

power **growth** precision



Consolidated Financial Statements of

# **MAXIM POWER CORP.**

Years ended December 31, 2006 and 2005  
(audited)



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## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of Maxim Power Corp. as at December 31, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Calgary, Canada

March 27, 2007



## Form 52-109F1 – Certification of Annual Filings

I, John R. Bobenic, the Maxim Power Corp. CEO, certify that:

1. I have reviewed the annual 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 period ending December 31, 2005;
2. Based on my knowledge, the annual 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 annual filings;
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual 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 annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures for the issuer, and we have:
  - a. designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared; and
  - b. evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such an evaluation.

Date: March 30, 2006

*"signed"*

John R. Bobenic  
\_\_\_\_\_  
President & CEO



## Form 52-109F1 – Certification of Annual Filings

I, Victor S. Dusik, the Maxim Power Corp. CFO, certify that:

1. I have reviewed the annual 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 period ending December 31, 2005;
2. Based on my knowledge, the annual 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 annual filings;
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual 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 annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared; and
  - (b) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such an evaluation.

Date: March 30, 2006

*"signed"*

Victor S. Dusik  
Vice President Finance & CFO

# MAXIM POWER CORP.

## Consolidated Balance Sheets

As at December 31, 2006 and 2005  
(In Thousands of Dollars)

	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 22,955	\$ 23,309
Accounts receivable	34,836	20,656
Prepaid expenses, deposits and other	2,128	586
Coal inventory	1,784	1,860
Plant inventory	614	520
Current assets of discontinued operations (note 5)	80	3,384
	62,397	50,315
Property, plant and equipment (note 6)	151,108	118,138
Assets of discontinued operations (note 5)	-	4,113
Deferred costs	8,373	3,274
Coal contract	4,834	5,500
Goodwill	15,632	15,489
	\$ 242,344	\$ 196,829
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 24,081	\$ 22,612
Liabilities of discontinued operations (note 5)	-	3,544
Income taxes payable	4,738	-
Current portion of long-term debt (note 8)	3,606	3,452
Current portion of capital lease obligations (note 9)	2,149	609
Current portion of cash flow indenture (note 10)	6,250	4,863
Current portion of long-term contracts (note 11)	1,851	-
	42,675	35,080
Long-term debt (note 8)	47,956	40,932
Capital lease obligations (note 9)	8,252	4,291
Cash flow indenture (note 10)	1,126	7,374
Long-term contracts (note 11)	3,282	-
Asset retirement obligation (note 12)	787	321
Future income tax liability (note 15)	11,668	6,703
Deferred revenue	82	236
Non-controlling interest	48	-
Shareholders' equity:		
Share capital (note 13)	92,377	90,331
Cumulative translation adjustment	3	(2,684)
Retained earnings	34,088	14,245
	126,468	101,892
Commitments (note 14)		
Subsequent event (note 20)		
	\$ 242,344	\$ 196,829

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) "John R. Bobenic" Director

(Signed) "M. Bruce Chernoff" Director

# MAXIM POWER CORP.

## Consolidated Statements of Operations and Retained Earnings

Years ended December 31, 2006 and 2005  
(In Thousands of Dollars)

	2006	2005
Revenue:		
Electricity sales	\$ 111,237	\$ 73,999
Expenses:		
Plant operations	66,046	40,856
General and administration	6,103	6,874
Depreciation and amortization	8,560	4,319
	80,709	52,049
Income before the following items	30,528	21,950
Interest expense	3,356	1,774
Interest income	(607)	(63)
Foreign exchange loss (gain)	52	(29)
Other	-	30
Income before income taxes from continuing operations	27,727	20,238
Income taxes (note 15):		
Current	4,781	80
Future	2,356	6,026
	7,137	6,106
Non-controlling interest	48	-
Net income from continuing operations	20,542	14,132
Net loss from discontinued operations (note 5)	636	2,565
Net income for the year	19,906	11,567
Retained earnings, beginning of year	14,245	2,678
Normal course issuer bid	(63)	-
Retained earnings, end of year	34,088	14,245
Basic and diluted income per share – continuing operations	\$ 0.47	\$ 0.40
Basic and diluted loss per share – discontinued operations	\$ (0.02)	\$ (0.07)
Basic and diluted income per share	\$ 0.45	\$ 0.33

See accompanying notes to consolidated financial statements.

# MAXIM POWER CORP.

## Consolidated Statement of Cash Flows

Years ended December 31, 2006 and 2005  
(In Thousands of Dollars)

	2006	2005
Cash provided by (used in):		
Operations:		
Net income from continuing operations	\$ 20,542	\$ 14,132
Items not involving cash:		
Depreciation and amortization	8,560	4,319
Foreign exchange gain	(17)	(29)
Non-controlling interest	48	-
Asset retirement obligation	466	28
Fair value of stock based compensation	1,488	376
Future income tax	2,356	6,026
	33,443	24,852
Change in non-cash working capital (note 16)	(9,670)	(4,081)
Cash flows from continuing operations	23,773	20,771
Loss from discontinued operations		
	(636)	(2,565)
Items not involving cash:		
Depreciation and amortization	728	2,687
Loss on sale of discontinued operations	195	-
Equity loss	16	843
Foreign exchange gain	-	(12)
Change in non-cash working capital	(225)	(309)
Cash flows from discontinued operations	78	644
	23,851	21,415
Financing:		
Advances from related parties (note 17)	-	31,597
Repayment of advances from related parties	-	(31,597)
Loans payable (note 17(b))	-	3,690
Repayment of loans payable	-	(5,590)
Issuance of long-term debt	10,063	34,491
Repayments of long-term debt	(3,909)	(3,264)
Repayment of advances from Finning (note 17(a))	-	(12,069)
Net proceeds from private placement	-	35,001
Issuance of common shares	821	964
Normal course issuer bid	(115)	-
Repayment of lease obligation	(966)	(37)
Cash flows from continuing financing activities	5,894	53,186
Repayment of long-term debt related to discontinued operations	-	(729)
	5,894	52,457
Investing:		
Property, plant and equipment	(18,248)	(42,380)
Acquisitions, net of cash acquired	(3,783)	(16,030)
Acquisition of non-controlling interest	(493)	-
Deferred costs	(5,552)	(2,970)
Repayment of cash flow indenture	(4,863)	(2,762)
Cash increase due to acquisition (note 2)	-	4,532
	(32,939)	(59,610)
Change in non-cash working capital (note 16)	-	3,955
Cash flows used in investing in continuing operations	(32,939)	(55,655)
Proceeds on sale of discontinued operations	3,156	-
Change in cash of discontinued operations	-	(706)
	(29,783)	(56,361)
Foreign exchange gain (loss)	(316)	515
Increase (decrease) in cash	(354)	18,026
Cash, beginning of year	23,309	5,283
Cash, end of year	\$ 22,955	\$ 23,309

See accompanying notes to consolidated financial statements.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

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## 1. Basis of presentation:

On March 31, 2005, Maxim Power Corp. ("MAXIM" or "Corporation") completed a business combination by acquiring 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 MAXIM. The business combination resulted in a reverse take-over of MAXIM through the issuance of 24,239,858 common shares of MAXIM at a price of \$3.20 per share, for aggregate consideration of \$77,568. For accounting purposes, MPLP is considered to have acquired MAXIM (see Note 2) and these 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 December 31, 2006 and 2005 reflects the accounts of both MPLP and MAXIM. The consolidated statement of operations and retained earnings and the consolidated statement of cash flows reflect the operating results of both MPLP and MAXIM for the twelve months ended December 31, 2006 and the consolidated statement of operations and retained earnings and the consolidated statement of cash flows at December 31, 2005 reflects twelve months of operations for MPLP plus nine months of operations of MAXIM.

The Corporation consolidates the accounts of its 95% (2005 – 97%) interest in Basin Creek Holdco LLC, 90% (2005 – 70%) interest in Pouchon Cogen SARL and 50% (2005 – 50%) interest in Mirail Cogen SARL. 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 consolidated financial statements have been prepared by MAXIM's management in accordance with accounting principles generally accepted in Canada. Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions which have been made with careful judgment. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in note 3.

## 2. 2005 Business combination:

On March 31, 2005, MAXIM issued 24,239,858 common shares to acquire the then 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 MAXIM) on their own behalf and on behalf of certain nominees purchased 5,000,000 common shares owned by Finning International Inc. ("Finning"), formerly the largest shareholder of MAXIM, for an aggregate purchase price of \$16,000, based on an adjusted price of \$3.20 per common share. As a result, the two largest shareholders of MAXIM controlled 58% of the outstanding common shares at March 31, 2005.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 2

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

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## 2. 2005 Business combination (continued):

At March 31, 2005, the acquisition of MAXIM was accounted at fair value using the purchase method of accounting and the purchase price of \$43,880, including transaction costs of \$200, was allocated as follows:

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Property, plant and equipment	\$	53,280
Coal contract		6,000
Other long-term assets		1,100
Deferred costs		522
Goodwill		15,489
Working capital, including cash of \$4,532		2,946
Due to related parties		(11,500)
Long-term debt and capital lease obligation		(16,591)
Cash flow indenture		(2,385)
Future income tax liability		(1,481)
Other long-term obligations		(2,675)
Contributed surplus		(825)
	\$	43,880

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## 3. Significant accounting policies:

### (a) Property, plant and equipment:

Plant and equipment are recorded at cost. Depreciation on all property, plant and equipment, except at MPLP, directly used in the production of electricity is provided on a straight-line basis over the estimated useful life at average annual rates ranging from 5% to 25%. Depreciation commences in the year the assets are put in use. At MPLP, the plant is depreciated at an annual rate of approximately 8%. The remaining equipment not directly involved in the production of electricity is depreciated on a declining balance basis at a rate ranging from 20% to 30%.

Leases that transfer substantially all the benefits and risks of ownership to MAXIM and meet certain criteria as a capital lease are accounted for as a capital lease asset and obligation. Capital lease assets are depreciated over their initial lease terms.

Expenditures for additions and improvements are capitalized and expenditures for maintenance and repairs are charged to income.

MAXIM determines whether an impairment exists at its facilities on an annual basis. The Corporation determines whether the net carrying amount of capital assets at each of its facilities is recoverable from its future undiscounted cash flows. Should the future undiscounted cash flows be less than the net carry amount of capital assets at that facility, an impairment will be recognized. The amount of the impairment is calculated as the difference between the net carrying value and the fair value of the capital asset. Fair value of the capital asset is estimated by calculating the present value of future cash flows from that capital asset.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 3

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

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### 3. Significant accounting policies (continued):

(b) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on fair values. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicated that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the business is compared to its fair value. When the fair value of the business exceeds its carrying amount, goodwill of the business is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the business exceeds its fair value, in which case the implied fair value of the business' goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of the goodwill in a business combination as described above. Using the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(c) Foreign currency translation:

MAXIM's European and American subsidiaries are considered to be self-sustaining operations. Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at the period end rates of exchange. Revenue and expenses are translated using average exchange rates for the period. Translation adjustments are reflected in the cumulative translation adjustment in shareholders' equity.

(d) Revenue recognition:

Revenue is recognized when electricity is delivered. Under certain long-term Electrical Purchase Agreements ("EPA"), revenue is recognized based on the amount of electricity delivered and on the average revenue price over the term of the EPA. Amounts billed above or below the average revenue price under the EPA are recognized as deferred revenue.

MAXIM enters into tolling arrangements with certain counterparties. Under these tolling arrangements, MAXIM provides capacity in exchange for monthly capacity payments which are recognized as revenue during the term of the agreement.

(e) Income taxes:

The Corporation follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective income tax bases, using enacted income tax rates expected to apply in the period in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. A valuation allowance is recorded if the realization of future income tax assets is not considered more likely than not.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 4

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

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### 3. Significant accounting policies (continued):

(f) Per share amounts:

Basic income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options or other dilutive instruments were exercised or converted to common shares. The treasury stock method assumes that any proceeds upon the exercise or conversion of dilutive instruments, for which market prices exceed exercise price, plus the unamortized stock-based compensation costs were used to purchase common shares at the average market price of the common shares during the period.

(g) Stock based compensation:

MAXIM expenses the vested fair market value portion of stock based compensation. The expense amount is determined using the fair value method of accounting for stock based compensation. Fair market value is determined using the Black-Scholes option pricing model when the stock-based compensation is granted.

(h) Asset retirement obligations:

The Corporation has an obligation to restore specific sites to an acceptable level at the end of each project life. The fair value of the liability for asset retirement obligations, related to the tangible long-lived assets, is recognized when the legal commitment exists and a reasonable estimate of fair value can be made. Asset retirement costs are amortized over the life of the projects. Amortization cost is included in depreciation and amortization. The accretion expense, which increases the assets retirement obligations due to the passage of time, is included in plant operations in the Consolidated Statements of Operations and Retained Earnings. Incurred asset retirement costs will be recorded as a reduction against the asset retirement obligation.

### 4. Cash and cash equivalents:

Cash and cash equivalents are primarily comprised of excess cash balances that have been invested in short-term interest bearing investments. At December 31, 2006, MAXIM has restricted cash of \$2,709 (2005 - \$3,273). The majority of the restricted cash amount was the result of providing cash collateral to financial institutions to secure various letters of credits.

### 5. Discontinued operations:

MAXIM's projects in Europe, excluding France, were classified as discontinued operations. On March 29, 2006 the Corporation entered into binding purchase and sale agreements for the sale of its wholly-owned European subsidiaries, located in Austria, Germany and Slovenia, for total proceeds of \$1,913 (1,350 Euro). The sale was completed on April 15, 2006 with receipt of proceeds. The disposition of the European projects resulted in a loss of \$439 which has been included in Net loss from discontinued operations.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 5

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 5. Discontinued operations (continued):

Effective March 31, 2006, MAXIM and its joint venture partner in Cambodia decided to sell their existing operations in Cambodia, concurrent with the June 30, 2006 expiration of the Cambodian power purchase agreement. The generating equipment and spare inventory was sold for gross proceeds of \$2,486 (US\$2,200) of which MAXIM received 50%. The sale was completed on October 12, 2006.

As part of the disposition and wind-up of the Cambodian operations, MAXIM and its joint venture partner sold the ordinary shares of its Cambodian companies, Jupiter Power Asia Co., Ltd. ("JPA") and Jupiter Power (Cambodia) Co. ("JPC"), Ltd. effectively rationalizing the remaining assets and liabilities in Cambodia, for nominal proceeds on January 25, 2007. The disposition of the generating equipment, spare inventory and rationalization of the remaining assets resulted in a gain of \$244 which has been included in the Net loss from discontinued operations. MAXIM does not anticipate further disposition and wind-up costs related to its former operations in Cambodia. MAXIM and its joint venture partner have initiated the wind-up of Jupiter Power Holdings (Bermuda) Ltd. ("JPH"), formerly the parent company to JPA and JPC.

A summary of the European and Cambodian assets and liabilities classified as discontinued operations is as follows:

	2006	2005
Cash	\$ 80	\$ 706
Accounts receivable	-	1,935
Prepaid expenses and other	-	743
Total current assets	80	3,384
Property, plant and equipment	-	3,806
Investment	-	307
Total capital assets	-	4,113
Accounts payable and accrued liabilities	-	2,418
Term loans	-	1,126
Total Liabilities	\$ -	\$ 3,544

A summary of discontinued operations in Europe and Cambodia is as follows:

	2006	2005
Electricity sales	\$ 6,250	\$ 10,182
Plant operations	(5,291)	(8,385)
General and administration	(595)	(709)
Depreciation and amortization	(728)	(2,687)
Loss before other items	(364)	(1,599)
Interest income (expense)	20	(135)
Equity loss	(16)	(843)
Foreign exchange gain (loss)	(43)	12
Loss on sale of discontinued operations	(195)	-
Loss before income taxes	(598)	(2,565)
Income tax expense	(38)	-
Net loss from discontinued operations	\$ (636)	\$ (2,565)

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 6

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 6. Property, plant and equipment:

December 31, 2006	Cost	Accumulated Depreciation	Net book value
Property, plant and equipment	\$ 144,978	\$ 12,306	\$ 132,672
Spare parts	4,602	-	4,602
Capital leases	14,393	559	13,834
	\$ 163,973	\$ 12,865	\$ 151,108
December 31, 2005			
Property, plant and equipment	\$ 84,098	\$ 4,835	\$ 79,263
Plant under construction	33,205	-	33,205
Spare parts	1,147	-	1,147
Capital leases	4,660	137	4,523
	\$ 123,110	\$ 4,972	\$ 118,138

- (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. The cash flow indenture was recognized in the accompanying consolidated financial statements as a long-term obligation (see note 10).
- (b) At December 31, 2006, property, plant and equipment includes the net book value of \$13,834 related to the three capital lease assets in France and the Hartland capital lease asset in British Columbia. The three lease assets in France have a combined cost of \$12,807, accumulated amortization of \$413 and a net book value of \$12,394. The Hartland capital lease asset has cost of \$1,586, accumulated amortization of \$146 and net book value of \$1,440.
- (c) At December 31, 2006, property, plant and equipment includes the cost of \$11,497 and accumulated depreciation of \$1,132 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.
- (d) At December 31, 2005, plant under construction includes costs of \$33,205 incurred for the construction of the 51.8 megawatt Basin Creek project in Butte, Montana. Construction continued during 2006 and Basin Creek became operational in May, 2006.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 7

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 7. Acquisitions:

### (a) 2006

MAXIM acquired 100% ownership of Capitol District Energy Centre Cogeneration Association ("CDECCA") on September 30, 2006 and two French companies, Canteleu Cogen SARL ("Canteleu") and Balleycourt Cogen SARL ("Balleycourt") on July 19, 2006 and October 19, 2006, respectively. Each acquisition was accounted for at fair value using the purchase method of accounting. The total purchase consideration, including acquisition costs, for each acquisition has been allocated as follows:

	CDECCA	Canteleu	Balleycourt
Cash acquired	\$ 2,231	\$ 23	\$ -
Other working capital	744	139	122
Property, plant and equipment	4,066	1,871	5,345
Capital lease	-	4,401	4,981
	7,041	6,434	10,448
Accounts payable and accrued liabilities	(662)	(999)	(1,063)
Capital lease obligation	-	(3,769)	(2,405)
Long-term contracts	(5,337)	-	-
Other	(1,042)	-	-
Future income tax liability	-	(416)	(2,193)
	(7,041)	(5,184)	(5,661)
Total cash consideration including acquisition costs	\$ -	\$ 1,250	\$ 4,787

### (b) 2005

MAXIM acquired 100% of the common shares of 3 French companies, Energeia SA, Societe Electrique D'Arnas SA and Cogenia SAS on June 22, 2005 and 100% of the common shares of Pawtucket Power Holding Company LLC ("Pawtucket") on November 10, 2005. The Pawtucket facility is a cogeneration facility located in Rhode Island, USA.

The acquisition of the 3 French companies and Pawtucket was accounted for at fair value using the purchase method of accounting. The total purchase consideration, including acquisition costs, for each acquisition has been allocated to the financial statements as follows:

	Pawtucket	French Acquisitions
Cash acquired	\$ -	\$ 2,627
Other working capital assets	281	(1,310)
Property, plant and equipment	3,734	9,611
Capital lease asset	-	3,074
Other assets	-	921
Total cash consideration including acquisition costs	\$ 4,015	\$ 14,923

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 8

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 8. Long-term debt:

	2006	2005
Canadian projects (note 8(a))	\$ 11,939	\$ 14,189
United States project (note 8(b))	31,980	22,940
European projects (note 8(c))	7,643	7,255
	51,562	44,384
Less current portion	3,606	3,452
	\$ 47,956	\$ 40,932

- (a) The Corporation has a loan agreement with BMO Bank of Montreal that 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. At December 31, 2006, the facility was utilized in the amount of \$465 (2005 – nil) for issuance of letters of credits.

Facility B is a \$2,000 demand revolving facility for new project development. At December 2006, this facility was not utilized (2005 – nil). Should Facility B be utilized, amounts would be classified as loans payable.

Facilities A and B each 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 December 31, 2006 the Corporation had an outstanding balance of \$5,065 (2005 - \$6,866) 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 bear interest at 1.25% per annum. At December 31, 2006 letters of credit in the amount of \$2,322 (2005 - \$1,509) had been issued, reducing the availability of Facility D to \$178. The cash collateral will be invested in interest bearing investments until the letters of credit are not required.

Facility E is a \$9,500 non-revolving floating rate term loan used to refinance debt at the Vancouver Landfill project (“VLF”) and to provide financing for expansion at VLF. Under Facility E, MAXIM was advanced \$7,500 on June 30, 2005. Facility E, which matures in 2010, bears interest at the prime lending rate plus 1% 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 December 31, 2006, Facility E had an outstanding balance of \$6,874 (2005 – \$7,323). At December 31, 2006 MAXIM was not in compliance with the Fixed Charge Coverage Ratio covenant. On March 9, 2007, MAXIM received a waiver of this covenant breach from the lender.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 9

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

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

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 as collateral its partnership interest in the Milner Power Limited Partnership and its VLF assets in British Columbia.

- (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"). The construction and term loan was for a maximum principal amount of US\$29,000, with an interest rate of US treasury rate plus 2.5% per annum for each borrowing during the construction phase. Quarterly payments of interest and commitment fees were required during the construction phase. On July 13, 2005, the principal amount was reduced by \$1,000 for an irrevocable letter of credit issued under a natural gas transportation agreement

On June 30, 2006, the construction and term loan balance of US\$28,000 was converted to a term loan. The term loan has a fixed interest rate of 6.95% per annum and will mature on June 30, 2026. Quarterly principal and interest repayments began on September 30, 2006. At December 31, 2006, Basin Creek had an outstanding balance of US\$27,441 (2005 – US\$19,675).

Basin Creek has pledged a mortgage on its property and assignment of major contracts as collateral for the loan. In addition, Basin Creek Holdco, L.L.C. has pledged its membership interest as collateral for the loan.

- (c) The Corporation has three bank term loans associated with projects in operation in France at December 31, 2006 as follows:
- (i) 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 the loan. At December 31, 2006, Pouchon had an outstanding loan balance of 1,040 Euro (2005 - 1,220 Euro).
  - (ii) 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. At December 31, 2006, Mirail had an outstanding loan balance of 940 Euro (2005 - 1,100 Euro).
  - (iii) Bataneres project financing is for 3,370 Euro 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. At December 31, 2006, Bataneres had an outstanding loan balance of 2,990 Euro (2005 - 2,935 Euro).

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

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 10

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

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

The Corporation's anticipated repayment obligations as at December 31, 2006 on the above loans over the next 5 years are as follows:

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2007	\$	3,606
2008		3,968
2009		4,178
2010		3,178
2011		2,713
Remaining		33,919
		51,562
Less current portion		(3,606)
	\$	47,956

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## 9. Capital leases:

(a) MAXIM entered into an agreement with the Capital Regional District ("CRD") to lease equipment at Hartland in 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 has assumed three capital lease obligations in France with its acquisitions in 2006 and 2005.

(b) MAXIM's French subsidiary, Cogenia SAS, which was acquired on June 22, 2005, entered into an agreement with Caterpillar Finance France SA in December 1998 to lease its production equipment. The capital lease obligation bears interest at 7.03% per annum, with monthly repayments and is amortized over a 12 year term. Upon termination of the lease, Cogenia SAS has the option to purchase the leased equipment at the option price of \$586.

(c) MAXIM's French subsidiary, Canteleu Cogen SARL, which was acquired on July 19, 2006, entered into an agreement with Enerbail / Energieco in November, 2002 to lease its production equipment. The capital lease obligation bears interest at 5.5% per annum, with monthly repayments and is amortized over an 8 year term. Upon termination of the lease, Canteleu Cogen SARL, has the option to purchase the leased equipment at the option price of one Euro.

(d) MAXIM's French subsidiary, Balleycourt Cogen SARL, which was acquired on October 19, 2006, entered into an agreement with Slibail Energie in March, 2000 to lease its production equipment. The capital lease obligation bears interest at 4.0% per annum, with monthly repayments and is amortized over an 12 year term. Upon termination of the lease, Balleycourt Cogen SARL, has the option to purchase the leased equipment at the option price of one Euro.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 11

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 9. Capital leases (continued):

Future minimum payments under the four capital leases at December 31, 2006 are as follows:

2007	\$	2,853
2008		2,468
2009		2,482
2010		2,459
2011		730
Remaining		1,903
Total minimum lease payments		12,895
Amounts representing interest		(2,494)
Present value of net minimum lease payments		10,401
Less: current portion		2,149
	\$	8,252

## 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 \$15,000 was added to the purchase price consideration for the plant. 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 December 31, 2006, the outstanding balance was \$7,376 (2005 - \$12,237) of which \$6,250 (2005 - \$4,863) is classified as current portion of cash flow indenture.

## 11. Long-term contracts:

In conjunction with the acquisition of CDECCA on September 30, 2006, MAXIM assumed three contractual obligations related to natural gas distribution and transportation. The natural gas distribution contract will expire in February 2009 and the transportation contracts will expire in September 2008 and September 2011. At December 31, 2006, the natural gas distribution contract was \$3,245 of which \$1,437 was classified as current portion of long-term contracts and the natural gas transportation contracts were \$1,888 of which \$414 was also classified as current portion of long-term contracts.

## 12. Asset retirement obligations:

	2006	2005
Balance, January 1	\$ 321	\$ -
Liabilities incurred	436	352
Liabilities settled	-	(40)
Accretion expense	30	9
Balance, December 31	\$ 787	\$ 321

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 12

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 12. Asset retirement obligations (continued):

At December 31, 2006, the total undiscounted cash flow required to retire the obligation is \$2,640 (2005 - \$982). A credit-adjusted risk free rate of 7% was applied to obtain the net present value of the obligation. The asset retirement obligations will be settled in the future, ranging from 14 to 25 years.

## 13. Share capital:

### (a) Authorized:

Unlimited number of common shares without nominal or par value

Unlimited number of preferred shares

### (b) Issued:

Share capital:

	2006		2005	
	Number	Amount	Number	Amount
Partnership units of Milner Power Limited Partnership				
Balance, January 1, 2005 and March 31, 2005	-	\$ -	10,261,300	\$ 10,261
Common shares of Maxim Power Corp.				
Opening balance	43,758,709	89,670	13,677,320	-
Issued on business combination (note 2)	-	-	24,239,858	43,072
Stock options exercised	188,800	1,006	274,717	1,336
Normal course issuer bid (note 13c)	(25,000)	(48)	-	-
Common share consolidation adjustment	(17,041)	-	-	-
Net proceeds from private placement	-	-	5,566,814	35,001
Common shares, December 31	43,905,468	90,628	43,758,709	89,670
Contributed surplus				
Opening balance		661		825
Fair value of stock based compensation		1,273		208
Stock options exercised		(185)		(372)
Contributed surplus, December 31		1,749		661
Balance, December 31	43,905,468	\$ 92,377	43,758,709	\$ 90,331

On April 13, 2006, the common shares of MAXIM were consolidated on a ten for one basis. The common share data and per share information have been restated to reflect the impact of the share consolidation.

### (c) Normal course issuer bid:

MAXIM received approval from the Toronto Stock Exchange to commence a normal course issuer bid on October 5, 2006. At MAXIM's discretion, the Corporation can purchase up to 2,190,000 (approximately 5% of its outstanding common shares) of its common shares through the facilities of the Exchange at the prevailing market price during a 12 month period commencing on October 10, 2006. The bid will officially terminate on October 9, 2007 but can be terminated at an earlier date at the option of MAXIM. The acquired common shares will be cancelled and returned to treasury. During 2006, MAXIM acquired and cancelled 25,000 of its common shares under the normal course issuer bid.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 13

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 13. Share capital (continued):

### (d) 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 3 year period and the grantee has the right to exercise those stock options for 5 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. Stock options issued and outstanding are as follows:

	Number	2006 Weighted average exercise price	Number	2005 Weighted average exercise price
Opening balance	1,749,550	\$ 5.81	-	\$ -
Acquired at March 31, 2005	-	-	1,140,550	5.09
Exercised	(188,800)	(4.36)	(274,717)	(3.43)
Cancelled	(327,200)	(8.18)	(21,833)	(7.09)
Granted	1,630,500	4.48	905,550	6.00
<b>Balance, December 31</b>	<b>2,864,050</b>	<b>\$ 4.88</b>	<b>1,749,550</b>	<b>\$ 5.81</b>

Details of the stock options outstanding at December 31, 2006 are as follows:

Range of Exercise Prices	Options Outstanding at December 31, 2006			Options Exercisable at December 31, 2006	
	Number of Options	Weighted average remaining contractual life	Weighted average exercise price	Number of options	Weighted average exercise price
\$2.00 to \$3.50	121,083	2.0	\$ 2.20	121,083	\$ 2.20
\$3.51 to \$5.99	1,598,417	4.8	\$ 4.21	88,269	\$ 4.01
\$6.00 to \$8.00	1,144,550	3.7	\$ 6.10	447,349	\$ 6.02
\$8.01 to \$13.40	-	-	-	-	-
	<b>2,864,050</b>	<b>4.3</b>	<b>\$ 4.88</b>	<b>656,701</b>	<b>\$ 5.05</b>

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 14

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 13. Share capital (continued):

(d) Stock options (continued):

Details of the stock options outstanding at December 31, 2005 are as follows:

Range of Exercise Prices	Options Outstanding at December 31, 2005			Options Exercisable at December 31, 2005	
	Number of Options	Weighted average remaining contractual life	Weighted average exercise price	Number of options	Weighted average exercise price
\$2.00 to \$3.50	161,350	3.0	\$ 2.20	79,383	\$ 2.20
\$3.51 to \$5.99	294,750	2.3	\$ 4.49	170,450	\$ 4.84
\$6.00 to \$8.00	1,204,250	4.1	\$ 6.22	298,700	\$ 6.90
\$8.01 to \$13.40	89,200	1.0	\$ 11.16	89,200	\$ 11.16
	1,749,550	3.6	\$ 5.81	637,733	\$ 6.36

The Corporation accounts for its stock option plan using the fair value method. Under this method, at December 31, 2006, \$1,488 (2005 - \$376) of costs are recorded as expense for 2006 for options granted to employees and directors.

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 December 31, 2006 as follows:

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

In 2006, the Corporation granted 1,630,500 (2005 - 905,550) stock options to purchase common shares at an average price of \$4.48 (2005 - \$6.00) under the Corporation's stock option plan and the weighted average fair value of each option was calculated to be \$1.60 (2005 - \$2.80). The Corporation used the Black-Scholes option pricing model and the assumptions above to calculate the weighted average fair value.

(d) Income per share:

The weighted average number of shares outstanding for purposes of calculating basic income per share at December 31, 2006 was 43,881,855 and 35,418,030 at December 31, 2005.

For the December 31, 2006 fully diluted income per share calculation, 168,581 (2005 - 142,219) shares were added to the average number of common shares outstanding during the year for the dilutive effects of exercisable stock options.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 15

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

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## 14. 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) changes to the Electric Utilities Act, pursuant to which 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) MPLP entered into a long-term coal supply agreement with a supplier as at January 2004 to supply thermal coal to the power plant. The purchase of the coal is contracted under fixed prices with a fixed minimum purchase of coal per annum to January 2009. The term of the agreement is 5 years with a renewal option for another 5 years. The remaining purchase commitment for the next 2 years is \$32,821.
- (c) All French projects have original 12 year sales contracts with Electricite de France ("EDF"). 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 gas purchase contracts. Gaz de France is the gas supplier for the majority of the gas purchase contracts. In addition, all French projects have operating and maintenance contracts with La Societe Forclum.
- (d) 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.
- (e) 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 5 years and the parties shall enter into a new 5 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(a)). At Hartland, the Corporation also entered into a 20 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.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 16

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 14. Commitments (continued):

- (f) The Corporation entered into a tolling agreement effective September 1, 2004 related to APP. The tolling agreement is a 10 year contract whereby the Corporation provides 25 megawatts of capacity in exchange for a fixed monthly capacity fee and variable operating and maintenance charges. At the end of the initial term of the agreement, the counterparty has the option to acquire the equipment or extend the contract for a further 15 years.
- (g) The Corporation, through its subsidiary, Basin Creek Equity Partners, L.L.C. ("BCEP") entered into a capacity and energy sales ("CESA") agreement with NorthWestern Energy ("NorthWestern"), where BCEP will provide its entire generating capacity to NorthWestern. The CESA agreement is a 20 year contract which commenced on July 1, 2006 and BCEP will receive a fixed capacity fee and reimbursement of its actual operating expenses. NorthWestern is entitled to a reduction of the fixed capacity fee where the forced outage hours exceed 250 hours in an operating year. There were no reductions in 2006.
- (h) The minimum annual office lease commitment for each of the next two fiscal years, inclusive of certain operating costs are as follows:

2007	\$	151
2008	\$	25

## 15. Income taxes:

Income tax expense varies from the amount that would be computed by applying the expected basic federal and provincial income tax rates for Canada at December 31, 2006 at 32.5% (2005 – 33.6%) to income before income taxes.

A reconciliation of the differences is as follows:

	2006	2005
Computed income taxes	\$ 8,810	\$ 6,328
Increase (decrease) in taxes:		
Change in valuation allowance	(1,410)	(389)
Future tax rate reduction	(556)	-
Other	293	167
	\$ 7,137	\$ 6,106

The components of the future tax liability are as follows:

	2006	2005
Future income tax liability:		
Non-capital loss carry forwards	\$ 6,089	\$ 10,705
Net-capital loss carry forwards	511	642
Share issue costs	126	442
Capital assets	(8,724)	(5,169)
Valuation allowance	(2,308)	(3,718)
Partnership deferral	(7,088)	(10,503)
Other	(274)	898
	\$ (11,668)	\$ (6,703)

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 17

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 15. Income taxes (continued):

Reduction in the valuation allowance is related to the Corporation's tax strategy to utilize non-capital loss carry forwards beginning in 2006.

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

	Canadian	Foreign	Total
2007	\$ -	\$ -	\$ -
2008	-	-	-
2009	-	-	-
2010	42	-	42
2011	-	243	243
After 2011	5,166	12,637	17,803
	\$ 5,208	\$ 12,880	\$ 18,088

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

	2006	2005
Operations:		
Accounts receivable	\$ (14,180)	\$ (9,561)
Prepaid expenses, deposits and other	(1,542)	(100)
Inventory	(18)	(1,695)
Other assets	-	126
Accounts payable and accrued liabilities	1,486	6,991
Income taxes payable	4,738	(78)
Deferred revenue	(154)	236
	\$ (9,670)	\$ (4,081)
Investing:		
Accounts payable	\$ -	\$ 3,955
	\$ -	\$ 3,955

The following cash payments have been made to December 31, 2006:

	2006	2005
Taxes	\$ 12	\$ 79
Interest	\$ 3,090	\$ 3,347

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 18

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

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## 17. Related party transactions:

MAXIM had no related party transactions during 2006. During 2005, MAXIM entered into various interim financing arrangements with its two largest shareholders. Prior to December 31, 2005, all interim financing arrangements with the two largest shareholders were repaid.

- (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 \$12,069 previously provided by 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. MAXIM 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 on June 30, 2005. During 2005, MAXIM paid interest of \$121 for this interim financing.
- (b) On April 4, 2005, MAXIM received \$5,043 from each of the same two shareholders related to interim financing for the construction of Basin Creek. There were no associated fees with the interim financing of the Basin Creek project. Secured, demand promissory notes were issued and bore interest at 10% per annum payable on a monthly basis. The Basin Creek interim financing was repaid in November, 2005 from net proceeds received through the Corporation's \$35 million private placement on November 14, 2005. During 2005, the Corporation paid interest of \$613 for this interim financing.

In addition, MAXIM received \$3,690 of interim financing for the construction of Basin Creek on April 4, 2005 from another shareholder in exchange for a demand promissory note which contained the same terms and collateral as the demand promissory notes issued to each of the two largest shareholders on April 4, 2005. The Basin Creek interim financing was repaid from net proceeds received through the Corporation's \$35 million private placement on November 14, 2005. During 2005, the Corporation paid interest of \$227 for this interim financing.

- (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 7(b)). Two secured, demand promissory notes, each in the amount of \$7,550, were issued and bore interest at 10% per annum payable on a monthly basis. In addition, a combined commitment fee of \$302 was paid to these related parties. Beginning September 17, 2005 the interest rate for each promissory note increased by 1.5% per annum. The French interim financing was repaid on November 14, 2005 from net proceeds received through the Corporation's \$35 million private placement. In 2005, the Corporation paid interest of \$652 for this interim financing.
- (d) On November 9, 2005, the second largest shareholder provided \$1,911 of interim financing to MAXIM to acquire Pawtucket Power Holding Company LLC (see note 7(b)). A secured, demand promissory note, in the amount of \$1,911, was issued and bore interest at 10% per annum payable on a monthly basis. The Pawtucket Power Holding Company LLC interim financing was repaid on November 14, 2005 from net proceeds received through the Corporation's \$35 million private placement. In 2005, the Corporation paid interest of \$1 for this interim financing.

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 19

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

## 18. Segmented information:

MAXIM is an independent power producer engaged in the development, ownership and operation of power generation facilities and the sale of electricity and heat. Details by geographic area are as follows:

	2006		2005	
	Revenue	Income (loss) before the following items*	Revenue	Income (loss) before the following items*
Canada	\$ 77,522	\$ 30,287	\$ 64,931	\$ 22,247
United States	8,817	(2,539)	213	(363)
France	24,898	2,780	8,855	66
Total	\$ 111,237	\$ 30,528	\$ 73,999	\$ 21,950

\* As disclosed in the consolidated statements of Operations and Retained Earnings.

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. Power sales in the United States are conducted with NorthWestern Energy in Montana and ISO New England. In France, power sales are completed under various power purchase agreements with Electricite de France.

MAXIM's operations are impacted by seasonality. All French operations are cogeneration facilities and annually operate from November through March only. Operations in the United States are peak power facilities and operate more frequently when heating and cooling requirements increase. Canadian operations are impacted when annual maintenance programs are performed. The annual maintenance programs are normally completed during the second quarter of each year.

The location of the Corporation's property, plant and equipment, excluding discontinued operations, are as follows:

	2006			2005		
	Additions	Depreciation and Amortization	Total Assets	Additions	Depreciation and Amortization	Total Assets
Canada	\$ 6,133	\$ 4,023	\$ 56,699	\$ 7,056	\$ 2,853	\$ 52,093
United States	12,011	1,384	49,455	37,660	-	36,938
France	14,922	2,249	44,954	13,694	544	29,107
Total	\$ 33,066	\$ 7,656	\$ 151,108	\$ 58,410	\$ 3,397	\$ 118,138

The allocation of the Corporation's goodwill by geographic area is as follows:

	2006	2005
Canada	\$ 15,632	\$ 15,489
United States	-	-
France	-	-
Total	\$ 15,632	\$ 15,489

# MAXIM POWER CORP.

Notes to Consolidated Financial Statements, Page 20

Years ended December 31, 2006 and 2005

(Amounts in thousands of dollars, US dollars or Euro, except shares and per share amounts)

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## 19. Financial instruments:

(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 to 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.

(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 revenue. The Corporation has no obligations under its contracts to deliver minimum levels of power, except for certain thermal heat contracts in France, 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 revenue received by MAXIM.

(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, 2006.

## 20. Subsequent event:

On February 26, 2007, Comax France SAS, MAXIM's wholly-owned French subsidiary, completed the acquisition of six cogeneration plants in France for total consideration of \$30,500 (20,000 Euro) including acquisition costs. The six cogeneration plants have a combined capacity of 37 megawatts. The acquisition was funded through MAXIM's internal cash to the extent of \$20,953 and through the assumption of capital lease obligations of \$9,547.

The allocation of the purchase price to the acquired 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.

## 21. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial presentation adopted for the present year including reclassification of 2005 Cambodian operations as discontinued operations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") dated March 29, 2007, should be read in conjunction with the audited annual consolidated financial statements for Maxim Power Corp. ("MAXIM" or "Corporation") for the fiscal year ended December 31, 2006.

### PRESENTATION

On March 31, 2005, MAXIM completed a business combination by acquiring the remaining partnership units (approximately 80.5%) of Milner Power Limited Partnership ("MPLP") from the existing partners of MPLP. The business combination resulted in a reverse take-over of MAXIM through the issuance of 24,239,858 common shares of MAXIM at a price of \$3.20 per share, for total consideration of \$77.6 million. For accounting purposes, MPLP is considered to have acquired MAXIM and the consolidated financial statements reflect the historical accounts of MPLP together with the accounts of MAXIM from the effective date of the business combination, March 31, 2005.

The statements of operations and retained earnings and the statements of cash flows reflect the operating results of both MAXIM and MPLP for the 12 month period ended December 31, 2006 and the statements of operations and retained earnings and statements of cash flows at December 31, 2005 reflects twelve months of operating results of MPLP plus nine months of operations of MAXIM. The consolidated balance sheets at December 31, 2006 and 2005 reflect the accounts of both MAXIM and MPLP.

### OVERALL PERFORMANCE

In 2006, MAXIM achieved record levels of revenue of \$111.2 million, megawatt hour ("MWh") generation of 1,094,304 MWh, earnings before interest, taxes and depreciation ("EBITDA")\* of \$39.1 million and net income of \$19.9 million. Compared to the 2005 fiscal year, MAXIM recorded revenue of \$74.0 million, MWh generation of 942,477 MWh, EBITDA of \$26.3 million and net income of \$11.6 million.

MAXIM capitalized on its strategy to shift Milner's annual turnaround from the third quarter in prior years to the second quarter in 2006, when softer power pricing minimized the impact of lost production. As a result, MAXIM realized Alberta power prices of \$106 MWh during the last 6 months of 2006, compared to an average of \$55 MWh for the first six months of the year. With the shift of Milner's 2006 annual turnaround, Milner produced 526,951 MWh (60% of its total generation) during the last six months of 2006 and the work accomplished during the turnaround also improved in Milner's availability during the latter part of the year. The shift in the timing of the turnaround, along with improved pricing, accounted for a significant portion of the increase in MAXIM's revenue during 2006.

MAXIM's total MWh output including Milner, was 1,094,304 MWh for 2006 versus 942,477 MWh for 2005, an increase of 151,827 MWh or 16.1%. This increase was attributable to Milner's improved performance in 2006, a full year of operations from an additional nine French plants during 2006 and generation from MAXIM's facilities operating in the United States.

EBITDA for 2006 was \$39.1 million, an increase of \$12.8 million or 49%, over 2005. EBITDA to June 30, 2006 was \$4.0 million with the last six months of 2006 contributing \$35.1 million. Net income for 2006 was \$19.9 million compared to \$11.6 million in 2005, an increase of \$8.3 million or 72%. The net loss to June 30, 2006 was \$0.7 million and the last six months of 2006 produced net income of \$20.6 million. The increase in EBITDA and net income for the last 6 months was the result of significantly

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\* EBITDA is not a measure under Canadian Generally Accepted Accounting Principles ("GAAP") and may not be comparable to similar measures presented by other companies.

improved pricing in the Alberta market during that period, compounded by the decision to move Milner's annual turnaround to the second quarter in order to capitalize on that significantly improved pricing and, to a lesser degree, additional cogeneration in France from the acquisition of additional plants.

During 2006, MAXIM continued its strategy of growth through acquisition by acquiring 77 MW of capacity (principally Capitol District Energy Center Cogeneration Associates "CDECCA" and two French cogeneration plants) for cash consideration of \$6.0 million and began start-up of its greenfield project, Basin Creek, which provided additional capacity of 53 MW. Basin Creek has operated successfully and has been dispatched more frequently than anticipated. MAXIM's acquisition strategy continued during the fourth quarter and culminated in the acquisition of six cogeneration facilities in France on February 26, 2007 (see Subsequent Event). The acquisition of the six cogeneration facilities added 37 MW of generation capacity for total consideration of \$30.5 million including the assumption of capital lease obligations of \$9.5 million. The \$6.0 million of cash consideration for 2006 acquisitions plus the \$21.0 million of cash consideration for the recently acquired six French cogeneration plants were funded from MAXIM's internal cash flow.

MAXIM also successfully completed its divestiture program in 2006. At December 31, 2005 MAXIM announced it was rationalizing its smaller European projects located in Austria, Germany and Slovenia. MAXIM also decided to rationalize its Cambodian operations with the expiration of the Cambodian power purchase agreement ("PPA") on June 30, 2006. The European divestitures were closed on April 15, 2006 with the receipt of proceeds of \$1.9 million (1.35 million Euro). The sale of the Cambodian generating equipment and spare parts inventory occurred on October 12, 2006 for gross proceeds of \$2.5 million (US\$2.2 million). The net loss from discontinued operations of \$0.6 million in 2006 approximated budget.

## SELECTED ANNUAL FINANCIAL INFORMATION

(\$000's except per share amounts)	2006	2005	2004
Revenue	111,237	73,999	45,445
EBITDA	39,088	26,269	12,177
Net income – continuing operations	20,542	14,132	10,678
Net income per share – continuing operations	\$ 0.47	\$ 0.40	\$ 0.05
Funds from operations – continuing operations	33,443	24,852	12,304
Total assets	242,344	196,829	32,465
Total short term and long term debt	61,963	49,284	-

Selected annual financial information was derived from the audited consolidated financial statements for the most recent years 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.

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. The increases in 2005 over 2004 reflects inclusion of MAXIM's assets and liabilities and results of operations from April 1 to December 31, 2005. The addition of MAXIM resulted in an additional 219 MW of net capacity, excluding discontinued operations, in 2005.

On a Milner standalone basis and comparing 2005 to 2004, 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 \$56 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 for 11 months of operations 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 and increase in debt of \$49.2 million, reflects 219 MW of net capacity from MAXIM's other facilities. MAXIM recognized \$6.0 million of future income tax expense in 2005 which lowered net income from continuing operations whereas 2004 did not include any provision for income taxes as Milner operated as a limited partnership.

Comparing 2006 over 2005, increases in revenue, EBITDA, net income and funds from operations are primarily attributed to average Alberta power prices increasing by \$10 MWh in 2006 over 2005, \$80 MWh versus \$70 MWh, and the start-up of Basin Creek on May 16, 2006. Another contributor to improved 2006 financial results was increased MWh production of 5.9% at Milner, MAXIM adding 77 MW of capacity primarily through acquisitions and a full year of operations from MAXIM's 7 French cogeneration plants, acquired in June, 2005.

On a Milner standalone basis and comparison of 2006 over 2005, Milner recorded \$69.5 million of revenue in 2006 compared to \$58.6 million in 2005, the result of higher average Alberta power prices in 2006 and increased MWh production, 886,512 versus 836,852. Increased prices and MWh production increased Milner's 2006 EBITDA and funds from operations to \$34.3 million and \$25.5 million respectively.

Debt increased \$12.7 million in 2006 as a result of completion of construction at Basin Creek during the first quarter of 2006 and assumption of capital lease obligations from the acquisition of two French facilities in 2006.

## RESULTS OF OPERATIONS

Summary of 2006 and 2005 MWh generation by major facility and geographic location:

Facility	2006 MWh	% of 2006 MWh	2005 MWh	% of 2005 MWh
Milner	886,512	81.0	836,852	88.8
Alberta projects	34,275	3.1	27,643	2.9
British Columbia projects	47,067	4.3	37,299	4.0
United States	17,222	1.6	-	-
France	109,228	10.0	40,683	4.3
Total – Continuing Operations	1,094,304	100%	942,477	100%
Discontinued Operations	26,125	-	66,504	-
Total MWh Generation	1,120,429	100%	1,008,981	100%

- The table excludes Basin Creek and 25 MW Alberta Power Project ("APP") as both facilities provide capacity in exchange for monthly capacity payments.
- 2005 MWh from the Alberta, British Columbia and French projects reflect 9 months of generation as these facilities were deemed to have been acquired at the reverse take-over date, March 31, 2005.

MAXIM's net exit generation capacity at December 31, 2006 was 447 MW which was comprised as follows: 194 MW in Canada (9 projects), 177 MW in the United States (3 projects) and 76 MW in France (12 projects). At December 31, 2005, MAXIM's net exit generation capacity was 370 MW.

## **Revenue**

Revenue increased to \$111.2 million in 2006 from \$74.0 million for 2005, representing an increase of \$37.2 million. Of the 2006 increase, \$10.9 million is attributed to operations from Milner. As previously mentioned, 2006 average Alberta power prices were \$10 MWh higher than 2005 (\$80 MWh versus \$70 MWh) and Milner performed more efficiently in 2006, producing an additional 49,660 MWh. With Alberta power prices increasing during the second half of 2006, Milner had more opportunities to contract its power generation at fixed prices. For the last 4 months of 2006 Milner contracted 43 MW of its generation capacity on a unit contingent basis. Milner contracted 25 MW of generation capacity to one of the same counterparties for ten months in 2007. Under a unit contingent arrangement Milner delivers generation to the counterparty only when the facility is available to operate.

MAXIM's French projects (net 76 MW) contributed \$16.0 million of additional revenue in 2006, \$24.9 million versus \$8.9 million in 2005. The increase from France reflects a full year of operations from the 7 power plants acquired in June, 2005 and 2 power plants, Balleycourt and Canteleu, acquired in 2006. The French co-generation season is completed on March 31 each year and a new cogeneration season begins November 1.

The power facilities located in the United States contributed \$8.6 million of additional revenue in 2006 compared to minimal amounts of revenue in 2005. The increase in 2006 revenue was attributed to start-up of operations at Basin Creek on May 16, 2006, a full year of operations from the Pawtucket facility which was acquired on November 10, 2005 and the acquisition of CDECCA on October 1, 2006. In addition, the Pawtucket and CDECCA facilities receive forward capacity payments of US\$3.05 per kilowatt ("kW") per month from ISO New England effective December 1, 2006.

## **Plant operations**

Plant operations expense increased by \$25.2 million or 61.6%, from \$40.9 million in 2005 to \$66.0 million for 2006. On a per MWh basis, plant operations expense was \$60.41 per MWh during 2006 versus \$43.34 per MWh during 2005. This increase is due to recognizing higher fuel expense from 12 French projects which is recovered through revenue, the additional generation of 151,827 MWh in 2006, start-up of operations at Basin Creek, acquisition of CDECCA and 2 French facilities and recognition of a full year of operations from 7 French facilities.

Fuel is the major component of plant operations expense. MAXIM's fuel costs accounted for \$35.5 million or 53.7% of 2006 plant operations expense. In 2005, fuel costs accounted for \$25.2 million or 61.7% of 2005 plant operations expense. On a MWh basis, 2006 fuel expense was \$32.44 per MWh compared to \$26.75 per MWh for 2005. Coal is the principle source of fuel at Milner and is purchased at fixed prices under a long-term supply agreement. Milner's fuel cost (coal and natural gas) in 2006 was \$18.0 million compared to \$18.2 million in 2005. Milner produced an additional 49,660 MWh in 2006 which would have increased 2006 fuel costs but 2006 fuel costs were lower due to lower natural gas costs. Milner operated more efficiently in 2006 thus requiring less natural gas for start-up procedures.

MAXIM's second largest component of plant operations expense is labour and contracted service expense at its facilities. Milner has 69 employees at its facility who provide operations, maintenance and administration services. The remaining MAXIM facilities utilize contract operations and maintenance services. The major contract operations and maintenance providers are: Finning Power Systems at the facilities in British Columbia, Nova Gas Transmission for the Gold Creek facility in Alberta, Caterpillar Power Generation Systems at Basin Creek, PurEnergy Operating Services at Pawtucket and CDECCA and La Societe Forclum at all 12 French facilities. For 2006, combined labour and contracted services expense was \$10.8 million or 16% of total plant operations expense.

## **General and administration**

General and administration (“G&A”) expense of \$6.1 million during 2006 was lower by \$0.8 million, than G&A expense of \$6.9 million for 2005. \$2.2 million of 2006 G&A (2005 - \$0.6 million) was classified as plant operations expense as costs such as legal fees and compensation were directly used to support operations at MAXIM’s facilities. In addition, one development project, Milner Mine 14, has resulted in capitalization of G&A costs towards its development and MAXIM had fewer unsuccessful projects in 2006.

MAXIM has experienced growth in the number of facilities and business development initiatives. To facilitate this growth, MAXIM hired an additional six employees for its Calgary office and three employees for its French operations during 2006.

## **Depreciation**

Depreciation expense increased to \$8.6 million for 2006 from \$4.3 million for 2005. The year-over year increase of \$4.3 million primarily reflects: the inclusion of MAXIM facilities for 12 months in 2006 compared to only 9 months in 2005, the start-up of the Basin Creek project on May 16, 2006 and a full-year of depreciation from 7 French facilities and Pawtucket. Including Basin Creek, MAXIM delivered 127 MW of new generation in 2006 which is depreciated once operations begin.

There have been no changes to depreciation policy except during the first quarter of 2006 when the French generation equipment was re-assessed to have an economic life of 18 years rather than its original contract life of 12 years. No impairment was recognized at any of MAXIM’s facilities in 2006 and 2005; impairments are reviewed on an annual basis at MAXIM.

## **Interest expense and Interest Income**

Interest expense is related to corporate debt facilities with BMO Bank of Montreal, Basin Creek’s term loan facility, three project financings in France and capital lease obligations at Hartland and France.

To December 31, 2006, MAXIM incurred \$3.4 million of interest expense compared to \$1.8 million for the same period in 2005, an increase of \$1.6 million. The increase was primarily due to the project financing at Basin Creek. Prior to Basin Creek’s May 16, 2006 start-up, interest under Basin Creek’s construction loan facility was capitalized. In addition, MAXIM’s debt (long-term debt and capital lease obligations) increased by \$12.7 million with the completion of construction at Basin Creek and assumption of 2 capital lease obligations from French acquisitions in 2006. 2006 interest expense also reflects the effect of a full year of financing at Bataneres and the Vancouver Landfill project plus an additional capital lease obligation in France in connection with the acquisition of the French projects in June, 2005.

Interest income of \$0.6 million for 2006 is a result of MAXIM’s treasury practice to re-invest excess cash balances arising from increased profitability. The excess cash balances were invested in various short-term interest bearing instruments during 2006. A portion of the excess cash balance was utilized in the acquisition of the six French cogeneration plants on February 26, 2007.

## **Income taxes**

MAXIM has provided \$7.1 million for income taxes from continuing operations for 2006 compared to the 2005 income tax provision of \$6.1 million. Increased income before income taxes from continuing operations in 2006, \$27.7 million versus \$20.2 million, resulted in the larger 2006 income tax provision. The 2006 provision was partially offset by the lower Canadian income tax rate of 32.5 %, compared to the 2005 income tax rate of 33.6 %.

## **Net loss from discontinued operations**

MAXIM's European projects in Austria, Germany and Slovenia and Cambodian operations have been classified as discontinued operations since December 31, 2005.

On April 15, 2006, MAXIM completed the sale of the European projects for proceeds of \$1.9 million (1.35 million Euro). The disposition of the European projects resulted in a loss of \$0.4 million which was included in 2006 Net loss from discontinued operations.

MAXIM and its joint venture partner in Cambodia decided to sell the operations in Cambodia, concurrent with the June 30, 2006 expiration of the Cambodian PPA. The generating equipment and spares inventory was sold for gross proceeds of \$2.5 million (US\$2.2 million) of which MAXIM received 50%. The sale was completed on October 12, 2006. MAXIM and its joint venture partner also rationalized the remaining assets and liabilities in Cambodia on January 25, 2007 through the sale of its two Cambodian subsidiaries for nominal proceeds. The disposition of the equipment and remaining net assets resulted in a gain of \$0.2 million which was also included in the 2006 Net loss from discontinued operations.

In 2005, the full year of operations from the divested European and Cambodian projects resulted in recording a Net loss from discontinued operations of \$2.6 million. Including the respective gain and loss from the sale of the Cambodian and European projects and the loss from 2006 operations, the 2006 Net loss from discontinued operations was \$0.6 million.

## **Net income**

2006 year-to-date net income from continuing operations was \$20.5 million or \$0.47 per share (basic and diluted), versus 2005 net income from continuing operations of \$14.1 million or \$0.40 per share (basic and diluted). Including discontinued operations, MAXIM's net income was \$19.9 million or \$0.45 per share in 2006 compared to 2005 net income of \$11.6 million or \$0.33 per share.

## **2006 FOURTH QUARTER**

Operating results for the fourth quarter of 2006 and 2005 were the best in MAXIM's history. These superior results are attributed to strong Alberta power prices which averaged \$117 MWh in the fourth quarter of the year.

The fourth quarter of 2005 reflected slightly higher production of 336,222 MWh versus 311,312 MWh in 2006. Increased production at Milner of 5,127 MWh (253,867 versus 248,740 MWh) was offset by reduced production in France. A significant number of the French plants operated in dispatch mode in 2006 and were not dispatched which more than offset the production from newly acquired French plants.

The fourth quarter of 2005 reflected slightly better EBITDA (\$20.5 million versus \$17.9 million) and net income from continuing operations (\$12.4 million versus \$10.7 million).

Highlights during the fourth quarter of 2006 included the acquisition of CDECCA on October 1 and Balleycourt in France on October 19. With CDECCA, MAXIM assumed long term contracts of \$5.1 million at December 31, 2006 and with Balleycourt, a capital lease of \$2.4 million. CDECCA and Pawtucket also received forward capacity payments of US\$3.05 kW per month commencing on December 1 and continue at that rate until June 1, 2009 when the rate escalates to US\$4.10 kW per month.

MAXIM also began to deliver power from its 1.85 MW expansion at Vancouver Landfill ("VLF") during November. However, there were operational difficulties encountered at VLF during the fourth quarter where gas volumes could not sustain production from the four engines. Gas volumes have since improved and operational enhancements continue to be made that will bring VLF to normal production by March 31, 2007.

During the fourth quarter, MAXIM also finalized disposition of the net assets in Cambodia and concluded wind-up of operations. The fourth quarter Net loss from discontinued operations was \$0.2 million.

## LIQUIDITY AND CAPITAL RESOURCES

### (a) Capital expenditures including acquisitions

Projects (in millions) at December 31	2006	2005
Acquisitions	\$3.8	\$16.0
Milner	\$3.3	\$1.4
Vancouver landfill ("VLF") expansion	\$2.6	\$0.2
Basin Creek construction	\$7.3	\$33.2
France	-	\$1.4
Other	\$5.0	\$6.2
<b>Total</b>	<b>\$22.0</b>	<b>\$58.4</b>

- In 2006 MAXIM acquired CDECCA, Canteleu and Balleycourt. In 2005 MAXIM acquired Pawtucket and seven French power facilities.
- Milner's 2006 capital expenditures primarily related the cooling tower upgrade, air heater basket upgrade and purchase of the Caterpillar bulldozer. Milner's 2005 capital expenditures was related installation of a new transformer.
- The VLF expansion started in 2005 and was completed early in the third quarter of 2006.
- Basin Creek construction began during the second quarter of 2005 and was completed during the first quarter of 2006. The project was funded through its US\$29 million construction and term loan facility and MAXIM's equity contribution of US\$11.2 million. The construction and term loan was converted to a term loan on June 30, 2006.
- France had various minor capital expenditures in 2005 for \$1.4 million.
- Other capital expenditures are minor capital expenditures in North America. In 2005, \$6.2 million includes \$4.9 million of MAXIM's cash recognized at the March 31, 2005 reverse take-over.

### (b) Working capital

Working capital at December 31, 2006 was \$19.7 million, an increase of \$4.5 million from December 31, 2005 working capital of \$15.2 million. Each of the four quarters in 2006 ended with a minimum working capital balance of \$19.0 million. Working capital improved for the last half of 2006 as a result of stronger Alberta power prices and Milner's increased MWh generation.

In comparison, each of the first 3 quarters of 2005 ended with a working capital deficiency as a result of \$25.2 million of interim financing provided by three major shareholders of MAXIM. The 2005 interim financings were required to fund the beginning of construction at Basin Creek and acquisition of 7 French cogeneration projects. The working capital deficiency was eliminated with the closing of a \$35.0 million private placement in November, 2005.

### (c) Canadian credit facilities

At December 31, 2006 and 2005, MAXIM has combined credit facilities of \$26.5 million with BMO Bank of Montreal which were 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 are available for working capital purposes or new project development.

Both Facility A and Facility B were not utilized during 2005 and Facility B was not utilized during 2006. MAXIM issued \$465 of letters of credit under Facility A in 2006. MAXIM's internal cash flow has been sufficient to support existing operations and development activities.

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. At December 31, 2006 Facility C had an outstanding balance of \$5.1 million compared to \$6.9 million at December 31, 2005.

Facility E is used to finance VLF and is a non-revolving reducing term loan with floating interest rates. The total outstanding balance at December 31, 2006 for Facility E is \$6.9 million. At December 31, 2006, Facility E was not in compliance with the Fixed Charge Coverage Ratio covenant. On March 9, 2007, MAXIM received a waiver of this covenant breach from the lender. The remaining credit facilities are in compliance with the lender's credit agreement.

**(d) Long-term debt outside Canada**

Under the US\$29 million Basin Creek facility, MAXIM utilized US\$28.0 million for the construction of Basin Creek. The principal amount was reduced by US\$1.0 million for an irrevocable letter of credit issued. Under the terms of the construction agreement, advances were made at US treasury rate plus 2.5% per annum. During the first five months of 2006, additional advances in the amount of US\$8.3 million were issued under the construction and term loan facility at Basin Creek to complete its construction. Basin Creek began operations on May 16, 2006.

On June 30, 2006 the outstanding construction loans were converted to a term loan with an interest rate of 6.95% per annum with quarterly principal and interest repayments. The term loan is to mature in 20 years on June 30, 2026. For 2006, US\$0.6 million was repaid. At December 31, 2006 Basin Creek had an outstanding term loan balance of US\$27.4 million.

Three project financings in France are through the Raiffeisen Zentrelbank Osterreich Aktiengesellschaft AG ("RZB") Bank. Each of the project financings has an interest rate of Euribor plus a margin ranging from 1.8% to 2.75% and all are non-revolving. 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 ("EDF"). At December 31, 2006, the three French projects had a combined outstanding balance of 5.0 million Euro (\$7.6 million Cdn).

The Basin Creek and French long term debt were in compliance with the lender's credit agreements at Decmeber 31, 2006.

**(e) Capital lease obligations**

MAXIM has leased 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, 2006, the outstanding balance of this lease obligation was \$1.6 million.

MAXIM has three capital lease obligations in France. The first lease obligation 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. MAXIM assumed a second lease obligation in conjunction with the acquisition of Canteleu. This capital lease bears interest at 5.5% per annum with monthly repayments over an 8 year term. Upon termination of this lease, MAXIM has the option to purchase the leased equipment at an option price of one Euro. MAXIM has a third capital lease obligation as a result of its acquisition of Balleycourt. This capital lease bears interest at 4.0% 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 one Euro. At December 31, 2006, the outstanding balance of the 3 French capital lease obligations was 5.7 million Euro (\$8.8 million).

MAXIM has repaid \$1.0 million of its capital lease obligations in 2006 compared to less than \$0.1 million for 2005. The 2005 capital lease payments were primarily for the Hartland capital lease. The 2006 capital lease payments were \$0.9 million for the three French lease obligations and less than \$0.1 million for the Hartland lease obligations.

**(f) Cash flow indenture**

MPLP has an obligation to the Balancing Pool in relation to a cash flow indenture of 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 current portion at December 31, 2006 was \$6.3 million, which will be paid to the Balancing Pool on March 30, 2007. The remaining balance of \$1.1 million is expected to be repaid in 2007 with the cash flow indenture obligation being retired under 4 years. At December 31, 2005, the cash flow indenture obligation was \$12.2 million which was reduced to \$7.4 million with the payment of \$4.8 million to the Balancing Pool on March 31, 2006.

**(g) Long-term contracts**

With the acquisition of CDECCA in 2006, MAXIM assumed three contractual obligations related to natural gas distribution and transportation. The natural gas distribution contract will expire in February 2009 and the two transportation contracts will expire in September 2008 and September 2011. At December 31, 2006, the natural gas distribution contract was \$3.2 million of which \$1.4 million was classified as current portion of long-term contracts and the natural gas transportation contracts were \$1.9 million of which \$0.4 million was also classified as current portion of long term contracts.

**(h) Contractual obligations**

At December 31, 2006 – (in millions)	Total	Less than 1 year	2008-2009	2010-2011	Thereafter
Long - term debt	\$51.6	3.6	8.2	5.9	33.9
Capital lease payments	\$12.9	2.8	5.0	3.2	1.9
Cash flow indenture	\$7.4	6.3	1.1	-	-
Long-term contracts	\$5.1	1.9	2.6	0.6	-
Purchase obligation*	\$122.8	16.2	33.6	35.3	37.7
Operating leases	\$0.2	0.2	-	-	-
<b>Total</b>	<b>\$200.0</b>	<b>31.0</b>	<b>50.5</b>	<b>45.0</b>	<b>73.5</b>

\*Milner holds a long-term coal supply agreement with Coal Valley Resources Inc (“Coal Valley”) 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 be extended at Milner’s option for a further 5 years. Should Milner be unable to fulfill its purchase obligation to Coal Valley, the coal would be resold at international markets rates which are currently in excess of the contracted prices.

**(i) Equity issuances**

There were no equity issuances during 2006 other than 188,800 (2005 – 274,717) common shares issued under MAXIM’s stock option plan. On November 14, 2005 MAXIM completed a private equity placement for net proceeds of \$35.0 million resulting in the issuance of 5,566,814 common shares at

\$6.30 per share. The other 2005 equity issuance was the result of MAXIM's acquisition of MPLP which was completed with the issuance of 24,239,858 common shares.

During 2006 and 2005, stock options were exercised for proceeds of \$0.8 million and \$1.0 million respectively.

MAXIM received approval to commence a normal course issuer bid on October 5, 2006 which allows MAXIM to purchase up to 2.2 million of its own common shares. The normal course issuer bid will officially terminate on October 9, 2007 but can be terminated at an earlier date at MAXIM's option. Acquired common shares will be cancelled and returned to treasury. To date, MAXIM acquired and cancelled 25,000 common shares under the normal course issuer bid.

## **SUBSEQUENT EVENT**

On February 26, 2007, MAXIM's wholly owned subsidiary, Comax France S.A.S., completed the acquisition of six cogeneration plants in France for total consideration of \$30.5 million (20 million Euro) including acquisition costs. The acquisition was funded through MAXIM's internal cash to the extent of \$21.0 million and through the assumption of capital lease obligations of \$9.5 million. The effective date of the acquisition is January 1, 2007.

The six cogeneration plants have a combined electrical generation capacity of 37 MW and 27 MW of thermal generation. It is anticipated that the six cogeneration plants will contribute additional annual EBITDA of \$5.5 to \$6.0 million. After this acquisition, MAXIM will have ownership of 18 French power facilities with combined net electrical generation of 114 MW and thermal generation of 65 MW. MAXIM will continue to target France as a region to pursue its acquisition strategy.

## **OUTLOOK**

At December 31, 2006, MAXIM had 451 MW (net 447 MW) of generating capacity. From its total net capacity, 133 MW is exposed to Alberta spot prices. For 2007, Milner has contracted, on a unit contingent basis, a portion of its generation at fixed power prices. The unit contingent agreement will expire on December 31, 2007. In addition, 127 MW of peaking power from the Pawtucket and CDECCA facilities can be elected to be bid into the New England power market, while still eligible for forward capacity payments.

During 2006, Alberta average power prices were \$80 MWh compared to \$70 MWh in 2005 and \$56 MWh in 2004. Alberta monthly average power prices have exceeded \$100 MWh for three of the 12 months in 2006. For the balance of 2007, Alberta power prices are forecasted to be in the range of \$76 MWh to \$81 MWh, with 2008 prices forecasted to be in the range of \$80 MWh to \$84 MWh.

On March 17, 2007, Milner decided to advance its 2007 annual turnaround from its originally scheduled period of April. Milner expects to be offline until March 31, 2007, followed by 3 days of de-rated generation to complete the remaining 2007 turnaround projects. The downtime for the current 2007 turnaround is approximately the same amount as that budgeted for April. Alberta power prices averaged \$62 MWh up to the start of the Milner turnaround. It is expected that Milner will achieve normal run-times after the current turnaround for the remainder of 2007.

Milner is planning to complete a larger scale annual turnaround in 2008, which will likely require a substantially longer period of downtime. Many of the projects planned for the 2008 turnaround will be directed towards lengthening Milner's economic life through to 2020.

On February 26, 2007, MAXIM acquired six French plants which have combined 37 MW of generation and 27 MW of thermal generation and will generate until the end of the current French cogeneration

season on March 31. The acquisition of the six French cogeneration plants was effective January 1, 2007 and MAXIM will benefit from the acquisition as of this date.

Milner will continue development of its Mine 14 lease during 2007. Work has begun towards fulfilling permit application requirements with regulatory agencies by the second quarter of 2007. The development of the coal reserves could serve as the source of fuel for Milner and any future expansion of that facility. The coal reserves are estimated to contain in excess of 13 million tonnes of recoverable coal.

MAXIM will continue its strategy, in the near term, of adding generation capacity through acquisitions. MAXIM's opportunities for acquisitions continue to be primarily in North America, with emphasis on mid-market opportunities in the United States. MAXIM will also continue to pursue greenfield and brownfield opportunities within markets where MAXIM has existing operations and critical resources such as fuel and a friendly regulatory environment.

## SELECTED QUARTERLY FINANCIAL INFORMATION

### 2006 Financial Quarter Ended (Unaudited)

(\$000's except per share amounts)	Dec 31, 2006	Sept 30, 2006	June 30, 2006	Mar 31, 2006
Revenue	40,470	29,521	9,776	31,470
EBITDA	17,893	17,190	(4,202)	8,207
Net income (loss) – continuing operations	10,713	10,227	(4,261)	3,863
Net income (loss) per share - continuing operations	0.24	0.23	(0.10)	0.10
Total assets	242,344	206,596	187,606	205,631
Average quarterly Alberta price per MWh	\$117	\$95	\$54	\$57

### 2005 Financial Quarter Ended (Unaudited)

(\$000's except per share amounts)	Dec 31, 2005	Sept 30, 2005	June 30, 2005	Mar 31, 2005 *
Revenue	39,907	8,931	13,681	11,480
EBITDA	20,530	(456)	3,054	3,141
Net income (loss) – continuing operations	12,385	(1,258)	274	2,731
Net income (loss) per share – continuing operations	0.34	(0.05)	0.00	0.11
Total assets	196,829	157,651	161,352	103,860
Average quarterly Alberta price per MWh	\$117	\$67	\$51	\$46

\* Reflects results of operations from MPLP only.

Selected quarterly unaudited financial information was prepared in accordance with Canadian GAAP. 2005 revenue and EBITDA have been restated for the effect of Discontinued Operations and 2005 quarterly net income was restated for the effect of Discontinued Operations and future income taxes.

The increase in revenue, EBITDA and net income during the first and fourth quarters reflects the seasonal operations of the French plants as the French cogeneration season operates from the start of November through to the end of March. Year over year, fourth quarter operating results were the best for each year as the average Alberta power price was \$117 MWh during these quarters with the fourth quarter of 2005

being the record quarter for MAXIM in terms of EBITDA and net income from continuing operations. The lower revenue, EBITDA and net loss incurred at September 30, 2005 and June 30, 2006 were due to annual plant turnarounds completed at Milner during those quarters.

## **TRANSACTIONS WITH RELATED PARTIES**

There were no related party transactions in 2006.

During 2005, the two largest shareholders of MAXIM provided a total of \$31.6 million of interim financing which was repaid with proceeds from MAXIM's \$35 million private placement in November 2005 and loan proceeds from MAXIM's term loan facility, Facility E, with BMO Bank of Montreal. Another shareholder of MAXIM provided \$3.7 million of interim financing in 2005 which was also repaid from MAXIM's \$35 million private placement. Details of 2005 related party transactions can be found in Note 17 of the Corporation's December 31, 2006 audited annual consolidated financial statements.

## **CRITICAL ACCOUNTING AND RISK 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. An example is Milner which completes an annual turnaround. Milner can experience periodic downtime outside of the annual turnaround when events such as tube leaks can occur at the plant. Milner has operated continuously since 1972 and the Corporation plans to continue 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.

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. Opportunities have arisen to extend the life of Milner past 2015, possibly to 2020, and developing the Milner coal leases and expanding the capacity of Milner.

Reduced fuel supply will also reduce the economic life of a facility. Milner has a long-term coal supply contract at fixed prices. The contracted coal normally provides 70% to 75% of Milner's coal supply. Milner currently uses one other coal supplier for the remaining coal supply to mitigate reliance solely on one supplier. Other coal suppliers will be considered, providing there are cost beneficial methods of transporting coal to the Milner site.

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. The volume of landfill gas can be affected by factors outside of MAXIM's control, such as weather. Weather negatively impacted the volume of landfill gas available from the Vancouver landfill in 2006.

Legislation, such as agreements regarding emissions, will likely have more impact in the future. Currently, none of MAXIM's facilities have breached emissions standards in the jurisdictions in which they operate.

In March 2007, the Province of Alberta introduced legislation to reduce greenhouse gas emission intensity from large industry. Bill 3, "Climate Change and Emission Management Amendment Act" and its accompanying Specified Gas Emitters Regulation ("regulations") state companies that emit more than 100,000 tonnes of greenhouse gases a year must reduce their emission intensity by 12 percent starting July 1, 2007 from 2003 - 2005 levels.

The regulation details how companies can reduce their emission intensity. These compliance options include making operating improvements, acquiring an Alberta-based offset to apply against their emission total or contributing to a new government fund that will invest in technology to reduce greenhouse gas emission in the province.

If reducing emission intensity by 12 percent is not initially possible, large emitters will be required to pay \$15 per tonne to the technology fund for every tonne above the 12 percent target.

Should Milner not achieve adequate operating improvements or purchase an estimated required 60,000 tonnes of offsets, it could meet its requirements by contributing \$15 per tonne to the technology fund, costing up to \$1.0 million annually.

In France, all the French facilities, except one, have original 12 year PPAs with Electricite de France ("EDF") at December 31, 2006. Major equipment at each of the French facilities is depreciated over a term of 18 years, longer than the original EDF PPAs. It is anticipated that the existing French facilities will be able to renew or extend PPAs after the initial 12 year term. The Ministry of Finance, Economy and Industry of France recently passed a decree requiring EDF to enter into renewed 12 year PPAs with owners of cogeneration plants following expiration of their original PPAs. Criteria for renewal of existing PPAs is capital investment of a minimum of 350 Euro per kW of contracted capacity for upgrades or to recondition the plant. All of the commercial terms of the PPAs are substantially similar to those of the original PPAs. Passing of this legislation, as interpreted by MAXIM, should ensure stable, long term cash flows and underpin the value of MAXIM's French cogeneration assets.

On an annual basis, management reviews any changes to the operations and future cash flows of all facilities for evidence of impairment in carrying value. Management has determined no impairment exists at any of the facilities at December 31, 2006.

## **CHANGE IN ACCOUNTING POLICIES**

There were no changes in accounting policies or adoption of new accounting standards in 2006. The new Handbook Section for non-monetary transactions, that was to be adopted on or after January 1, 2006, did not have an impact on MAXIM's consolidated financial statements.

New accounting standards will be in effect January 1, 2007 for recognition and measurement of financial instruments, disclosure of comprehensive income and hedge accounting. The new accounting standards became effective for fiscal years beginning on or after October 1, 2006 and will be adopted on a prospective basis. It is expected that recognition and measurement of financial instruments and disclosure of comprehensive income could have some impact to MAXIM's interim and annual consolidated financial statements but MAXIM does not expect these standards to have a significant impact.

## **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:**

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

### **(b) Credit risk:**

Credit risk arises from the possibility that the entities to which the Corporation sells electricity and thermal generation 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 France, power sales are completed under various power purchase agreements with EDF. In the United States, the Corporation uses a lead participant to manage its transactions with ISO New England and the Basin Creek project has one customer, NorthWestern Energy, under its Capacity and Energy Sale Agreement.

In both British Columbia and France, the co-generation facilities also produce thermal heat which is sold to primarily greenhouse customers. CDECCA, which is also a cogeneration facility, produces steam and chilled water which is sold under contracts with rated counterparties.

### **(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 revenue. The Corporation has no obligations under its contracts to deliver minimum levels of power 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 revenue received by the Corporation.

### **(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, 2006.

## **CONTROLS AND PROCEDURES**

### **Management's Evaluation of Disclosure and Internal Controls**

The President and Chief Executive Officer ("CEO") and the Vice President, Finance and Chief Financial Officer ("CFO"), together with management have established and maintained disclosure controls and procedures which are designed to provide reasonable assurance that all material information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management has evaluated the effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2006, and based on that evaluation have concluded that these controls are effective in providing such reasonable assurance.

The CEO and the CFO are also responsible for the design of internal controls over financial reporting, as defined under rules adopted by the Canadian Securities Administrators, within the Corporation in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (“GAAP”).

COMAX France, a wholly-owned subsidiary of the Corporation, has weaknesses in internal control. These weaknesses include a lack of segregation of duties, an inadequacy of staffing in its finance department, an inability to provide financial reporting to the Corporation on a timely basis, a lack of management review of financial reporting, and an inability to identify French to Canadian GAAP reconciling items without outside assistance. Management has a remediation plan in place which it believes will address these weaknesses in 2007.

These weaknesses in internal control over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of material misstatement; however, we do not have reasonable assurance at this time that the risks can be reduced to a remote likelihood of a material misstatement.

There has been no change in the Corporation’s internal control over financial reporting that occurred during the fourth quarter of 2006 that has materially affected, or is reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

## **OTHER INFORMATION**

On April 13, 2006, MAXIM effected the consolidation of its issued and outstanding common shares on the basis of 1 new common share for each 10 common shares issued and outstanding. The common shares commenced trading on the Toronto Stock Exchange on a post-consolidation basis at the open of markets on April 18, 2006. The following outstanding share data reflects the consolidation of issued common shares and outstanding share options. There is an insignificant adjustment to the below number of issued common shares due to the rounding of fractional shares.

### **Outstanding Share Data**

Issued common shares at December 31, 2005	43,758,709
Exercised share options and adjustment	296,759
Normal course issuer bid	(25,000)
Total issued common shares at March 29, 2007	44,030,468
Outstanding share options	2,769,050
Total diluted common shares at March 29, 2007	46,799,518

Additional information relating to MAXIM including the Annual Information Form 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.