beginning of March 31, 2005 and each bore interest at 15% per annum. Both Cambodian term loans were repaid in 2005. Each of the six European projects have project financing with interest rates based on Eurobor plus 0.75% to 2.75% per annum. Three of the six European project financings are associated with the assets classified as assets held for sale.

### **Net loss from Asset Held for Sale**

Effective December 31, 2005, Maxim's projects in Europe, excluding France, were classified as assets held for sale. The net loss for the year from these operations was \$0.6 million and was comprised almost entirely of an equity loss from Maxim's investment in ORS. During the second quarter of 2005, a digester was damaged and disabled by lightning which reduced the project's ability to generate power. ORS will receive \$0.7 million from insurance proceeds, sufficient to cover expenditures to re-build the digester. Subsequent to year-end, Maxim entered into three separate agreements to sell these assets. A nominal gain from sale will be reflected in the accounts in 2006 when the sale transactions close.

### **Income taxes**

With significant income generated in 2005, Maxim has fully utilized all Canadian tax losses available for carry forward and has provided for deferred income taxes of \$6.0 million. 2004 income was attributed entirely to Milner and did not include a provision for income taxes as Milner operations were conducted as a partnership.

### **Net Income**

Net income in 2005 was \$11.6 million or \$0.03 per share, versus net income of \$10.7 million or \$0.05 per share for 2004.

## **2005 FOURTH QUARTER**

Overall operating results for the fourth quarter of 2005 were significantly higher when compared to the fourth quarter of 2004. Operating income for the fourth quarter of 2005 was \$16.9 million compared to operating income of \$2.3 million for the same period of 2004. Net income for the fourth quarter of 2005 was \$9.9 million or \$0.03 per share compared to net income of \$2.3 million or \$0.01 per share for the same period in 2004. Funds from operations for the fourth quarter of 2005 were \$19.7 million compared to \$2.5 million for the fourth quarter of 2004, an increase of \$17.2 million.

The primary reason for the increases in operating and net income and funds from operations was stronger Alberta power prices. In addition, the fourth quarter of 2005 includes all Maxim projects compared to the fourth quarter of 2004 which reflects only Milner's operation. Alberta power prices averaged \$117 per MWh during the fourth quarter of 2005 compared to \$55 per MWh for the same quarter of 2004. With stronger power prices and inclusion of all Maxim facilities, revenue increased from \$11.6 million during the fourth quarter of 2004 to \$41.6 million for the fourth quarter of 2005, an increase of \$30.0 million.

During the fourth quarter of 2005, Maxim had 335 MW of generating capacity in operation compared to the same quarter of 2004 which reflected only Milner's generating capacity of 144 MW. The increased generation resulted in Maxim producing 336,222 MWh during the fourth quarter of 2005 compared to

193,033 MWh for the same quarter in 2004. Increased MWh production reflects the initial start-up of the 7 French facilities acquired in June, 2005. These 7 French facilities contributed 30,314 MWh during the fourth quarter from their 54 MW of generation capacity. During the fourth quarter of 2005, Milner experienced temporary problems with its rotary air heaters which caused the facility to be derated at times to 120 MW during this period. However, Milner produced 248,740 MWh during the fourth quarter of 2005 compared to 193,033 MWh for the same quarter of 2004. The increased MWh production during the fourth quarter of 2005, compared to the fourth quarter of 2004, was attributed to management's decision to increase MWh generation during non-peak hours.

In addition to the fourth quarter start-up of the 7 acquired French facilities, Maxim acquired on November 10, 2005 a 67 MW natural gas-fired cogeneration plant located in Pawtucket, Rhode Island. The total capital investment including closing costs, working capital adjustments and major maintenance was \$4.0 million. The other new start-up during the fourth quarter was Bataneres, a 5.6 MW co-generation facility in France. Bataneres was constructed during 2005 and began operations on November 1, the start of the French co-generation season. Maxim has a 100% ownership interest in all the new French projects and Pawtucket facility.

On November 14, 2005, Maxim concluded a private placement of the Corporation's common shares for proceeds of \$35 million. The non-brokered private placement was issued to investors, including current shareholders and related parties, at \$0.63 per common share.

Approximately \$31.6 million of the proceeds from the private placement were used to repay interim financings received from related parties and a significant shareholder during 2005 with the remainder of the proceeds used for general working capital purposes. At November 14, 2005, no amounts were owing to related parties.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Capital Expenditures**

Maxim made \$61.4 million of capital expenditures in 2005. The major components of this amount were \$34.9 million for the construction of Basin Creek, \$12.3 million for the acquisition of the 7 French projects, \$4.0 million for the acquisition of the Pawtucket facility and \$1.4 million for the installation of a new transformer at Milner. In 2004, capital expenditures were \$5.3 million of which \$3.8 million was attributed to the acquisition of Milner and \$1.5 million was for capital expenditures incurred during Milner's annual plant turnaround.

The construction of Basin Creek was funded through Maxim's equity contribution of US\$11.2 million and a construction and term loan facility of US\$29.0 million. As of December 31, 2005, Basin Creek utilized US\$19.7 million of the construction and term loan facility. It is expected that US \$9.4 million will be required to complete construction of Basin Creek in 2006 which could commence operations in April, 2006. The 2006 construction will be funded through the remaining funds from Maxim's initial equity contribution of US \$11.2 million, and further draws on the construction and term loan facility. On July 1, 2006, the construction and term loan facility will be converted to a term loan.

Interim financing of \$17.0 million received from related parties was used to complete the acquisition of the 7 French projects and Pawtucket.

Maxim has committed to complete the expansion at Vancouver Landfill with the installation of a fourth generation unit. The project is expected to be completed near the end of the second quarter of 2006. The total capital expenditures for the expansion project are budgeted at \$2.7 million and Maxim had spent \$0.2 million at December 31, 2005. The expansion will be funded through Maxim's internal cash sources and a \$2.0 million term loan from BMO Bank of Montreal. The \$2.0 million term loan will become available through Maxim's existing term loan facility.

## **Working Capital**

Working capital at December 31, 2005 was \$16.4 million, an increase of \$10.1 million from the working capital of \$6.3 million at December 31, 2004. Working capital increased during the fourth quarter of 2005 from significantly improved operating results and from the completion of a private placement of \$35.0 million on November 14, 2005. The proceeds from the private placement were used to repay \$31.6 million of interim financing from related parties with the residual amount of \$3.4 million contributing to the working capital increase.

Prior to the significant increase in working capital during the fourth quarter of 2005, Maxim had working capital deficiencies in each of the previous three quarters. At March 31, 2005, the working capital deficiency was \$4.9 million. At June 30 the deficiency was \$17.0 million and at September 30 the deficiency was \$21.9 million. The deficiencies were primarily the result of \$28.8 million of interim financing provided by three major shareholders of Maxim during the second quarter of 2005 which was classified as a current liability. The interim financings which were due and payable on demand, were required to fund two projects: US\$11.2 million to begin construction at Basin Creek and \$15.1 million for the acquisition of three French companies on June 22.

## **Canadian Credit Facilities**

On May 10, 2005, Maxim amended its existing Canadian credit facilities with BMO Bank of Montreal. Previously, 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. Both Facility A and Facility B were not utilized as of December 31, 2005 but Facility B was drawn in 2005 in the amount of \$1.9 million and was repaid during the fourth quarter.

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. The total outstanding balance of Facility C and Facility E was \$14.2 million at December 31, 2005. At December 31, 2005 the credit facilities are in compliance with the BMO Bank of Montreal credit agreement.

## **Long-Term Debt**

Other long-term debt outside of the Canadian credit facilities was \$31.3 million as of December 31, 2005. Included in the \$31.3 million was \$1.1 million of project financing which is associated with assets held for sale. This debt will be assumed by the purchaser of these operations. Of the remaining long-term debt amount of \$30.2 million, \$22.9 million (US\$19.7 million) is attributed to the Basin Creek project in Montana and \$7.3 million relates to three project financings in France. Maxim's Cambodian joint venture retired all its long-term debt of \$0.9 million during 2005.

Under a US\$29 million construction and term loan facility, Maxim utilized US\$19.7 million of the facility as of December 31, 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 with a maturity of 20 years.

The three project financings in France are through the RZB bank. Each of the project financings have an interest rate of Euribor plus a margin ranging from 1.8% to 2.75%. Each of the RZB loans has similar terms and covenants and a maturity of 12 years to coincide with the 12 year power purchase agreements with Electricite de France.

### Capital Leases

Maxim has agreed to lease equipment at the Hartland facility, located near Victoria, British Columbia, from the Capital Regional District. The lease obligation bears interest at 6.5% per annum and is repayable on a monthly basis over a 20 year term. At December 31, 2005, the outstanding balance of this lease obligation was \$1.7 million.

In conjunction with the acquisition of the French projects in June, 2005, Maxim assumed a capital lease obligation of \$3.2 million with Caterpillar Finance France for production equipment. The capital lease bears interest at 7.03% per annum with monthly repayments over a 12 year term. Upon termination of the lease, Maxim has the option to purchase the leased equipment at an option price of \$0.6 million.

### Cash Flow Indenture

Under the terms of the acquisition agreement and a cash flow indenture, MPLP is required to pay to the Balancing Pool 20% of annual 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 annual amounts due to the Balancing Pool are repaid by March 31 of the following year. The amount due at December 31, 2005 was \$4.9 million compared to \$2.8 million at December 31, 2004. The increase year over year reflects the higher MWh production and resultant increased cashflow from Milner during 2005.

### Contractual Obligations

At December 31, 2005 (\$000s)	Total	Less than			
		1 year	2007-2008	2009-2010	Thereafter
Long - term debt*	\$ 44,384	\$3,452	\$7,030	\$6,899	\$27,003
Operating leases	132	123	9	nil	nil
Capital lease*	4,900	609	1,352	1,547	1,392
Cash flow indenture*	12,237	4,863	1,908	1,908	3,558
Purchase obligation	81,927	15,656	32,346	33,925	nil
<b>Total</b>	<b>\$143,580</b>	<b>\$24,703</b>	<b>\$42,645</b>	<b>\$44,279</b>	<b>\$31,953</b>

\* Includes current portion

Milner holds a long-term coal supply agreement with Luscar Ltd. ("Luscar") for the supply of up to 540,000 tonnes of thermal coal per year to the facility. The initial term of the agreement is for 5 years, which can also be extended at the MPLP's option for a further 5 years. Should Milner be unable to fulfill its purchase obligation to Luscar, the coal would be resold in international markets at rates in excess of the contracted prices.

### Equity Issuances

On March 31, 2005 Maxim issued 242,398,584 common shares to complete the acquisition of MPLP. On November 14, 2005 Maxim completed a private equity placement for net proceeds of \$35.0 million resulting in the issuance of 55,668,143 shares at \$0.63 per share. Since March 31, 2005, 2,747,167 stock options were exercised for proceeds of \$1.0 million.

## SELECTED QUARTERLY FINANCIAL INFORMATION

Financial Quarters Ended in 2005 (Unaudited)

(\$000's except per share amounts and \$ per MWh)

	December 31	September 30	June 30	March 31*
Revenue	41,585	12,000	17,810	11,480
EBITDA	20,260	(212)	3,511	3,141
Net income (loss)	9,867	(2,554)	1,523	2,731
Net income (loss) per share	\$0.03	(\$0.01)	\$ 0.01	\$ 0.00
Total assets	196,829	157,651	158,162	103,860
Average Alberta Price (\$ per MWh)	\$117	\$67	\$51	\$46

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
EBITDA	2,602	1,642	6,498	1,435
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 Alberta Price (\$ per MWh)	\$55	\$54	\$60	\$45

\* Reflects only results of operations from MPLP from the date of acquisition on January 29, 2004 to March 31, 2005. Beginning April 1, 2005 operations reflects the results from Maxim's projects. Alberta average price by quarter reflects power prices received by Maxim and approximate power prices received by Milner.

Selected quarterly unaudited financial information was prepared in accordance with Canadian generally accepted accounting principles except for EBITDA. EBITDA is provided to assist management and investors in determining the Corporation's cash flow from operations and does not have any meaning prescribed in Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other companies.

## TRANSACTIONS WITH RELATED PARTIES

See Note 8 of the December 31, 2005 financial statements for details of related party transactions during 2005. The 2005 related party transactions related to current significant shareholders providing interim financing enabling Maxim to construct or acquire new projects in the United States and France and providing interim financing at Vancouver Landfill. The interim financing for Vancouver Landfill was repaid at June 30, 2005 through term loan proceeds from Facility E from BMO Bank of Montreal. As of November 14, 2005, all amounts and interest owing as a result of related party interim financings were repaid through proceeds from Maxim's \$35 million private equity placement.

## PROPOSED TRANSACTIONS AND SUBSEQUENT EVENT

As disclosed in Note 7 of the Corporation's December 31, 2005 consolidated financial statements, Maxim has assets held for sale which are the combined European facilities excluding France. These assets include facilities in Austria, Slovenia and 2 facilities in Germany, and a 59% equity interest in a German biomass project, ORS, plus development projects in Germany. The aggregate net capacity of these divestiture projects is 10.3 MW. Subsequent to December 31, 2005, management completed a sale of these facilities under three sales transactions.

On March 27, 2006 Maxim entered into a letter of intent to sell its German development projects held by its wholly owned subsidiary, Maxim Power Europe B.V., for total proceeds of 500 Euro. It is anticipated that the sale will be completed by May 31, 2006.

On March 29, 2006 Maxim entered into a binding purchase and sale agreement for the sale of its wholly-owned subsidiaries, Maxim Power GmbH (Austria) and Maxim Power GmbH (Germany), which hold the facilities in Austria, Slovenia and a project in Germany plus the equity interest in ORS, for proceeds of 1.35 million Euro. This sale is expected to close on April 7, 2006.

The sale of these facilities and development projects is expected to result in a nominal gain for Maxim.

## **OUTLOOK**

Alberta power pool prices averaged \$117 per MWh during the fourth quarter of 2005 which was an improvement over the average Alberta power price of \$67 per MWh during the third quarter, \$51 per MWh during the second quarter and \$46 per MWh during the first quarter. At December 31, 2005, Maxim has 151 MW of its total net installed capacity of 375 MW exposed to Alberta spot prices. For the remainder of 2006, it is anticipated that Alberta forward prices will be available in the range of \$63 per MWh to \$67 per MWh. Current estimates for Alberta power prices in 2007 are approximately \$67 to \$72 per MWh. Power prices have a high correlation to natural gas prices. If natural gas prices rise, power prices are expected to rise as well and vice versa should natural gas prices decline.

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. On November 1, 2005, Maxim entered into a 1 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. Should Milner enter into a similar PPA with other counterparties, it is anticipated the proposed PPA would be similar to the PPA offered to PPL, except for the negotiated power price.

Maxim plans to continue adding generation capacity primarily through acquisitions. Acquisitions that utilize hydrocarbon based fuel will have higher priority compared to acquisitions that do not utilize hydrocarbon based fuel. Another major acquisition criteria would be generation capacity, as Maxim will also give higher priority to those acquisitions that are 50MW or greater of generation capacity. The exception to acquisitions being greater than 50MW would be France where co-generation projects are of smaller scale. With the pending divestiture of the smaller European facilities of 10.3 MW, Maxim is committed to moving to larger scale generation projects. In the short-term, Maxim will likely forego most new greenfield development opportunities unless the greenfield development project is a high value proposition. The Company's strategic plan is to incorporate more greenfield opportunities within the next 3 to 5 years.

There are two development opportunities at Milner that are in the preliminary stages and will be further explored in 2006. The first development opportunity is the exploitation of the coal leases which contain an estimated 13 million tonnes of recoverable coal reserves. With the coal leases, Milner completed the marketing review and transportation study with environmental fieldwork 75% complete. The second development opportunity would be the expansion of the Milner facility. This development opportunity is currently at a very preliminary stage. The development of the Milner coal reserves could serve as the source of fuel for any Milner expansion and the existing facility.

Maxim will continue to develop its generation capacity within the United States. Maxim closed the acquisition of a 67 MW gas-fired cogeneration plant in Pawtucket, Rhode Island on November 10, 2005

and the Basin Creek project (net 50.2 MW) is expected to begin operations in the second quarter of 2006. Pawtucket is a distressed merchant gas asset that was purchased at low cost but recent developments within the New England market could include short-term to medium term tolling arrangements for the facility which would increase the value of such investment.

Maxim continues to review alternatives in Cambodia for the period beyond June 30, 2006 when the PPA is to expire. This contract 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. The preference of the Cambodian joint venture is for a longer term PPA rather than the current six month extension. If the PPA is not extended or a longer term PPA is not offered, the equipment may be offered for sale or redeployed to another opportunity within Cambodia.

Maxim will also continue to review the performance of its existing portfolio of smaller generation facilities to determine if those facilities enhance Maxim's profitability and fit within Maxim's corporate strategy. Those facilities that fail these criteria could be deemed to be "Assets held for Sale" by Maxim's management and divested within a period of 12 months or sooner.

## **CRITICAL ACCOUNTING ESTIMATES**

The Corporation's critical accounting estimate relates to the estimate of useful life of its property, plant and equipment and the corresponding effect on depreciation and impairment assessment of property, plant and equipment. The estimated useful life of the Corporation's property, plant and equipment can be affected by age of the equipment, fuel supply and legislation.

The Corporation has regular maintenance programs for all its facilities to reduce the possibility of equipment failure. In spite of a regular maintenance program, equipment failures can occur. During 2005, different generators at the Phnom Penh facility have failed at various times causing the generators to be out of service for extended periods. The downtime has been partially mitigated by use of back-up or spare generators which have become available as generators have been relocated to Phnom Penh after the expiration of power purchase agreements at other Cambodian locations.

Reduced fuel supply will also reduce the economic life of a facility. Certain facilities use non-conventional sources of fuel. Gift Lake requires flare gas from oil and gas reserves and Gold Creek requires waste heat from a compressor station. In British Columbia, both VLF and Hartland require landfill gas to generate electricity.

In the case of Milner, MPLP had originally agreed to cease operations of Milner no later than December 31, 2015 or earlier should there be significant changes to legislation that would increase the possibility of having to decommission Milner. However, opportunities have arisen to extend the life of Milner past 2015 and other opportunities include expanding the capacity of Milner. Milner has operated continuously since 1972 and the Corporation plans to perform annual plant turnarounds to assess the facility's operating capabilities and to detect existing deficiencies. When deficiencies are detected, annual turnarounds can become prolonged. Such was the case when Milner began its 2005 annual turnaround in September.

On an annual basis, management of the Corporation reviews for any changes to the operations and future cash flows of a facility with respect to impairment assessment. Management has determined no impairment exists at each of the facilities at December 31, 2005.

## **FINANCIAL INSTRUMENTS**

The management of Maxim is authorized to use derivative financial instruments to manage or hedge commodity prices such as natural gas and interest rates. Derivative financial instruments are not used for

speculative purposes. At certain thresholds, financial derivatives must be also approved by Maxim's Board of Directors.

(a) Foreign currency exchange risk:

The Corporation is exposed to foreign currency fluctuations as the Corporation has a significant amount of its assets and liabilities denominated in foreign currencies that creates an exposure in exchange rates.

(b) Credit risk:

Credit risk arises from the possibility that the entities to which the Corporation provides services may experience difficulty and be unable to fulfill their obligations. The Corporation is exposed to financial risk that arises from the credit quality of the entities to which it provides services. In Canada, the majority of Alberta power sales are to the Power Pool of Alberta and power sales in British Columbia are completed under agreements with British Columbia Hydro and Power Authority. In Europe, power sales are completed under various power purchase agreements with Electricite de France. In both British Columbia and Europe, the co-generation facilities also produce thermal heat revenues which is sold in many cases, to greenhouse customers. In addition, APP's trade accounts receivable are due from AltaGas, which is a public traded income trust listed on the Toronto Stock Exchange.

A significant portion of the Corporation's trade accounts receivable are in Jupiter Power Asia Co. Ltd. and Jupiter Power (Cambodia) Co. Ltd., which are wholly-owned subsidiaries of Jupiter Power Holdings (Bermuda) Ltd. ("JPH"). These trade accounts receivable in the amount of \$1.7 million are receivable primarily from Electricité du Cambodge in Phnom Penh, Cambodia.

(c) Operating risk:

The ability of the power plants to generate the maximum amount of power is a determinant of the Corporation's profitability. Regular maintenance programs and insurance mitigate the risk of potential equipment failure and the consequent loss of revenues. The Corporation has no obligations under its contracts to deliver minimum levels of power, except for its C-1 power station in Cambodia, and is paid on the basis of actual power deliveries. Any reductions in the volume of power delivered will directly reduce the amount of power revenues received by the Corporation. In the case of VLF and Hartland, the risk of reduced power delivery is greatly reduced through the operations and maintenance contract in effect at each location. The contracts guarantee a significant percentage of power production from the facilities.

(d) Fair value of financial instruments:

The carrying amounts of financial instruments included in the balance sheet, other than long-term debt, approximate their fair value due to their short-term maturity. Long-term debt has carrying values that approximate fair value at December 31, 2005.

## **ENVIRONMENT, HEALTH AND SAFETY RISKS**

The ownership and operation of Maxim's facilities carry an inherent risk of liability related to worker health and safety and the environment. No assurances can be given that environmental and workers' health and safety issues relating to presently known or unknown matters will not require unanticipated expenditures, or result in fines, penalties or other consequences (including changes to operations) material to its business or operations.

Maxim mitigates this risk, where possible, by employing an environment, health and safety management system, and by utilizing insurance and performance bonds to limit its financial exposure. Maxim's environment, health and safety practices will continue to grow and evolve accordingly with corporate growth.

With the advent of significant growth, Maxim is consolidating a corporate environment, health and safety management system across all assets and jurisdictions. Operational level plans for all of its facilities are in place and are currently consistent with company policy. Costs associated with the environment, health and safety program of the Corporation are not material at present; however, costs are expected to steadily rise as increasingly stringent regulation, and corporate accountability, become the norm.

## DISCLOSURE CONTROLS AND POLICIES

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of Maxim's disclosure controls and procedures and concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2005 and in respect of the 2005 year-end reporting period.

## 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
Private Placement, November 14, 2005	55,668,143
Exercised share options from April 1, 2005 to March 30, 2006	3,937,167
Total issued common shares at March 30, 2006	438,777,092
Outstanding share options	17,123,500
Total diluted common shares at March 30, 2006	455,900,592

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 except as required pursuant to applicable securities laws.