

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated March 16, 2017 and should be read in conjunction with the audited consolidated financial statements of Maxim Power Corp. ("MAXIM" or the "Corporation") for the year ended December 31, 2016. MAXIM prepares its audited consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants ("GAAP"). In this MD&A, MAXIM also reports certain non-GAAP measures. See page 25 for an explanation of non-GAAP measures.

Capitalized and abbreviated terms that are used but not otherwise defined herein are defined in the Glossary of Terms. Throughout this MD&A, dollar amounts within tables are in thousands of Canadian dollars unless otherwise noted.

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## FORWARD-LOOKING INFORMATION

Certain information in this MD&A is forward-looking information ("FLI") 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, power 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 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.

Readers are cautioned that management's expectations, estimates, projections and assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. With respect to forward-looking statements contained within this MD&A, MAXIM has made the following assumptions:

- MAXIM will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The audited consolidated financial statements have been prepared on a going concern basis, which presumes that MAXIM will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

As at December 31, 2016, MAXIM determined it has breached its debt service coverage ratio ("DSCR"), minimum equity, interest coverage and minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") financial covenants in relation to its Canadian credit facility. Subsequent to year end, management obtained a waiver for these covenant breaches from the bank.

This fiscal quarter is the eighth consecutive quarter MAXIM has breached at least one financial covenant related to its revolving credit facility. MAXIM has been able to procure waivers at each reporting date for the financial covenant breaches and has extended the maturity of its credit facility during this time period to April 30, 2017.

At December 31, 2016, the Corporation had cash of \$15.3 million and working capital related to continuing operations of \$10.5 million. At the maturity of the credit facility on April 30, 2017, the Corporation is forecasting unrestricted cash will be less than issued letters of credit in the absence of consummating the sale of the United States operating segment or other assets.

In these circumstances, management believes the going concern assumption is appropriate for these consolidated financial statements but is dependent upon closing the sale of the United States operating segment, a further extension of its credit facility, raising of sufficient capital or the sale of other assets, as required. There can be no assurance that the steps management is taking will be successful. This assumption will be reviewed on an ongoing basis by management and the Board of Directors. If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the statement of financial position classifications used.

There is, as a result of the above conditions, a material uncertainty that may cast significant doubt about the appropriateness of using the going concern assumption. The Corporation's ability to continue as a going concern is dependent upon its ability to generate sufficient cash to settle its liabilities and commitments and fund its business plan.

- MAXIM's approved capital budget is based on engineering estimates to maintain facility equipment, which are set by the equipment manufacturer.
- Development projects, including Deerland Peaking Station ("Deerland"), Buffalo Atlee, Milner expansion project ("M3"), Milner 2 ("M2") and Summit Coal ("SUMMIT") are based upon current estimates of capital cost, projected returns on investment, the duration of the regulatory approval process, and the ability to obtain the necessary financing.
- Management estimates that cash flows for scheduled maintenance programs will be funded by its cash flow from operations, existing cash on hand, asset sale proceeds or a further extension, or replacement, of its current revolving Bank of Montreal ("BMO") credit facility. This estimate is based upon current budgets and forecasts. Interruptions to production, higher than anticipated operating costs, lower realized power prices, unfavourable moves in interest rates and foreign exchange rates, failure of counterparties to meet their obligations, and various other factors may inhibit the Corporation from meeting its obligations.
- MAXIM has credit facilities to support liquidity requirements of the Corporation. The facilities are margined on accounts receivable and property, plant and equipment.
- MAXIM estimates total capital expenditures of \$3.3 million to be incurred in 2017 (page 18). These costs are based upon estimates and may differ from the actual costs to complete or revisions in the program scope.
- In determining potential development sites, management estimates future power prices in these areas. The actual future power prices in these areas may be different from expected.
- MAXIM anticipates all necessary provincial, state and federal regulations for environmental and climate change legislation will be met. Changes to environmental legislation and operational issues may affect the ability of MAXIM to comply with regulations.
- MAXIM is continuing ongoing discussions with respect to a portion of the syndicate of insurance providers on the settlement of recoveries of capital expenditures incurred on the new cooling tower at H.R. Milner generating facility ("M1"). At December 31, 2016, the gross capital cost of the project was \$7.2 million and insurance settlements received up to December 31, 2016 have been netted against this gross amount. The Corporation expects resolution of the entire insurance claim by the end of 2017.
- MAXIM anticipates that it will maintain a working capital surplus over the next twelve months. This expectation based on either i) successfully extending or replacing its current revolving BMO credit facility beyond twelve months or ii) receipt of proceeds from the sale of the United States operating segment. In addition, this expectation is based on current Alberta forecasted power prices in conjunction with fixed price swaps in place, which have a positive impact on cash and trade and other receivables. MAXIM also makes assumptions about cost of fuel and other operating costs, including plant maintenance costs based on equipment manufacturer's specifications. If actual equipment performance differs or maintenance requirements vary, there may be an impact to cash and trade and other payables. A material change in Alberta power prices or plant maintenance requirements could have a favourable or adverse effect on MAXIM's expected working capital surplus over the next twelve months.

## **BUSINESS OF MAXIM**

MAXIM is an Independent Power Producer engaged in the acquisition and development, ownership and operation of power generation facilities and the resultant sale of generating capacity and electricity. At December 31, 2016 and as at the date of this MD&A, MAXIM had seven power plants with 603 megawatts ("MW") of electric generating capacity in Canada and the United States. The Corporation has entered into an agreement to sell all five power plants with 446 MW of electric generation in the United States. As at the date of this MD&A, the reportable business segments are Canada and the United States, which is classified as assets and liabilities held for sale.

## **Canada**

The Canada segment consists of M1 and Gold Creek facility ("Gold Creek") which has a combined net generating capacity of 157 MW. These facilities, combined with MAXIM's corporate activities and Canadian development projects comprise the Canada reporting segment.

M1 is a 150 MW coal-fired power station located near the town of Grande Cache, Alberta, which has been in continuous operation since 1972. M1 operates as a merchant power facility by selling electricity to the Alberta Electric Systems Operator ("AESO") at spot market prices. Management at times will use strategic hedging, to varying degrees, to reduce price risk.

Gold Creek is a 7 MW waste heat generation facility located in close proximity to Grande Prairie, Alberta. This facility is currently not running pending an increase in power prices.

MAXIM has received regulatory approvals from the Alberta Utilities Commission ("AUC") and Alberta Environment and Parks ("AEP") to construct and operate M3 and M2. M3 is an 86 MW natural gas-fired combined cycle power plant to be located adjacent to MAXIM's existing Milner facility. M3 will increase M1 capacity from 150 MW to 236 MW. M2 is a natural gas-fired generation facility with a further generating capacity of 520 MW. In addition, MAXIM has received regulatory approvals to construct and operate the 190 MW natural gas-fired Deerland peaking station located near Bruderheim, Alberta. Furthermore, MAXIM is currently working with the AUC, AEP and AESO to obtain permits for the development of the first phase of Buffalo Atlee, a development project of 35 MW of wind generation capacity. Subsequent phases of this project could bring the total wind generation capacity of Buffalo Atlee to 200 MW. MAXIM has not made any definitive commitments to the timing or certainty of advancing development of these projects. MAXIM intends to evaluate its plans for these projects as clarity develops for the Alberta market.

SUMMIT is MAXIM's development initiative located north of Grande Cache, Alberta that owns metallurgical coal leases for Mine 14 ("M14") and Mine 16 ("M16S"). Current estimates for M14 are 18.9 million tonnes of low-mid volatile metallurgical coal reserves with a mine life of 17 years based on the NI 43-101 technical report filed on SEDAR on March 21, 2013. M16S is located 30 kilometers northwest of M14 and represents 1,792 hectares or 29% of SUMMIT's total area of coal leases. A NI 43-101 Technical Report has not been prepared for M16S. MAXIM has not made any definitive commitments to the timing or certainty of advancing development of this project.

## **United States – Assets and Liabilities Held for sale**

MAXIM owns five natural gas-fired facilities with a combined net generating capacity of 446 MW in its United States operating segment, which is currently classified as assets and liabilities held for sale pending closure of the sale of this business anticipated in the first quarter of 2017.

The Capitol District Energy Centre Cogeneration Associates ("CDECCA"), Pittsfield and Pawtucket facilities are each located in the North East United States in the ISO New England ("ISO-NE") market. All three of these facilities currently receive monthly capacity payments along with electrical generation revenue at spot prices from the ISO-NE. The CDECCA facility also provides steam and chilled water under a long-term contract with the State of Connecticut until 2019.

The Forked River and Basin Creek facilities are located in New Jersey and Montana, respectively. The facilities operate under long-term tolling agreements for which they receive monthly capacity payments until 2018 and 2026, respectively. Should the Corporation not enter into a new tolling agreement for Forked River, it will receive monthly capacity payments and revenue for electricity generation in the PJM market.

## OVERALL PERFORMANCE

### Highlights and Notable Events

#### *United States*

On December 23, 2016, the Corporation entered into an agreement to sell 100% of its ownership interest in its wholly-owned subsidiary Maxim Power (USA), Inc. ("MUSA") to an affiliate of Hull Street Energy, LLC, for an implied enterprise value of US\$106.0 million inclusive of anticipated working capital. Net proceeds to MAXIM after accounting for debt and transaction costs are anticipated to be US\$84.0 million. The transaction is anticipated to close during the first quarter of 2017, subject to receipt of all applicable regulatory approvals, completion of the buyers financing, third party consents and the satisfaction of other closing conditions customary for a transaction of this nature.

MUSA sale proceeds will be held by MAXIM for strategic corporate purposes, including providing the potential opportunity for MAXIM to invest in new projects in Alberta's power market which is expected to undergo significant reforms in the coming years.

On September 26, 2016, the Corporation announced that the Federal Energy Regulatory Commission ("FERC") issued an order approving a Stipulation and Consent Agreement ("Settlement Agreement") that resolves and closes all matters alleged in the Staff Notice of Alleged Violations issued in November of 2014. The Settlement Agreement resolves three investigations conducted by the FERC Office of Enforcement, all claims and allegations arising from these investigations, and FERC's lawsuit captioned *FERC v. Maxim Power Corporation et. al. No. 3:15-cv-30133-MGM (D. Mass.)* relating to one of the investigations. Pursuant to the Settlement Agreement, MAXIM neither admits nor denies any of the violations alleged by FERC. MAXIM has agreed to make settlement payments of US\$4.0 million for a civil penalty and US\$4.0 million in disgorgement, payable in three equal installments over a two-year period.

#### *France*

On December 2, 2016, the Corporation closed the sale of 100% of its interest in COMAX France S.A.S. and its parent MAXIM Power B.V. to Vine Luxembourg SARL, an affiliate of Basalt Infrastructure Partners LP, for €47.1 million including the assumption of €23.4 million of net debt resulting in sales proceeds of €23.7 million, €6.0 million of which is contingent on certain future events. These events include the French government finalizing its energy policy and the terms of new contracts for cogeneration electricity generation in France. As of the date of this MD&A, any potential new regulations have not been announced and as such, the impact is not yet determinable. In 2016, the Corporation recognized an intangible asset impairment charge of \$10.5 million, a property, plant and equipment ("PP&E") impairment charge of \$12.3 million and a loss of sale of \$1.8 million.

The immediate sales proceeds of approximately €17.7 million was used to reduce net debt in MAXIM's North American operations and fund transaction costs, with the remainder used for general corporate purposes. The borrowing limit on MAXIM's Canadian bank facilities has been reduced from \$25.0 million to \$13.5 million following the sale.

#### *Canada*

During 2016, the Corporation realized \$6.3 million in gains on commodity swaps for Alberta Power. Including these gains, M1 realized an average price of \$30.23 per MWh during the quarter, which is a 61% premium to the \$18.28 settled spot price in Alberta over the same time frame. These commodity swaps and M1's existing coal inventory at site allowed M1 to realize positive cash-flows during the second half of the year. As at the date of this MD&A, the Corporation has sold a net 75 MW of fixed price Alberta power from January 1, 2017 until the March 31, 2017 of fixed price Alberta power at a price of approximately \$31 per MWh.

On September 28, 2016, the AUC asserted its position through Decision 790-D04-2016 (the "Decision") on several preliminary matters related to remedy under Module C of Milner Power Inc.'s ("Milner") complaint relating to the AESO Line Loss Rule. The Decision confirms the Corporation's view that the AUC's proceedings will establish compensation to Milner Power Inc. that will include an accounting for the time value of money. The Corporation estimates that overpayments of approximately \$42.0 million were made by Milner Power Inc. to the AESO for the period January 1, 2006 to December 31, 2016, based on calculations established by information currently available on the public record. As at December 31, 2016, the implementation date of the new rule under Module B and the amount and timing of compensation under Module C cannot be determined.

### Key Performance Indicators

(000's unless otherwise noted)	2016	2015	2014
Revenue			
Continuing operations	6,484	19,556	44,708
Discontinued operations	88,074	103,489	98,207
Total	94,558	123,045	142,915
Adjusted EBITDA <sup>(1)</sup>			
Continuing operations	(14,178)	(4,922)	(5,564)
Discontinued operations	16,410	24,423	20,562
Total	2,232	19,501	14,998
Net loss attributable to shareholders			
Continuing operations	(29,874)	(81,822)	(11,600)
Discontinued operations	(23,926)	4,404	2,487
Total	(53,800)	(77,418)	(9,113)
Basic and diluted net loss per share attributable to shareholders (\$ per share)			
Continuing operations	(0.55)	(1.51)	(0.22)
Discontinued operations	(0.44)	0.08	0.05
Total	(0.99)	(1.43)	(0.17)
FFO <sup>(1)</sup>			
Continuing operations	(15,256)	(15,441)	(7,810)
Discontinued operations	8,749	25,704	21,410
Total	(6,507)	10,263	13,600
Total assets	218,183	346,898	391,679
Loans and borrowings			
Continuing operations	-	-	-
Discontinued operations	22,349	68,728	56,356
Total	22,349	68,728	56,356
Total generation (MWh) <sup>(2)</sup>	312,179	303,481	701,564
Average Alberta market power price (\$ per MWh)	18.28	33.34	49.42
Average Milner realized power price (\$ per MWh) <sup>(3)</sup>	30.23	64.33	64.10
Average Northeast U.S. realized power price (US\$ per MWh)	41.44	61.85	139.51

(1) Select financial information was derived from the audited consolidated financial statements and is prepared in accordance with GAAP, except adjusted EBITDA and funds from operating activities before changes in working capital ("FFO"). Adjusted EBITDA is provided to assist management and investors in determining the Corporation's operating performance. Adjusted EBITDA and FFO does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. FFO is provided to assist management and investors in determining the Corporation's cash flows generated from operations before the cash impact of working capital fluctuations. Refer to the Non-GAAP Measures section of this MD&A for reconciliations between non-GAAP financial measures and comparable measures calculated in accordance with GAAP.

(2) Total generation represents generation from continuing operations.

(3) Includes proportionate share of \$6.3 million of realized gains from commodity swaps for 100 MWh from June 1, 2016 to December 31, 2016. As the plant ran at a weighted average of 47 MWh from June 1, 2016 to December 31, 2016 only 47% or \$3.0 million of the gain is incorporated into the realized price in addition to revenues.

## Financial Results

As a result of the sale of France and pending sale of the United States operating segments, the Corporation's key performance indicators are significantly impacted by these transactions and as such are presented separately to illustrate the impact to the Corporation on a continuing basis.

The financial results of the Canada segment are presented as continuing operations and the financial results of the U.S. and France operating segment are presented as assets and liabilities held for sale and discontinued operations to illustrate the impact to the Corporation of the sale of the non-Canada segments. Refer to the Assets and Liabilities Held for Sale and Discontinued Operations section on page 11 for a discussion on the financial results of discontinued operations.

Revenue has decreased and net loss attributable to shareholders increased in 2016 when compared to the prior years of 2015 and 2014. The changes in these financial measures are primarily due to lower Alberta pool prices year over year. Net loss attributable to shareholders increased from 2014 to 2015 due to goodwill and assets under construction impairment charges and reversal of previously recognized deferred tax assets in Canada, partially offset by gains on recognition of emission credits used to offset the production of SO<sub>2</sub> ("SO<sub>2</sub> Credits") in 2015. Net loss attributable to shareholders decreased from 2015 to 2016 as there were no net impairment charges recognized in 2016 and the Corporation realized gains on commodity swaps in 2016.

Adjusted EBITDA increased from 2014 to 2015 primarily due to the gain on sale of SO<sub>2</sub> Credits in 2015, partially offset by lower power prices and generation in Alberta. Adjusted EBITDA decreased from 2015 to 2016 due to the same factors impacting revenues noted above, partially offset by realized gains on commodity swaps.

FFO decreased overall from 2014 to 2016 due to the same factors impacting revenue noted above. In 2016, this decrease was partially offset by realized gains on commodity swaps in 2016.

## RESULTS OF CONTINUING OPERATIONS – CANADA SEGMENT

### Production

Summary of generation:

	2016	2015
	MWh	MWh
Total MWh generation	312,179	303,481

### Revenue

Summary of revenue by segment:

(\$000's)	2016	2015
Revenue <sup>(1)</sup>	6,484	19,556

<sup>(1)</sup> All revenues from continuing operations are electricity sales at spot prices.

Revenue in 2016 decreased \$13.1 million or 67% to \$6.5 million as compared to \$19.6 million in 2015. This decrease was largely due to lower Alberta power prices, which ultimately resulted in the temporary suspension of operations at M1 from March 23, 2016 to June 29, 2016. In addition, the higher Alberta power prices in 2015 were due to higher than normal reliability issues across the Alberta generating fleet.

### Plant Operations

Summary of plant operations expense by type:

(\$000's)	2016				2015			
	Inventories write-down	Fuel	O&M	Total	Inventories write-down	Fuel	O&M	Total
Total	8,612	6,050	17,619	32,281	4,234	9,129	18,873	32,236
Percent	27%	19%	55%	100%	13%	28%	59%	100%

Operations and maintenance ("O&M") expenses decreased \$1.3 million or 7%, from \$18.9 million in 2015 to \$17.6 million in 2016, primarily as a result of fixed operating cost savings from cost cutting initiatives, lower maintenance due to the non-reoccurrence of cooling tower outage related expenses in 2015 and lower operating costs as a result of temporarily suspending generation at M1 during the second quarter of 2016.

2016 fuel expenses decreased from \$9.1 million in 2015 to \$6.1 million in 2016, which is a decrease of \$3.0 million or 33% primarily due to lower per unit fuel costs of both natural gas and coal. The lower per unit fuel costs in the absence of write-downs is primarily due to higher proportion of lower quality coal consumed in 2016 and lower spot prices for natural gas in Alberta.

During 2016 and 2015, inventories of coal and spare parts related to coal-fired generation were written down by \$8.6 million and \$4.2 million, respectively, to net realizable value.

#### **General and Administrative Expense**

(\$000's)	2016	2015
Total general and administrative expense	4,435	4,392

General and administration expense in 2016 was \$4.4 million, which is comparable to the same period in 2015.

#### **Depreciation and Amortization Expense**

(\$000's)	2016	2015
Total depreciation and amortization	5,238	6,813

Depreciation expense in 2016 decreased \$1.6 million or 24% from \$6.8 million in 2015 to \$5.2 million in 2016. This decrease was primarily due to a lower asset base of aging equipment, which was further reduced by impairments in 2015.

#### **Asset Impairment Charge**

(\$000's)	2016	2015
Total (reversal of) asset impairment charges, net	(2,754)	37,229

During 2016, due to a significant favourable change in market conditions for metallurgical coal, the Corporation reversed \$4.1 million of a previously recognized asset impairment charge with respect to assets under construction for its metallurgical coal development project included in the Canada operating segment. This reversal was partially offset by the recognition of impairment of \$1.3 million with respect to SO2 credits at Milner included in Canada operating segment due to adverse changes in the market conditions for environmental credits in Alberta.

In 2015, due to significant adverse changes in market conditions in Alberta and the metallurgical coal market, the Corporation recognized three impairments totaling \$37.2 million. Of this amount, \$15.6 million related to goodwill at the Milner generating facility and adjacent lands, which includes the Corporation's metallurgical coal development project and \$20.7 million related to SUMMIT's assets under construction, which both had carrying amounts greater than the recoverable amounts. As well, \$0.9 million of impairment related to the coal-fired components at M1. These coal-fired components now have a carrying value equal to their salvage value.

#### **Unrealized Gain on Derivative Coal Contract**

In 2015, MAXIM had a \$3.7 million unrealized gain on the derivative coal contract. This unrealized gain related to a coal supply agreement for M1, which was terminated in the second quarter of 2015.

### Gain on Commodity swaps

(\$000's)	2016	2015
Realized gain on commodity swaps	(6,324)	-
Unrealized loss on commodity swaps	58	-
Total gain on commodity swaps	(6,266)	-

In 2016, MAXIM recorded a \$6.3 million gain on commodity swaps on fixed for floating firm financial swap agreements at M1. The swap agreements are for the period of July 2016 to March 2017. These swaps require MAXIM to pay the counterparties a floating price based on the Alberta Power Pool price and in turn MAXIM will receive a fixed price per MWh from 75 MW to 100 MW of power. Since inception of the swaps, Alberta spot prices have settled lower than the fixed swap price and the Corporation has a realized gain of \$6.3 million in 2016.

These commodity swaps are a Level II asset under IFRS. The Level II fair value for the unrealized commodity swaps have been determined using inputs other than quoted prices that are observable such as the forward Alberta power pool price, ranging from \$29.00 per MWh to \$32.25 per MWh. This Level II asset resides in the Canada segment.

### Other Expense (Income), Net

(\$000's)	2016	2015
Other expense (income), net	1,753	(8,992)

Net other expense in 2016 decreased from income of \$9.0 million in 2015 to an expense of \$1.8 million in 2016, which is a decrease of \$10.8 million. The decrease was primarily due to losses on disposal of idle mine equipment for \$1.7 million in 2016. This is compared to income transactions in 2015 for gain on sale and recognition of emissions credits in 2015 totaling \$16.0 million, partially offset by \$7.0 million of restructuring costs in Alberta.

### Finance Expense (Income), Net

(\$000's)	2016	2015
Interest expense	543	263
Amortization of deferred financing costs	-	110
Accretion of provisions	89	207
Foreign exchange loss (gain)	(1,489)	6,431
Finance expense	(857)	7,011
Interest income	(1)	(10)
Total finance expense (income), net	(858)	7,001

Net finance income incurred in 2016 increased from an expense of \$7.0 million in 2015 to income of \$0.9 million in 2016. The increase is primarily due to an increase from a foreign exchange loss of \$6.4 million in 2015 to a gain of \$1.5 million in 2016, which is caused primarily by the net impact of foreign exchange rate movement for US dollars and Euros on foreign intercompany liabilities held in Canada. These foreign exchange gains and losses are offset in other comprehensive income.

### Income Tax Expense

(\$000's)	2016	2015
Current tax expense	289	142
Deferred tax expense	2,240	26,276
Total income tax expense	2,529	26,418

Income tax expense in 2016 decreased from \$26.4 million in 2015 to \$2.5 million in 2016. The decrease in expense is primarily due to a reversal of previously recognized deferred tax assets in 2015. This prior year reversal was a result of record low power prices in Alberta which reduces the likelihood that the Corporation will utilize previously recognized tax assets against future income tax.

## Financial Position

The following highlights changes in the consolidated Statements of Financial Position from December 31, 2015 to December 31, 2016. The table represents MAXIM's normal course of operations, and excludes the classification effect of assets and liabilities held for sale.

As at (\$000's)	December 31, 2016	December 31, 2015	Increase (Decrease)	Primary factors explaining change
<b>Assets</b>				
Cash and cash equivalents	18,838	5,884	12,954	Sale of the France operating segment and coal mine equipment, partially offset by operating cash outflows and financing costs
Trade and other receivables	5,321	20,871	(15,550)	Decreased as the France operating segment was sold in 2016
Inventories	8,324	19,331	(11,007)	Write-down of coal inventory and consumption of coal
Property, plant and equipment, net	159,823	257,117	(97,294)	Sale of France operating segment, amortization, foreign currency translation, partially offset by capital expenditures (see page 15)
Net deferred tax assets	886	-	886	Tax losses in the US operating segment in 2016
Net other assets	21,623	38,265	(16,642)	Sale of France operating segment and impairment of SO2 Credits
<b>Liabilities &amp; Equity</b>				
Trade and other payables	15,211	28,906	(13,695)	Decreased as the France operating segment was sold in 2016
Loans and borrowings	22,349	68,728	(46,379)	Decreased as the France operating segment was sold in 2016, scheduled debt repayments and foreign currency translation
Provisions for decommissioning	16,193	16,981	(788)	Decreased due to a decrease in inflation rates and an increase in discount rates
Other long-term liability	3,581	-	3,581	Long-term portion of FERC Settlement
Net deferred tax liability (asset)	-	10,066	(10,066)	Reversal of deferred tax liability from France operating segment that was sold in 2016
Equity	157,481	216,787	(59,306)	Net loss for the period and change in foreign exchange rates on self-sustaining operations

## ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2016, the Corporation entered into and closed a purchase and sale agreement to sell the France operating segment. In addition, the Corporation entered into a purchase and sale agreement to sell the United States operating segment. As such, the assets and liabilities of the United States operating segment have been reclassified to assets and liabilities held for sale on the statement of financial position and the France and United States operations are classified as discontinued operations on the statement of income. The sale of United States operating segment is scheduled to close during the first quarter of 2017, subject to all applicable regulatory approvals, completion of the buyers financing, third party consents, completion of the buyers financing and customary closing conditions.

### Discontinued operations

The following table represents the discontinued net income (loss) for the United States and France operating segment combined in Canadian dollars:

(\$thousands)	2016	2015
Revenue	88,074	103,489
Expense	97,558	97,320
(Reversal of) asset impairment charges, net	22,750	(1,500)
Operating income (loss)	(32,234)	7,669
Finance expense, net	3,398	3,559
Income (loss) before income taxes	(35,632)	4,110
Income tax benefit	(11,817)	(403)
Net income (loss) from discontinued operations	(23,815)	4,513

The following tables represent the discontinued net income (loss) for the United States and France operating segments in their functional currencies:

#### United States

(US \$thousands)	2016	2015
Revenue	42,076	49,850
Expense	49,185	46,146
Reversal of asset impairment charges	-	(1,190)
Operating income (loss)	(7,109)	4,894
Finance expense, net	1,451	1,550
Income (loss) before income taxes	(8,560)	3,344
Income tax benefit	(3,337)	(423)
Net income from discontinued operations	(5,223)	3,767

France

(Euro €thousands)	2016	2015
Revenue	21,630	27,948
Expense	21,585	27,037
Asset impairment charges	15,459	-
Operating income (loss)	(15,414)	911
Finance expense, net	999	1,092
Loss before income taxes	(16,413)	(181)
Income tax expense (benefit)	(5,044)	97
Net loss from discontinued operations	(11,369)	(278)

Revenue in 2016 decreased \$15.4 million or 15% to \$88.1 million as compared to \$103.5 million in 2015. In the U.S. segment source currency revenue decreased US\$7.8 million or 16% to US\$42.1 in 2016 as compared to US\$49.9 million in 2015. This decrease was primarily due to lower realized power prices as a result of reduced weather-based demand. In the French segment source currency revenue decreased €6.3 million or 23% to €21.6 in 2016 as compared to €27.9 million in 2015. This decrease was due to closing the sale of the France operating segment at the beginning of December 2016, resulting in eleven months of revenue in 2016 versus twelve months in 2015. In addition this decrease was due to lower generation as a result of fewer dispatches and outages.

Expenses in 2016 were \$97.6 million, which is comparable to the same period in 2015. In the U.S. segment source currency, expenses in 2016 increased US\$3.1 million or 7% to US\$49.2 million in 2016 from US\$46.1 million in 2015. This increase was primarily due to the Settlement Agreement with FERC, partially offset by lower natural gas prices and consuming more natural gas than fuel oil in 2016 as compared to the same period in 2016. In the French segment source currency, expenses in 2016 decreased €5.4 million or 20% to €21.6 million in 2016 from €27.0 million in 2015. This decrease was due to the closing of France at the beginning of December 2016 and therefore there is an additional month of expenses included in 2015. In addition, this decrease was due to lower per unit fuel costs and lower generation.

Finance expense incurred 2016 was \$3.4 million, which is comparable to the same period in 2015. In the U.S. segment source currency, finance expense in 2016 was US\$1.5 million, which is comparable to the same period in 2015. In the French segment source currency, finance expense in 2016 was €1.0 million, which is comparable to the same period in 2015.

Income tax benefit in 2016 increased \$11.4 million to \$11.8 million in 2016 from \$0.4 million in 2015. In the US segment source currency, income tax benefit increased US\$2.9 million to US\$3.3 million in 2016 from US\$0.4 million in 2015. This increase was primarily due to a decrease in taxable earnings. In the French segment source currency, income tax benefit increased from an expense of €0.1 million in 2015 to a benefit of €5.0 million in 2016 which is an increase of €5.1 million. This increase was primarily due to the tax effects of asset impairment charges.

The change in cash flows from (used in) discontinued operations for the years ended December 31, 2016 and 2015 are as follows:

(\$millions)	2016	2015
Cash flows from (used in) discontinued operations		
FFO	8,749	25,704
Net change in non-cash working capital from (used in) operating activities	7,522	(2,402)
Net cash from (used in) financing activities	(8,353)	2,515
Net cash used in investing activities	(5,395)	(24,679)
Unrealized foreign exchange gain (loss) on cash	(354)	1,434
Net cash flows for the period	2,169	2,572

- FFO decreased in 2016 to \$8.7 million from \$25.7 million in 2015. The decrease is primarily due to lower revenues in 2016, partially offset by favourable fuel costs.
- Fluctuations in non-cash working capital represented a cash inflow of \$7.5 million in 2016 as compared to a \$2.4 million outflow in 2015. See page 16 for further discussion of working capital.
- Cash from financing activities in 2016 decreased from an inflow of \$2.5 million in 2015 to an outflow of \$8.4 million in 2016. This decrease is primarily due to the issuance of debt in order to finance capital investing activities primarily in the France operating segment in 2015.
- Cash used in investing activities in 2016 decreased to \$5.4 million from \$24.7 million used in 2015, which is primarily due to lower capital expenditures in the France operating segment in 2016 as compared to the same period in 2015.

Refer to the Liquidity and Capital Resources section (below) for further discussion on financing and investing activities.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

MAXIM utilizes existing cash, cash flows from operations, revolving credit facilities, proceeds from the sale of assets and, if eligible, government grants to provide liquidity to the Corporation's operations in order to finance maintenance-of-business capital expenditures and to finance development initiatives. MAXIM plans for major maintenance initiatives and preserves cash and credit through its revolving credit facilities to finance these initiatives. In certain years, it is possible that capital requirements will exceed these sources of financing. In these situations, MAXIM will arrange for debt financing.

Subsequent to year end, the Corporation obtained an extension of its Canadian bank facility, revising the maturity date from December 31, 2016 to April 30, 2017. Facility A is a \$13.5 million revolving credit facility. Total borrowings under this facility are not to exceed the sum of 90% of the book value of the Corporation's Canadian accounts receivable balance and 50% of the book value of the Corporation's North American PP&E.

As at December 31, 2016, the carrying amount of the Canadian bank loan was \$nil and MAXIM has issued letters of credit of \$12.5 million on the facility. The amount available to draw against Facility A at December 31, 2016 was \$1.0 million.

As at December 31, 2016, MAXIM breached its debt service coverage ratio ("DSCR"), minimum equity, interest coverage and minimum EBITDA financial covenants in relation to its Canadian credit facility. Subsequent to year end, management obtained a waiver for these covenant breaches from the bank.

At December 31, 2016, the Corporation had cash of \$15.3 million and working capital related to continuing operations of \$10.5 million. At the maturity of the credit facility on April 30, 2017, the Corporation is forecasting unrestricted cash will be less than issued letters of credit in the absence of consummating the sale of the United States operating segment or other assets.

In these circumstances, management believes the going concern assumption is appropriate for these consolidated financial statements but is dependent upon closing the sale of the United States operating segment, a further extension of its credit facility, raising of sufficient capital or the sale of other assets, as required. There can be no assurance that the steps management is taking will be successful. This assumption will be reviewed on an ongoing basis by management and the Board of Directors. If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the statement of financial position classifications used.

There is, as a result of the above conditions, a material uncertainty that may cast significant doubt about the appropriateness of using the going concern assumption. The Corporation's ability to continue as a going concern is dependent upon its ability to generate sufficient cash to settle its liabilities and commitments and fund its business plan.

This fiscal quarter is the eighth consecutive quarter MAXIM has breached at least one financial covenant related to its revolving credit facility. MAXIM has been able to procure waivers at each reporting date for the financial covenant breaches and has extended the maturity of its credit facility during this time period to April 30, 2017. However, current Alberta power forward price curves suggest low Alberta power prices in the near term and under these low prices the Corporation will likely continue to breach the DSCR, minimum equity and interest coverage ratio in the first quarter of 2017.

The sale of the France operating segment improved the Corporation's liquidity significantly. France's sales proceeds were used to repay the drawn cash balances under the Canadian bank facility in full, with the remainder held for strategic purposes and used towards maintaining liquidity, continuing operations and development projects.

MAXIM is currently in the process of pursuing further asset sales, including the sale of the United States operating segment. The Corporation will have ample liquidity upon closing the United States operating segment as it expects to receive anticipated net proceeds of approximately US\$84.0 million. The net proceeds from the sale of the United States operating segment, and existing cash, will be held by MAXIM for strategic corporate purposes, including providing financing for the potential opportunity of MAXIM to invest in projects in Alberta's power market, which is expected to undergo significant reforms in the coming years.

In 2017, the Corporation is also pursuing only necessary sustaining capital and development projects with prospects for the highest return on investment. It is also continuing the cost cutting initiatives implemented in prior years into 2017. Management's decision to resume operations at M1 in June 2016 was an initiative to monetize coal inventory before an anticipated increase in environmental compliance costs related to coal-fired generating commences. In 2016, M1 operated at a loss on a cash basis. In 2017, MAXIM is pursuing options to optimize cash flows from M1, including continuation of the hedging program that commenced in 2016.

Cash flow summary:

Year ended December 31 (\$000's)	2016	2015
Cash on hand, unrestricted, January 1	5,884	17,142
Cash flow from operations:		
• FFO	(15,256)	(15,441)
• Changes in working capital	1,650	509
Cash flow used in financing	(389)	(316)
Available for investments	(8,111)	1,894
Cash flow from investing	24,780	1,418
	16,669	3,312
Net increase in cash from discontinued operation	2,169	2,572
Less: Cash held at discontinued operation, end of period	(3,535)	-
Undrawn revolving credit facility	966	13,622
Net liquidity available, December 31	16,269	19,506

FFO in 2016 decreased from an outflow of \$15.4 million in 2015 to an outflow of \$15.3 million in 2016, which is an increase of \$0.1 million. The decrease is primarily due to weaker Alberta pool prices, which resulted in lower revenues, the sale of SO2 Credits and Emission Performance Credits pertaining to Alberta's greenhouse gas reduction program ("Emission Performance Credits") in 2015. Partially offsetting this was lower restructuring costs in 2016 as compared to 2015 and the realized gains on Alberta power commodity swaps.

Fluctuations in working capital in 2016 represented a cash inflow of \$1.7 million compared to an inflow of \$0.5 million in 2015. See page 16 for further discussion of working capital.

During 2016, MAXIM's cash flow used in financing was \$0.4 million in 2016, which is comparable to the same period in 2015. MAXIM's financing activities in 2016 included drawing and repaying its credit facility for equal amounts of \$9.6 million in 2016, as compared to \$3.1 million in 2015. This resulted in a net \$nil cash flow for both periods. In addition, the Corporation paid interest expense in 2016 and 2015 for \$0.6 million and \$0.3 million, respectively. Partially offsetting this outflow in 2016 were proceeds received from the exercise of stock options for \$0.2 million in 2016.

MAXIM's investing activities in 2016 represented a cash inflow of \$24.8 million, which primarily consisted of \$24.6 million of net proceeds from the sale of the France operating segment, \$2.2 million in proceeds from the sale of idle mine equipment and \$0.3 million of proceeds from insurance recoveries, net of sustaining M1 and development initiatives capital in Canada. This was partially offset by the purchase of risk management options for \$1.5 million and a change in non-cash working capital of \$0.8 million.

MAXIM's 2015 investing activities represented a cash inflow of \$1.4 million, which primarily consisted of proceeds on sale of SO2 Credits for \$8.8 million and a change in non-cash working capital of \$0.9 million. This was partially offset by \$8.2 million in PP&E purchases and a \$0.1 million decrease in non-current deposits. The \$8.2 million in PP&E expenditures is comprised of \$7.1 million on improvements at M1, including a new cooling tower and \$1.1 million on development initiatives in Canada.

The following table represents the net capital of the Corporation, excluding assets and liabilities held for sale at December 31, 2016:

As at (\$000's)	December 31, 2016	December 31, 2015
Long-term debt	-	66,974
Capital lease obligation	-	1,754
Less: Unrestricted cash	(15,303)	(5,884)
Net debt	(15,303)	62,844
Shareholders' equity	157,287	216,082
Capital	141,984	278,926
Net debt to capital	(10.8%)	22.5%

The Corporation uses the percent of net debt to capital to monitor leverage. The decrease in net debt to capital from December 31, 2015 to December 31, 2016 is primarily due to the sale of France which decreased long-term debt for the Corporation and increased cash from the proceeds on sale. This was partially offset by a decrease in shareholders' equity as a result of operating losses in 2016 and a decrease in accumulated other comprehensive income as a result of foreign exchange rate changes.

### **Working Capital**

At December 31, 2016, the Corporation has recognized all assets and liabilities related to the United States operating segment as current assets and liabilities held for sale on the Statement of Financial Position. As a result, the Corporation has a working capital surplus of \$98.4 million at December 31, 2016, which represents a \$85.5 million increase from the working capital surplus of \$12.9 million at December 31, 2015. The decrease in working capital surplus of \$5.8 million from MAXIM's normal operations was due to a \$14.1 million decrease in current assets and a \$19.9 million decrease in current liabilities. The remaining increase was due to the reclassification of the United States operating segments non-current to current assets of \$104.6 million, which exceeded its non-current liabilities of \$24.9 million reclassified as current liabilities.

The decrease in current assets from the normal course of operations of \$14.1 million is due to an \$11.0 million decrease in inventory primarily due to a write down of inventories for \$8.6 million and consumption of coal inventories, a \$15.5 million decrease to accounts receivable, a \$1.1 decrease to prepaid expenses and deposits and a \$0.9 million decrease in income taxes recoverable due to the sale of its France operating segment. This was partially offset by a \$12.9 million increase to unrestricted cash and a \$1.5 million increase to risk management assets.

The decrease in current liabilities from the normal course of operations of \$19.9 million is due to a \$13.7 million decrease in trade and other payables, \$5.9 million decrease to the current portion of loans and borrowings and a \$0.3 million decrease to deferred revenue due to the sale of the France operating segment.

MAXIM anticipates that it will have a working capital surplus for the next twelve months pending either i) successfully extending or replacing its current revolving BMO credit facility beyond twelve months or ii) completion of the sale of the U.S. operating segment. This preceding statement represents FLI and users are cautioned that actual results may vary.

### **Financial covenants**

MAXIM's BMO credit facility agreement is subject to a number of financial covenants measured by the following ratios and amount: net funded debt to Bank EBITDA, interest coverage, debt service coverage, equity, minimum EBITDA and funded debt to capital.

#### **Net Funded Debt to Bank EBITDA Ratio**

Net funded debt includes all obligations related to MAXIM's revolving credit agreement with BMO, and capital lease obligations in Canada, net of unencumbered cash held by the Canadian subsidiaries and select U.S. subsidiaries divided by Bank EBITDA. Bank EBITDA includes all of MAXIM's Canadian generating facilities as well as certain U.S. subsidiaries.

#### **Interest Coverage Ratio**

Interest coverage is calculated as the ratio of Bank EBITDA, as described above, divided by the sum of interest expense incurred on MAXIM's revolving credit facility with BMO.

#### **Debt Service Coverage Ratio**

Debt service coverage is calculated as the ratio of Traditional EBITDA, which is the Corporation's consolidated EBITDA, less unfunded capital expenditures and cash taxes divided by the sum of all debt and capital lease principal and interest payments of the Corporation including all U.S. subsidiaries and France as well as interest expense.

## Equity

MAXIM's equity balance, which is calculated as the sum of share capital, retained earnings and contributed surplus, shall not be less than \$153.8 million at December 31, 2016, increasing each year by 80% of annual net income to a minimum of \$153.8 million. As at December 31, 2016, the minimum equity balance required was \$153.8 million, compared to an actual balance of \$129.1 million.

## Funded Debt to Capital Ratio

Funded debt includes all interest bearing liabilities. Funded debt to capital is calculated as the ratio of funded debt divided by the sum of funded debt, share capital, retained earnings and contributed surplus.

## Minimum EBITDA

MAXIM's EBITDA, for the fourth quarter of 2016 shall not be less than \$2,978 thousand.

As at December 31, 2016, the Corporation breached four of its six financial covenants as per the credit agreement, as follows:

Ratio	Covenant	2016
Net Funded Debt to Bank EBITDA	Maximum 2.00:1	-
Interest Coverage	Minimum 8.00:1	(32.84):1
Debt Service Coverage	Minimum 1.25:1	(0.08):1
Equity (\$000's)	Minimum \$153,800	\$129,100
Funded Debt to Capital	Maximum 0.60:1	0.22:1
Minimum EBITDA	Minimum \$2,978	(\$2,878)

All financial covenants, except for equity, minimum EBITDA and funded debt to capital, are calculated quarterly based on the latest rolling four quarter period completed. Equity, minimum EBITDA and funded debt to capital are calculated as at the end of each fiscal quarter.

## Contractual Obligations

In the normal course of operations, MAXIM assumes various contractual obligations and commitments. MAXIM considers these obligations and commitments in its assessment of liquidity.

As at December 31, 2016 (\$000's)	Total	2017	2018-2019	2020-2021	Thereafter
Purchase obligations - Canada	798	-	798	-	-
Purchase obligations - United States	13,243	4,610	2,062	2,062	4,509
Operating leases <sup>(1)</sup>	380	97	175	108	-
Total	14,421	4,707	3,035	2,170	4,509

<sup>(1)</sup> Operating leases include office space and equipment in the Canada operating segment.

## Contingencies

### *Contingent liability*

The Corporation operates in a regulatory and commercial environment that exposes it to regulatory, contractual and litigation risks. As a result, the Corporation is involved in certain disputes and legal proceedings, including litigation, arbitration, and regulatory investigations. Such cases are subject to many uncertainties, and the outcomes are often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. In certain circumstances, to avoid the expense and distraction of legal proceedings, the Corporation may, based on a cost-benefit analysis, enter into a settlement even though denying any wrongdoing. The Corporation makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reliably estimated.

The Corporation has closed the sale of the France operating segment. Under the agreement, the Corporation continues to be subject to the claims received for €1.7 million in additional costs from suppliers in France. Costs in relation to these claims and potential claims are only recognized when they become probable and based on the information presently known, it is the view of the Corporation that these claims and potential claims are without merit.

Further under the agreement, the Corporation is subject to performance criteria of certain generating units in the France operating segment until October 31, 2017. The Corporation is responsible to reimburse the buyer of the France operating segment for penalties incurred until that time up to a maximum of €1.5 million. In addition, the Corporation is subject to customary closing indemnities until December 2, 2019 to a maximum claim of €3.5 million. Costs in relation to these claims and potential claims are only recognized when they become probable and based on the information presently known, it is the view of the Corporation that no liability currently exists.

The actual outcome of these claims and potential claims, including the timing and amount of any cash outflow or the possibility of reimbursements, is not yet determinable.

#### *Contingent assets*

Through its Decision, released September 28, 2016, the AUC asserted its position on several preliminary matters related to remedy under Module C of Milner Power Inc.'s complaint relating to the AESO Line Loss Rule. The Decision confirms the Corporation's view that the AUC's proceedings will establish compensation to Milner Power Inc. that will include an accounting for the time value of money. The Corporation estimates that overpayments of approximately \$42.0 million were made by Milner Power Inc. to the AESO for the period January 1, 2006 to December 31, 2016, based on calculations established by information currently available on the public record. As at December 31, 2016, the implementation date of the new rule under Module B and the amount and timing of compensation under Module C cannot be determined.

Under the agreement for the sale of the France operating segment (page 5), the Corporation is eligible for compensation up to €6.0 million, contingent upon a change in law in France which benefits the Corporation's cogeneration units. The change in law must occur no later than June 1, 2018. As at December 31, 2016, the timing and amount of compensation cannot be determined.

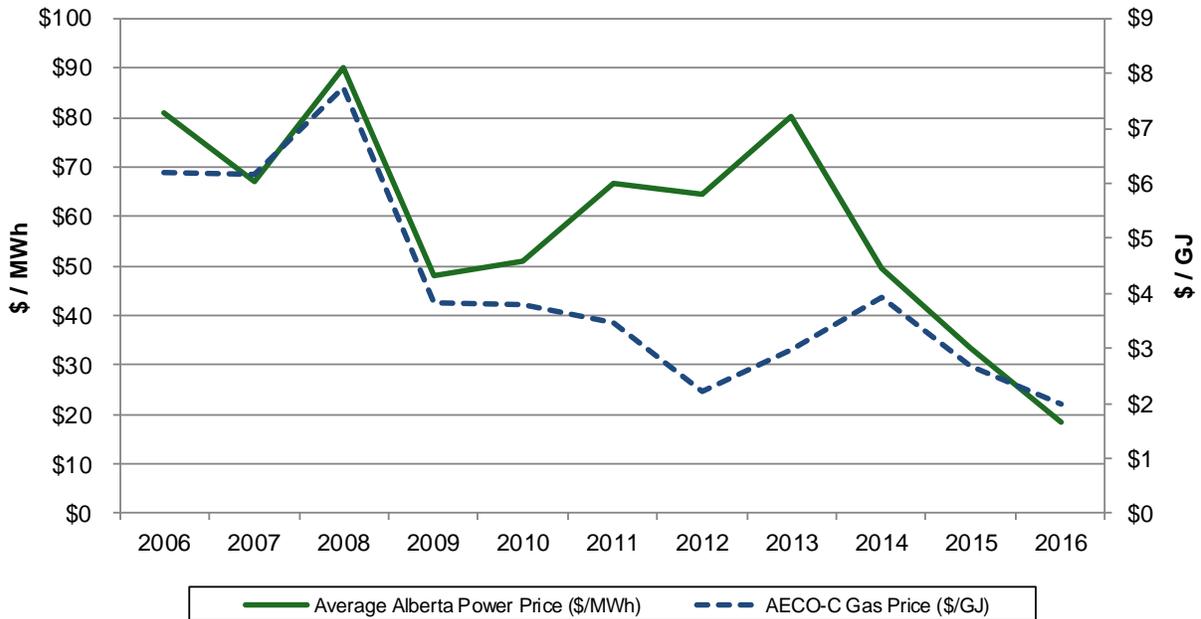
#### **Capital Resources**

The following represents FLI and users are cautioned that actual results may vary. The Corporation is currently estimating capital and development expenditures of approximately \$3.3 million for 2017. These expenditures include \$2.1 million of required sustaining capital projects at generating facilities in the U.S. operating segment up to the anticipated closing of sale date and \$1.2 million on development projects in Canada. Management intends to fund these expenditures with cash flows from operations and existing cash balances.

#### **OUTLOOK**

The Corporation's outlook is significantly impacted by Alberta electricity and fuel prices. Alberta electricity prices are a key revenue determinant for MAXIM's M1. As a result of record low Alberta power prices, which have undermined profitability for a prolonged period, the Corporation had made the decision to dial down operations at M1 and temporarily suspended generation on March 23, 2016. On June 29, 2016, the Corporation resumed the generation of electricity at M1 as it was determined that it was economic to do so through a fixed price firm financial swap agreement. The Corporation's swap agreements end in March 2017. As at the date of this MD&A, the Corporation has sold 75 MW of fixed price Alberta power until the end of March 2017 at a price of approximately \$31 per MWh.

Alberta power prices fluctuate based on the supply of, and demand, for electricity within Alberta, the cost of key inputs such as natural gas, and other market factors. The following chart compares the average annual Alberta power price to Alberta natural gas price since 2006. The break in correlation is the result of tighter generation capacity relative to demand beginning in 2011, which led to higher power prices from 2011 to 2013. Commencing in 2014, it was noted that Alberta power prices became more closely correlated to gas prices as new supply came on the system. This trend is expected to continue for the foreseeable future.



## ACQUISITION AND DEVELOPMENT INITIATIVES

MAXIM is continuing its independent power producer strategy through the advancement of its development initiatives as described herein. The Corporation maintains optionality for all of the development initiatives in order to maximize shareholder value including outright sale, joint venture, build and operate or pace development process to hold as future opportunity. MAXIM has not made any definitive commitments to the timing or certainty of advancing development of these projects. MAXIM intends to evaluate its plans for these projects as clarity develops for the Alberta market.

### *Buffalo Atlee*

MAXIM acquired the Buffalo Atlee Power Project, situated near Brooks, Alberta, through an amalgamation with EarthFirst Canada Inc. This project has the potential for development of up to 200 MW of wind generation capacity in multiple phases. The first phase consists of 35 MW and MAXIM anticipates this capacity will participate in the AESO's renewable electricity program. The addition of wind generation to MAXIM's existing portfolio of assets would diversify further potential changes to MAXIM's generation fuel types.

### *M3*

MAXIM has regulatory approval to increase generating capacity at the M1 site by building M3, which will be comprised of two natural gas-fired turbines located next to M1 and is a cost-effective solution to transition M1 from coal to natural gas. M3 will utilize existing M1 assets including, but not limited to, its boiler, steam turbine, generator, water license, as well as electrical and gas interconnections. The development of M3 will also result in a reduction to total greenhouse gases and air emissions from current levels. Exhaust energy from M3's gas turbines will be converted to steam and utilized to generate electricity in the existing M1 steam turbine, displacing coal-sourced steam. Before giving effect to the development of M2, M3 will increase the nameplate capacity at the Milner site from 150 MW to 236 MW. Total emissions of carbon dioxide, nitrogen oxides, sulfur oxides and particulates at the M1 site will decrease compared to running the existing M1. MAXIM has received regulatory approval to construct and operate M3.

### *M2*

MAXIM has received regulatory approval to construct and operate M2, a 520 MW natural gas-fired combined cycle generation facility. The M2 facility is to be located adjacent to the existing 150 MW M1. Synergies with existing M1 infrastructure such as electrical interconnection, fuel delivery, water license and a skilled operations team, allow the M2 project to achieve a competitive advantage as compared to a greenfield development. The M2 project will be one of the most efficient combined cycle gas turbines in the province and is anticipated to run as a base load facility, similar to that of the recently commissioned Shepard Energy Centre.

### *SUMMIT*

SUMMIT is MAXIM's metallurgical coal development initiative located north of Grande Cache, Alberta that owns metallurgical coal leases for M14 and M16S. Current estimates for M14 are 18.9 million tonnes of low-mid volatile metallurgical coal reserves with a mine life of 17 years based on the NI 43-101 Technical Report filed on SEDAR on March 21, 2013. M16S is located 30 kilometers northwest of M14 and represents 1,792 hectares or 29% of SUMMIT's total area of coal leases. A NI 43-101 Technical Report has not been prepared for M16S.

M14 is permitted for a run-of-mine production rate of up to 1,300,000 tonnes per year. MAXIM has also received approval from the Alberta Energy Regulator to construct and operate a Coal Beneficiation Plant. This Coal Beneficiation Plant, to be located on MAXIM's existing Milner industrial complex, will bifurcate M14's run-of-mine coal into an estimated annual production of 950,000 tonnes of high-quality, low-mid volatile and metallurgical coal for shipment to export markets.

### *Deerland*

MAXIM has received regulatory approvals to construct and operate the Deerland peaking station, a 190 MW natural gas-fired peaking facility. MAXIM has entered into agreements to secure firm natural gas transportation service for the Deerland peaking station.

### *Financing*

MAXIM requires capital (debt and equity), from internal or external sources, to finance development initiatives and for larger acquisitions. MAXIM maintains the flexibility to manage the timing of its acquisition and development initiatives. MAXIM accounts for its development projects as assets under construction included in PP&E. Capitalization of costs associated with these projects commences once technical and economic feasibility is established. If a project no longer meets these criteria, any capitalized costs for the project are expensed in the period.

## ENVIRONMENTAL AND CLIMATE CHANGE LEGISLATION

In 2015, the Government of Alberta ("GoA") announced its Climate Leadership Plan ("CLP"). The CLP recommends that Alberta move forward on phasing out coal-fired electricity generation by 2030 and encourages more renewable energy. The GoA targets to have renewable sources comprising of 33% of Alberta's coal-fired generating capacity by 2030. Under the CLP, the GoA has also announced the intention to replace the existing Specified Gas Emitters Regulation with the Carbon Competitiveness Regulation ("CCR") commencing January 1, 2018. If enacted, the CCR will require coal-fired generators to pay \$30 per tonne of carbon dioxide on emissions above what Alberta's cleanest natural gas-fired plant would emit to generate the same amount of electricity. This has been estimated at \$18 per MWh for Alberta's coal-fired generation fleet.

On November 3, 2016 the GoA announced its plan to hold its first auction for renewable power contracts early in 2017 as the government moves on its strategy of having thirty per cent of the province's electrical supply coming from renewable sources such as wind, solar and hydro by 2030. The province will hold its first competition beginning in first quarter of 2017, which will see investors bidding to provide up to 400 MW of renewable electricity for 20 years. The winning bidders will be announced by the end of 2017 and projects commissioned in 2019.

On November 23, 2016 the GoA announced its plan to transition Alberta's energy-only market to a capacity market structure. The capacity market will help to ensure that there is sufficient supply adequacy as over 6,000 MW of coal generation retires by 2030. The new market structure is expected to reduce price volatility while compensating power plant owners with monthly capacity payments for making their capacity available in the energy and ancillary services market. The AESO is engaging stakeholders in determining the design and implementation of the capacity market is expected to conduct the first auction in 2019 with a contract delivery year targeted for 2021. The AESO has suggested they will need new capacity in 2021.

In October 2016, the Government of Canada announced a pan-Canadian carbon pricing system that would put a minimum of \$10 per tonne of greenhouse gas ("GHG") emissions in 2018, rising by \$10 each year to \$50 per tonne by 2022. It is expected that this would not impact Albertans until 2021 when the \$30 price on GHG emissions would increase by \$10 to \$40 in order to meet the federal framework.

As at the date of this MD&A, uncertainties still exist on the details of the legislation resulting from the CLP. MAXIM currently anticipates that it will continue to be permitted to run M1 at full capacity to December 31, 2019 as a coal, natural gas or dual fuel-fired facility and as a natural gas-fired facility at full capacity thereafter, consistent with the current Federal regulations.

In addition to the GHG regulations, Canadian federal and Alberta provincial environmental regulations are also being developed and/or revised for air pollutants such as SO<sub>2</sub>, nitrogen oxides, volatile organic carbons, and particulate matter. No significant changes to these regulations are expected in the near future as both the provincial and federal governments focus on GHG regulations.

The state of environmental regulation in the U.S. remains fluid. The U.S. Congress has not enacted comprehensive climate change legislation, and the future of GHG regulations promulgated by the United States Environmental Protection Agency ("U.S. EPA") has been rendered uncertain by ongoing litigation and the recent election of President Donald Trump, who opposed those regulations during the 2016 presidential campaign.

On August 3, 2015, the U.S. EPA announced rules limiting carbon dioxide emissions from new, reconstructed, and existing power plants under the Clean Air Act. For new and reconstructed base load natural gas fired power plants, the rules impose emission limits consistent with the adoption of natural gas combined cycle technology. For existing power plants, the U.S. EPA issued GHG emissions guidelines that must be implemented by the individual states, so limitations for individual emissions sources are not yet determinable. On February 9, 2016 the United States Supreme Court stayed the implementation of the guidelines governing existing power plants' GHG emissions pending the resolution of litigation challenging U.S. EPA's regulations, so individual states are not required to submit their existing source implementation plans to U.S. EPA until after that litigation is resolved. It also remains to be seen whether the new presidential administration will choose to defend those GHG regulations in court, or whether U.S. EPA will seek to rescind or amend those regulations through a new rulemaking process.

MAXIM believes it is in compliance with the Climate Change and Emissions Act (Alberta) and the Regional Greenhouse Gas Initiative, which limit carbon dioxide emissions from facilities located in Alberta and the Northeast U.S., respectively. While future changes to those programs or the approval of state implementation plans regulating existing power plants' GHG emissions have the potential to impact future operations or impose additional costs, no such material changes are foreseeable at this time.

## SELECTED QUARTERLY FINANCIAL INFORMATION

### Key performance indicators

Quarter ended: (unaudited) (\$000's unless otherwise noted)	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016
Revenue				
Continuing operations	2,840	1,581	180	1,883
Discontinued operations	18,309	21,997	11,433	36,335
Total	21,149	23,578	11,613	38,218
Adjusted EBITDA <sup>(1)</sup>				
Continuing operations	(3,402)	(993)	(3,980)	(5,803)
Discontinued operations	524	3,756	781	11,349
Total	(2,878)	2,763	(3,199)	5,546
Net loss attributable to shareholders				
Continuing operations	(9,721)	(3,334)	(6,825)	(9,994)
Discontinued operations	(7,690)	(16,698)	(1,523)	1,985
Total	(17,411)	(20,032)	(8,348)	(8,009)
Basic and diluted loss per share attributable to shareholders (\$ per share)				
Continuing operations	(0.18)	(0.06)	(0.12)	(0.19)
Discontinued operations	(0.14)	(0.31)	(0.03)	0.04
Total	(0.32)	(0.37)	(0.15)	(0.15)
FFO <sup>(1)</sup>				
Continuing operations	(4,949)	525	(4,689)	(6,143)
Discontinued operations	1,582	(4,960)	635	11,492
Total	(3,367)	(4,435)	(4,054)	5,349
Total assets	218,183	295,286	310,674	327,875
Average Alberta electricity price (\$ per MWh)	22	18	15	18
Average Milner realized electricity price (\$ per MWh) <sup>(2)</sup>	35	34	20	21
Average Northeast U.S. realized electricity price (US\$ per MWh)	47	42	37	37

## Key performance indicators

Quarter ended: (unaudited) (\$000's unless otherwise noted)	31-Dec 2015	30-Sep 2015	30-Jun 2015	31-Mar 2015
Revenue				
Continuing operations	2,161	899	12,241	4,255
Discontinued operations	30,631	18,806	10,786	43,266
Total	32,792	19,705	23,027	47,521
Adjusted EBITDA <sup>(1)</sup>				
Continuing operations	276	(5,693)	5,469	(4,974)
Discontinued operations	7,943	3,354	1,556	11,570
Total	8,219	(2,339)	7,025	6,596
Net income (loss) attributable to shareholders				
Continuing operations	(66,011)	(8,916)	3,314	(10,209)
Discontinued operations	856	(1)	(733)	4,282
Total	(65,155)	(8,917)	2,581	(5,927)
Basic and diluted income (loss) per share attributable to shareholders (\$ per share)				
Continuing operations	(1.22)	(0.16)	0.06	(0.19)
Discontinued operations	0.02	-	(0.01)	0.08
Total	(1.20)	(0.16)	0.05	(0.11)
FFO <sup>(1)</sup>				
Continuing operations	(5,183)	(5,807)	2,249	(6,700)
Discontinued operations	9,627	3,186	1,206	11,685
Total	4,444	(2,621)	3,455	4,985
Total assets	346,898	406,610	386,767	407,548
Average Alberta electricity price (\$ per MWh)	21	26	57	29
Average Milner realized electricity price (\$ per MWh)	23	40	143	42
Average Northeast U.S. realized electricity price (US\$ per MWh)	42	44	50	158

<sup>(1)</sup> Select financial information was derived from the audited consolidated financial statements and is prepared in accordance with GAAP, except adjusted EBITDA and FFO. Adjusted EBITDA is provided to assist management and investors in determining the Corporation's operating performance. Adjusted EBITDA and FFO does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. FFO is provided to assist management and investors in determining the Corporation's cash flows generated from operations before the cash impact of working capital fluctuations. Refer to the Non-GAAP Measures section of this MD&A for reconciliations between non-GAAP financial measures and comparable measures calculated in accordance with GAAP.

<sup>(2)</sup> Includes proportionate share of realized gains from commodity swaps in the third and fourth quarter of 2016.

Quarter over quarter revenue and adjusted EBITDA are affected by planned and unplanned outages, market demand, market prices, timing of acquisitions and divestitures, weather conditions and seasonal Alberta power prices. Alberta power prices tend to be higher during winter and summer peak load months and are further affected by supply constraints such as outages at other Alberta generation facilities. Similarly, results in the Northeast U.S. tend to trend with weather based demand with higher earnings during the winter and summer peak periods versus non-peak periods.

In addition to the factors noted above, net income (loss) attributable to shareholders is affected by certain non-cash and non-recurring transactions as follows.

The fourth quarter of 2016 had a \$1.9 million write-down of coal inventory, a \$1.8 million unrealized loss on commodity swaps, a \$1.8 million loss on sale of the France operating segment and a net reversal of asset impairment charges relating to Canada for \$2.8 million. The third quarter of 2016 had a \$15.6 million impairment charge, net of deferred tax benefit, relating to the France operating segment, a \$10.5 million charge related to the FERC Settlement Agreement, \$1.7 million loss on disposal of coal mining equipment, a \$2.8 million insurance recovery and a \$1.5 million unrealized gain on commodity swaps. The second quarter of 2016 had a \$1.9 million write-down of coal inventory, \$0.7 million expense for costs relating to the restructuring of Alberta operations, a \$0.4 million loss on disposal of spare engines and a \$0.2 million unrealized gain on commodity swaps. The first quarter of 2016 had a \$4.8 million write-down of inventories and a \$0.3 million gain on the approval of Emission Performance Credits.

The fourth quarter of 2015 had a reversal of \$32.1 million of deferred tax assets in Canada, asset impairment charges totaling \$37.2 million relating to M1 and adjacent lands, which including coal leases and an \$8.8 million gain on the recognition of SO2 Credits. The third quarter of 2015 had a \$0.1 million expense for costs relating to the restructuring of Alberta operations. The second quarter of 2015 had a \$6.9 million expense for costs relating to the restructuring of Alberta operations and a \$3.4 million unrealized gain relating to the termination of a coal supply agreement. The first quarter of 2015 had a \$4.2 million write-down of coal inventory, a reversal of asset impairment charge for \$1.5 million relating to a US generating facility, \$0.3 million unrealized gain on the derivative coal contract, and a \$1.6 million gain on the approval of Emission Performance Credits.

## 2016 FOURTH QUARTER

### Selected fourth quarter financial information:

(\$000's, unless otherwise noted)	2016	2015
Revenue		
Continuing operations	2,840	2,161
Discontinued operations	18,309	30,631
Total	21,149	32,792
Adjusted EBITDA <sup>(1)</sup>		
Continuing operations	(3,402)	276
Discontinued operations	524	7,943
Total	(2,878)	8,219
Net loss attributable to shareholders		
Continuing operations	(9,721)	(66,011)
Discontinued operations	(7,690)	856
Total	(17,411)	(65,155)
Basic and diluted net loss per share attributable to shareholders (\$ per share)		
Continuing operations	(0.18)	(1.22)
Discontinued operations	(0.14)	0.02
Total	(0.32)	(1.20)
FFO <sup>(1)</sup>		
Continuing operations	(4,949)	(5,183)
Discontinued Operations	1,582	9,627
Total	(3,367)	4,444
Total generation (MWh) <sup>(2)</sup>	126,997	95,478
Average Alberta market power price (\$ per MWh)	22.03	21.19
Average Milner realized power price (\$ per MWh) <sup>(3)</sup>	34.58	22.52
Average U.S. power price – Northeast U.S. (\$ per MWh)	47.22	41.83

(1) Select financial information was derived from the audited consolidated financial statements and is prepared in accordance with GAAP, except adjusted EBITDA and FFO. Adjusted EBITDA is provided to assist management and investors in determining the Corporation's operating performance. Adjusted EBITDA and FFO does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. FFO is provided to assist management and investors in determining the Corporation's cash flows generated from operations before the cash impact of working capital fluctuations. Refer to the Non-GAAP Measures section of this MD&A for reconciliations between non-GAAP financial measures and comparable measures calculated in accordance with GAAP.

(2) Total generation represents generation from continuing operations.

(3) Includes proportionate share of \$2.7 million of realized gains from commodity swaps for 100 MWh from October 1, 2016 to December 31, 2016. As the plant ran at a weighted average of 57 MWh from October 1, 2016 to December 31, 2016 only 57% or \$1.6 million of the gain is incorporated into the realized price in addition to revenues.

### Continuing operations

Revenue earned in the fourth quarter of 2016 increased by \$0.6 million when compared to the same period in 2015. The variance is due to increase in generation volumes at M1 as the facility was in an outage for a portion of the fourth quarter of 2015. Adjusted EBITDA in the fourth quarter decreased by \$3.7 million from 2015 to 2016. Adjusted EBITDA decreased as the sale of SO2 Credits occurred in 2015, partially offset by the realized gains on commodity swaps in 2016. FFO in 2016 was comparable to 2015. Net loss attributable to shareholders in the fourth quarter of 2016 has decreased by \$56.6 million when compared to the same period in 2015. This decrease is primarily due to the impairment of the Corporations metallurgical coal development project, partially offset by the recognition of unsold SO2 credits in 2015.

### Discontinued operations

The Corporation's key performance indicators are significantly impacted by the sale of France and pending sale of the United States operating segments and as such are presented separately to illustrate the impact to the Corporation.

All key performance indicators discussed above were impacted by the timing of the France sale as it closed at the beginning of 2016 and therefore these indicators decreased when compared to the same period in 2015. Revenue earned in the fourth quarter of 2016 decreased by \$12.3 million when compared to the same period in 2015. This is primarily due to lower generation as a result of lower weather based demand and shorter dispatch times, partially offset by high realized prices in the Northeast U.S. Adjusted EBITDA, FFO and net loss attributable to shareholders decreased primarily due to the same factor described in the section above, partially offset by lower operating costs due to lower generation.

## NON-GAAP MEASURES

Management evaluates MAXIM's performance using a variety of measures. The non-GAAP measures discussed below should not be considered as an alternative to or to be more meaningful than revenue, net income attributable to shareholders of the Corporation or net cash generated from operating activities, as determined in accordance with GAAP, when assessing MAXIM's financial performance or liquidity.

These measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies.

### Adjusted EBITDA

(\$000's)	Continuing 2016	Continuing 2015	Discontinued 2016	Discontinued 2015	Total 2016	Total 2015
GAAP Measures from Consolidated Statements of Loss						
Net loss	(29,874)	(81,822)	(23,815)	4,513	(53,689)	(77,309)
Income tax expense	2,529	26,418	(11,817)	(403)	(9,288)	26,015
Interest expense, net of income	542	253	3,136	3,378	3,678	3,631
Depreciation and amortization	5,238	6,813	16,073	18,064	21,311	24,877
<b>EBITDA</b>	<b>(21,565)</b>	<b>(48,338)</b>	<b>(16,423)</b>	<b>25,552</b>	<b>(37,988)</b>	<b>(22,786)</b>
Adjustments:						
FERC Settlement Agreement	-	-	10,485	-	10,485	-
Inventories write-down	8,612	4,234	-	-	8,612	4,234
Loss on sale of France	-	-	1,756	-	1,756	-
Loss on disposal of equipment	1,667	-	376	631	2,043	631
Share-based compensation	778	778	-	-	778	778
Restructuring of Alberta operations	426	6,968	283	-	709	6,968
Unrealized loss on commodity swaps	58	-	-	-	58	-
Deferred financing costs, accretion and foreign exchange, net	(1,400)	6,748	262	181	(1,138)	6,929
Insurance recovery	-	-	(2,754)	-	(2,754)	-
(Reversal of) asset impairment charges	(2,754)	37,229	22,750	(1,500)	19,996	35,729
Unrealized gain on derivative coal contract	-	(3,719)	-	-	-	(3,719)
Recognition of SO2 Credits	-	(8,822)	-	-	-	(8,822)
EBITDA from non-controlling interests	-	-	(325)	(441)	(325)	(441)
<b>Adjusted EBITDA</b>	<b>(14,178)</b>	<b>(4,922)</b>	<b>16,410</b>	<b>24,423</b>	<b>2,232</b>	<b>19,501</b>

EBITDA and Adjusted EBITDA are calculated as described above, adjusted for specific items that are significant but not reflective of the Corporation's underlying operations. Adjustment of these specific items is subjective; however, management uses its judgment and informed decision-making when identifying items for adjustment.

Adjusted EBITDA is provided to assist management and investors in determining the Corporation's operating performance before finance expense, income taxes, depreciation and amortization, and certain other income and expenses. Financing expense, income taxes, depreciation and amortization are excluded from the EBITDA calculation, as they do not represent cash expenditures that are directly affected by operations. Furthermore, EBITDA is used in MAXIM's bank covenant calculations, which requires these items to be omitted. Management believes that presentation of this non-GAAP measure provides useful information to investors and shareholders as it provides predictive value and assists in the evaluation of performance trends. Management uses adjusted EBITDA to compare financial results among reporting periods and to evaluate MAXIM's operating performance and ability to generate funds from operating activities.

In calculating Adjusted EBITDA for the year ended December 31, 2016 management excluded certain non-cash and non-recurring transactions. In 2016, Adjusted EBITDA excluded the FERC Settlement Agreement, inventories write-down, loss on sale of France, loss on disposal of idle mine equipment, share-based compensation, restructuring of Alberta operations, unrealized loss on commodity swaps, deferred financing costs, accretion and foreign exchange gains and losses, insurance recovery, impairment of assets, net of reversals and EBITDA from non-controlling interest. In 2015, Adjusted EBITDA excluded expenses relating to the restructuring of Alberta operations, a coal inventory write-down at M1, an unrealized gain relating to the termination of a coal supply agreement, the recognition of unsold SO2 Credits, the reversal of impairment charge relating to a US generating facility, the recognition of impairment charges relating to the Corporation's metallurgical coal development project, deferred financing costs, accretion and foreign exchange, non-cash expenses related to share-based compensation, a loss on sale of spare engines in France and EBITDA from non-controlling interests.

#### Funds from operating activities before changes in working capital ("FFO")

MAXIM's consolidated statements of cash flows includes a subtotal, FFO, which is not required under International Accounting Standards ("IAS") 1 - Presentation of financial statements. This non-GAAP measure is included in the statements of cash flows to assist management and investors in determining the Corporation's cash flows generated from operations before the cash impact of working capital fluctuations. Management reviews funds from operating activities before changes in working capital on a quarterly basis.

#### 2016 Fourth Quarter

##### Adjusted EBITDA

(\$000's)	Continuing 2016	Continuing 2015	Discontinued 2016	Discontinued 2015	Total 2016	Total 2015
GAAP Measures from Consolidated Statements of Loss						
Net loss	(9,721)	(66,011)	(7,677)	858	(17,398)	(65,153)
Income tax expense	2,518	33,767	(3,902)	(241)	(1,384)	33,526
Interest expense, net of income	112	10	660	952	772	962
Depreciation and amortization	1,816	2,433	2,500	6,452	4,316	8,885
EBITDA	(5,275)	(29,801)	(8,419)	8,021	(13,694)	(21,780)
Adjustments:						
Inventories write-down	1,951	-	-	-	1,951	-
Unrealized gain on commodity swaps	1,802	-	-	-	1,802	-
Loss on sale of France	-	-	1,756	-	1,756	-
Deferred financing costs, accretion and foreign exchange, net	778	1,451	61	5	839	1,456
Share-based compensation	96	219	-	-	96	219
(Reversal of) asset impairment charges	(2,754)	37,229	7,126	-	4,372	37,229
Recognition of SO2 Credits	-	(8,822)	-	-	-	(8,822)
EBITDA from non-controlling interests	-	-	-	(83)	-	(83)
Adjusted EBITDA	(3,402)	276	524	7,943	(2,878)	8,219

#### CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, assumptions and judgments, based on its experience, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The following outlines the accounting policies and practices involving the use of estimates that are critical in determining the financial results of the Corporation.

### **Decommissioning costs**

Decommissioning costs are expected to be incurred at the end of the operating life of many of the facilities. A provision is recognized when there is a present obligation to restore the site, it is probable the expenditure will be required, and a reliable estimate of the costs can be determined. The ultimate cost to settle these obligations is uncertain due to timing and cost estimates that may vary in response to many different factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other facilities. As a result, there could be significant adjustments to the provisions established which could affect future financial results. Management bases these estimates on its best knowledge, experience in similar circumstances and in some cases reports from independent experts.

### **Useful life and residual value of PP&E**

Each major component of PP&E is depreciated over its estimated useful life net of residual value. The estimated useful life of the assets are based upon current conditions and management's experience, which take into consideration specific contracts, agreements, condition of the asset, technology, production and use of the asset, and regular maintenance programs. The facilities are operated within manufacturers' specifications to realize the expected useful life of each asset. Notwithstanding these measures, the useful life of equipment may vary from that which is estimated by management.

Residual value is estimated by management to be the amount that MAXIM would receive from disposal of the asset after deducting the estimated costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. Actual amounts received may differ from estimated amounts.

### **Impairment of non-financial assets**

The recoverable amount of cash generating units and individual assets is determined based on the higher of fair value less costs of disposal or value-in-use calculations (present value of the estimated future cash flows). Management is required to make assumptions about future cash flows including future commodity process, expected generation, future operating and development costs, discount rates, sustaining capital programs and tax rates. It is possible that future cash flow assumptions may change. This may impact the estimated fair value of the associated asset and may require a material adjustment to the carrying value of the asset. Refer to notes 10 and 11 in the notes to the consolidated financial statements for the asset impairment charges and reversals for the years ended December 31, 2016 and 2015.

### **Income taxes**

The Corporation recognizes the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Corporation to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are dependent on capital investment and subsequent future income from development projects in Canada in addition to monetization of development projects not constructed. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the net deferred tax assets recorded at the statements of financial position date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Corporation operates could limit the ability of the Corporation to obtain estimated tax deductions in future periods.

### **SO2 Credits**

The fair value for SO2 Credits have been determined using valuation techniques with inputs that are unobservable such as bilateral quotes obtained from counterparties, previous actual sales prices transacted by the Corporation, or an internally calculated price based on estimated aggregate market supply and demand curves, whichever is deemed by the Corporation as most reliable. Management bases these estimates on its experience and knowledge of long and short positions of SO2 credits of industry participants.

## **Changes in Accounting Estimates**

The use of judgments and estimates used in the preparation of the consolidated financial statements has been applied consistently for all periods presented and are unchanged from the judgments and estimates disclosed in the notes to the consolidated financial statements for the year ended December 31, 2015.

## **NEW ACCOUNTING PRONOUNCEMENTS**

### **IFRS Standards Issued Not Yet Effective**

The International Accounting Standards Board ("IASB") has issued the following new standards to March 16, 2017. These standards have not been applied in preparing MAXIM's annual 2016 consolidated financial statements as the effective date falls in a subsequent period.

There are no other standards that have been issued, but are not yet effective, that the Corporation anticipates will have a material effect on the consolidated financial statements once adopted.

#### *Financial Instruments*

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income.

Requirements for financial liabilities were added to IFRS 9 in October 2010, which largely carries forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

In November 2013, an amendment to IFRS 9 was issued which represents a substantial overhaul of hedge accounting that will better reflect risk management activities in the financial statements. In addition the amendment will enable entities to change the accounting for liabilities that they have elected to measure at fair value, before applying any of the other requirements in IFRS 9. This change in accounting would mean that gains caused by a worsening in an entity's own credit risk on such liabilities are no longer recognized in profit or loss.

In July 2014, the IASB completed the final element of IFRS 9. The IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

The new standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted whereby the standard must be applied retrospectively. Management has assessed the new standard and determined that there are three key areas of change: classification and measurement, expected credit loss model and hedge accounting. It is expected that there will be no significant impact from the classification and measurements changes based on MAXIM's financial assets and liabilities. In addition, the expected credit loss model will not impact MAXIM as counterparties where credit risk exists are predominantly with entities formed by governments for the purpose of facilitating commerce in the power and utility sector. Finally, there is no impact in the final key area as MAXIM does not have a past practice of utilizing nor does it anticipate commence utilizing hedge accounting. MAXIM will not be early adopting this new standard.

### *Revenue from Contracts with Customers*

IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 and replaces IAS 18 and IAS 11 and related Interpretations. IFRS 15 establishes a model that will apply to revenue earned from a contract with a customer, except for those covered by standards on leases, insurance contracts and financial instruments. The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

The new standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted whereby the standard must be applied retrospectively. Management is in the process of assessing the new standard. Based on the preliminary assessment, we do not expect the impact to be material. MAXIM will not be early adopting this new standard.

In April 2016, an amendment to IFRS 15 was issued to provide clarifying information on interpretation of the standard. Specifically, the amendment clarifies performance obligations in a contract, determines whether a company is a principal and determines whether the revenue from granting a license should be recognized at a point in time or over time.

### *Leases*

IFRS 16, Leases, was issued in January 2016 and replaces IAS 17. IFRS 16 brings all leases on-balance sheet for lessees under a single model, with limited exemptions, eliminating the distinction between operating and finance leases. Lessor accounting remains substantially unchanged and the distinction between operating and finance leases is retained.

The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. Management is currently assessing the impact of the application of this standard, but does not anticipate that it will early adopt this new standard.

### **IFRS amendments**

The IASB has issued the following amendments to March 16, 2017. These amendments have not been applied in preparing MAXIM's annual 2016 consolidated financial statements as the effective date falls in a subsequent period.

Standard amended	Issued Date	Effective Date <sup>(1)</sup>	Impact on MAXIM
<i>IAS 7 Statement of Cash Flows</i>	January 2016	January 1, 2017	Additional note disclosure
<i>IAS 12 Income Taxes</i>	January 2016	January 1, 2017	Not applicable to MAXIM
<i>IAS 28 Investments in Associates and Joint Ventures</i>	December 2016	January 1, 2018	Not applicable to MAXIM
<i>IAS 40 Transfers of Investment Property</i>	December 2016	January 1, 2018	Not applicable to MAXIM
<i>IFRS 1 First-time Adoption of IFRS</i>	December 2016	January 1, 2018	Not applicable to MAXIM
<i>IFRS 12 Disclosure of Interests in Other Entities</i>	December 2016	January 1, 2017	No impact to MAXIM
<i>IFRS 2 Share-Based Payments</i>	June 2016	January 1, 2018	No impact to MAXIM
<i>IFRS 4 Insurance Contracts</i>	September 2016	January 1, 2018	Not applicable to MAXIM

<sup>(1)</sup> Effective for annual periods beginning on or after effective date

The Corporation does not anticipate that it will early adopt these amendments.

## **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

Risk is inherent in all business activities and cannot be entirely eliminated. However, shareholder value can be maintained and enhanced by identifying, mitigating, and where possible, insuring against these risks. The following section addresses some, but not all, risk factors that could affect MAXIM's future results, as well as activities used to mitigate such risks. These risks do not occur in isolation, but must be considered in conjunction with each other.

The Board of Directors has overall responsibility for the establishment and oversight of MAXIM's risk management framework. The Board has established the Audit and Risk Management Committee, which is responsible for developing and monitoring MAXIM's compliance with risk management policies and procedures. The Audit and Risk Management Committee reports regularly to the Board of Directors on its activities.

MAXIM's risk management policies are established to identify and analyze the risks faced by MAXIM, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and MAXIM's activities. MAXIM, through its training programs and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

### **Financial risks and financial instruments**

The Corporation's financial instruments consist primarily of cash and cash equivalents, restricted cash, trade and other receivables, deposits, trade and other payables, loans and borrowings, and derivatives.

The fair value of a financial instrument is a point in time estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. MAXIM faces the risk that fair values of financial instruments will fluctuate or that estimates used regarding fair values will be inaccurate.

The carrying amount of cash and cash equivalents, restricted cash, trade and other receivables, deposits, and trade and other payables included in MAXIM's statements of financial position approximate their fair values because of the short-term nature of the instruments.

MAXIM may utilize derivative financial instruments to manage market risk arising from volatile commodity prices, floating interest rates and changes in foreign currency rates. MAXIM periodically utilizes derivative financial instruments in the form of commodity swaps and foreign currency put options.

The Corporation has exposure to the following financial risks arising from financial instruments:

#### **(a) Credit risk**

Credit risk arises from the possibility that a counterparty to which the Corporation provides goods or services is unable or unwilling to fulfill their obligations. The extent of the risk depends on the credit quality of the counterparty to which the Corporation provides goods or service. At December 31, 2016, MAXIM's credit exposure consisted primarily of the carrying amounts of cash and cash equivalents, trade and other receivables, income taxes recoverable and deposits.

Trade receivables are predominantly with entities formed by governments for the purpose of facilitating commerce in the power and utility sector. For trade receivables from customers and deposits to vendors who are not government-sponsored entities, the Corporation obtains letters of credit or other security such as guarantees where appropriate. MAXIM utilizes regular credit monitoring processes to mitigate credit risk.

When appropriate, MAXIM uses commodity and interest rate swaps to mitigate the impact of changes in commodity prices and interest rates. A risk associated with using swaps includes credit risk of the counterparty, as they are transacted with a specific counterparty as opposed to a broker, dealer or clearing exchange. The credit risk from commodity swaps is managed in the same respect as trade accounts receivable would be as swap counterparties are assessed for credit-worthiness in the same process as customers.

## **(b) Liquidity risk**

Liquidity risk is the risk that MAXIM will not be able to meet its financial obligations as they come due. MAXIM's approach to managing liquidity is through regular monitoring of cash requirements by preparing short-term and long-term cash flow analyses. MAXIM utilizes a revolving credit facility with \$13.5 million of availability to manage short-term working capital requirements as well as the timing of development capital. There are no assurances that MAXIM will be able to comply at all times with the covenants applicable under these borrowings and there are no assurances that the revolving credit facility will be extended or replaced after its April 30, 2017 expiry date on the same or similar terms. Refer to the Liquidity and Capital Resources section on page 13 and Forward Looking Information section on page 2 for further details.

## **(c) Market risk**

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and commodity prices will affect the Corporation's income and cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures, while optimizing cash flows to the Corporation.

### **(i) Foreign currency exchange risk:**

MAXIM is currently exposed to the risk of foreign currency fluctuations under its United States operating segment, which is currently pending sale with a sales price denominated in US dollars. The Corporation manages this exposure by purchasing foreign currency put options, for a portion of the proceeds. At December 31, 2016, the Corporation has procured a US\$55.0 million put option to lock-in a portion of the sales proceeds at a minimum rate in the Corporation's functional currency.

The carrying values of the assets and liabilities fluctuate with changes in foreign currency exchange rates. The Corporation does not hedge this exposure other than as described below.

Cash outflows for principal and interest payments on long-term debt are denominated in currencies that match the cash flows generated by the underlying operations, thereby forming a "natural" economic hedge between cash flows from operations and obligations. No derivatives have been entered into during the year to further manage risks associated with cash flow fluctuations arising from foreign currency risk. In respect of other monetary assets and liabilities denominated in foreign currencies, MAXIM ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. At December 31, 2016, the Corporation has monetary assets of US\$0.1 million thousand (December 31, 2015 – liability of US\$1.2 million) and other liabilities of US\$5.3 million (December 31, 2015 – US\$nil). A strengthening (weakening) of the Canadian dollar by 10% against the United States dollar for the year ended December 31, 2016 would have increased (decreased) income before tax by \$0.7 million (2015 - \$1.2 million) as a result of these exposures. There is no impact to shareholders equity from the strengthening (weakening) of the Canadian dollar against the United States dollar and European Euro for the intercompany assets and liabilities, as the impacts in income before tax are offset in other comprehensive income.

A strengthening or weakening of the Corporation's subsidiaries functional currencies against other foreign currencies would have an insignificant impact on profit or loss.

### **(ii) Interest rate risk**

Interest rate risk is the risk of change in the borrowing rates of the Corporation. MAXIM partially mitigates its interest rate risk by maintaining fixed rate debt. As at December 31, 2016, the Corporation maintained a fixed rate loan on its US bank facility, classified as assets and liabilities held for sale. As at December 31, 2016, the Corporation maintained \$nil (2015 - \$3,563) variable rate loans and therefore is not exposed to interest rate risk.

(iii) Commodity price risk

Commodity price risk is the risk of price volatility of commodity prices, such as electricity and natural gas. Under certain contracts, the selling price of electricity varies according to changes in natural gas price providing an operating hedge against changes in natural gas price. The Corporation periodically reduces its exposure to commodity price risk by entering into fixed for floating swaps for the selling price of the electricity in Alberta and the United States.

For the year ended December 31, 2016, an increase of electricity prices by \$1 per MWh, in the domestic source currencies, would have increased net income by the amounts shown below for the Alberta and ISO-NE power market. A decrease of electricity prices by this amount would have the opposite effect on pre-tax profit or loss.

Alberta	<b>\$1 per MWh increase in electricity price</b>	<b>\$1 per MWh decrease in electricity price</b>
	Profit or loss	Profit or loss
December 31, 2016	72	(72)
December 31, 2015	222	(222)

ISO-NE	<b>US \$1 per MWh increase in electricity price</b>	<b>US \$1 per MWh decrease in electricity price</b>
	Profit or loss	Profit or loss
December 31, 2016	157	(157)
December 31, 2015	161	(161)

This analysis assumes that all other variables, in particular foreign currency rates, natural gas prices, coal prices and interest rates remain constant. The analysis is performed on the same basis for 2015.

### Industry risks

MAXIM's continuing operations are currently subject to risks as Canada and Alberta continue to focus on phasing out coal-fired generation and moving forward on natural gas-fired generation capacity and renewable power. These risks are being mitigated with the Corporation's development projects which include converting M1 from a coal-fired to a natural gas-fired facility, including increasing the existing natural gas-fired capacity via M3 and other projects such as Buffalo Atlee, Deerland and M2.

Electric energy projects involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The Corporation is dependent upon the creditworthiness and delivery obligations of its counterparties. The failure of such parties to conduct their business in accordance with contract terms and conditions could have a material negative impact on MAXIM's financial results.

The Corporation's operations are subject to the risks normally incidental to a power project's operations, including equipment malfunctions, technical risks and operational upsets. These risks have been mitigated by performance, insurance and warranty conditions in place with MAXIM's current equipment suppliers for the term of the contracts. In accordance with customary industry practice, MAXIM is not, and will not be, fully insured against all of these risks, nor is all such risks insurable.

MAXIM has exposure to market fluctuations in the demand for and price of electricity, generating capacity and thermal energy, and is exposed to the risk of operational problems with facilities and extensive government regulation relating to price, taxes, royalties, exports and many other aspects of the electric and thermal energy business. The Corporation is also subject to a variety of waste disposal, pollution control and similar environmental laws. Most of these risks are managed by well-structured contracting provisions that require MAXIM's customers to guarantee minimum demand charge payments for capacity and by the project host undertaking to supply fuel and permitting requirements. MAXIM assumes price risk for sales to the AESO and ISO-NE.

Power generation operations are subject to the risk normally encountered by companies engaged in activity utilizing mechanical and thermal-fired electricity generation techniques, including unusual and unexpected power draws, mechanical difficulties and other conditions involved in the generation of energy using these methods. Although adequate precautions to minimize risk are routinely taken, power generation operations are subject to hazards such as equipment failure or failure of power distribution systems being served which may result in service interruption. Such interruption may adversely affect the ability of MAXIM to fulfill its duties under existing power generation contracts and regulated tariffs, and may affect its ability to attract new customers. In addition, the existing power distribution system in the areas served or to be served by MAXIM may not be capable of effectively utilizing all of the power supplied by MAXIM.

MAXIM has exposure to the risk that natural gas used to power certain U.S. facilities may not be available. The Corporation mitigates this risk by using turbines with dual fuel capability. All turbines used in Northeast U.S. facilities (CDECCA, Pawtucket, Forked River and Pittsfield) may be operated using natural gas or fuel oil. When the risk for restricted access to natural gas is high, the facilities offer their electricity based on fuel oil prices to compensate for the higher cost of the alternate fuel.

MAXIM purchases its power generation equipment from third party manufacturers. The cost of future equipment purchases may be higher than currently envisaged due to unforeseen circumstances including fluctuations in currency exchange rates. Such unforeseen circumstances and currency fluctuations may have an adverse impact on MAXIM's future earnings potential.

### **Regulation of industry**

MAXIM's activities are subject to complex and stringent energy, environmental and other governmental laws and regulations. The construction and operation of power generation facilities require numerous permits, approvals and certificates from appropriate federal, provincial/state and local governmental agencies, as well as compliance with environmental protection legislation and other regulations. While management of MAXIM believes that it has obtained the requisite approvals for MAXIM's existing operations and that MAXIM's business is operated in accordance with applicable laws, MAXIM remains subject to a varied and complex body of laws and regulations that both public officials and private individuals may seek to enforce. Existing laws and regulations may be revised or new laws and regulations may become applicable to MAXIM that may have a negative effect on MAXIM's business and results of operations. MAXIM may be unable to obtain all necessary licenses, permits, approvals and certificates for proposed projects, and completed facilities may not comply with all applicable permit conditions, statutes or regulations. In addition, regulatory compliance for the construction of new facilities is a costly and time-consuming process. Intricate and changing environmental and other regulatory requirements may necessitate substantial expenditures to obtain permits. If a project is unable to function as planned due to changing requirements or local opposition, it may create expensive delays or loss of value in a project. In addition, the GoA plans to transition the current energy-only market to a capacity market. The general view is positive, however final details are not yet known and there is a risk related to the final market outcome. Refer to the Environmental and Climate Change Legislation section of this MD&A for further detail.

### **Foreign operations**

MAXIM is currently conducting business in Canada and U.S. In addition, the Corporation has a contingent asset under the sale of the France operating segment (page 18). Any changes in government policies could have an impact on MAXIM's business ventures in such jurisdictions. Risks of foreign operations include, but are not necessarily limited to, changes of laws affecting foreign ownership, government participation and regulation, taxation, royalties, duties, rates of exchange, inflation, exchange control, repatriation of earnings and civil unrest. There are no assurances that the economic and political conditions in the countries in which MAXIM operates and intends to operate will continue as they are at the present time. The effect of these factors cannot be accurately predicted.

## **Project development**

MAXIM's project development activities may not be successful. The development of power generation facilities and power related projects, is subject to substantial risks. In connection with the development of a power generation facility, MAXIM must generally obtain necessary power generation equipment, governmental permits and approvals, fuel supply and transportation agreements, sufficient equity capital and debt financing, electrical interconnection agreements, site agreements and construction contracts, and access to power grids. Failure to obtain any of the foregoing may result in increased costs or termination of projects, which may lead to a write down of the carrying amount of projects. MAXIM mitigates these risks by using skilled staff, hiring consultants, contracting certain activities on a turn-key basis, and following a disciplined model of managing capital at risk on a progressive basis.

## **Competition**

The electricity production industry is competitive in all phases. MAXIM, as an independent participant in that industry, faces competition from other independent companies and major companies engaged in electricity production and sale. MAXIM holds no proprietary interests in the technology utilized by it in the power generation business and accordingly there are no barriers impeding new competitors from entering into the same business or utilizing the same technology as MAXIM or different power generation technologies. MAXIM mitigates this risk through strategic relations, optimizing its capital structure to lower its cost of capital and effective capital deployment and asset optimization.

## **Management**

MAXIM strongly depends, and will continue to depend, on the business and technical expertise of its management. The unexpected loss of any of MAXIM's key management personnel may have a serious impact on MAXIM's business. At present, no employee has a key-man insurance policy in place. All members of MAXIM's management have entered into non-competition and non-disclosure agreements with MAXIM.

## **Future financing and project financing**

MAXIM may require additional financing to proceed with its business activities; however, there is no assurance that adequate financing will be available on acceptable terms, if at all. Should MAXIM be unable to obtain financing for its development initiatives, it may be necessary to write down the carrying value of certain development initiatives.

From time to time, MAXIM may enter into transactions to acquire assets or shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase MAXIM's debt levels above industry standards for companies of similar size. Depending upon future capital plans, MAXIM may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither MAXIM's articles nor its by-laws limit the amount of indebtedness that MAXIM may incur. The level of MAXIM's indebtedness from time to time could impair the ability of MAXIM to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

## **Power sales agreements**

MAXIM depends largely on its electricity energy customers. Some of its power generation facilities currently rely on one or more power sales agreements with one or more utility or other customers for all or substantially all of such facility's revenue. Other facilities operate on a merchant basis, selling their energy into spot markets. The profitability of a merchant power plant is largely impacted by the price of electricity, the cost of fuel, and the efficiency with which the plant converts fuel into electricity, which is commonly referred to as plant heat rate. The loss of any one power sales agreement with any of its customers could have a negative effect on MAXIM's results of operations. In addition, any material failure by any customer to fulfill its obligations under a power sales agreement or any supplier under a fuel supply agreement could have a negative effect on the cash flow available to MAXIM and its results of operations.

## Off-balance sheet arrangements

MAXIM does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including the Corporation's liquidity and capital resources, with the exception of the purchase obligations and operating leases disclosed on page 17.

## TRANSACTIONS WITH RELATED PARTIES

(\$000's)	2016	2015
Short-term employee benefits, including wages and benefits	3,883	2,263
Share-based payments	919	597
Total	4,802	2,860

Key management personnel included the Corporation's Directors and Named Executive Officers. There were no other related party transactions during 2016 or 2015.

## CONTROLS AND PROCEDURES

The interim CEO and the Senior Vice President, Finance and Chief Financial Officer ("CFO"), together with management have designed and maintained disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the interim CEO and the CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have concluded that the Corporation's disclosure controls and procedures are not effective for the foregoing purposes due to the material weakness discussed below for internal control over financial reporting.

The interim CEO and the CFO are also responsible for designing and maintaining internal control over financial reporting, as defined under rules adopted by the Canadian Securities Administrators, within the Corporation that are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. MAXIM has adopted the 2013 Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission for the design of its internal control over financial reporting.

The interim CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and effectiveness of the Corporation's internal control over financial reporting and have identified the following material weakness in the design of the Corporation's internal control over financial reporting. The Corporation, predominately in its discontinued France operating segment and the complexities surrounding the accounting and disclosures associated with its disposition and the disposition of the United States operating segment, does not have a sufficient number of finance personnel with the required technical knowledge to address all complex accounting and tax issues that may arise and this may result in inaccuracies in financial reporting. Management mitigates this weakness by periodically utilizing outside consultants for assistance as required to the fullest extent reasonable or by developing in-house expertise or recruiting personnel with the necessary expertise; however, such mitigating procedures do not constitute a compensating control for the purposes of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The Corporation is required to disclose herein any change in the Corporation's internal control over financial reporting that occurred during the period beginning January 1, 2016 and ended on December 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. No material changes in the Corporation's internal control over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

As a result, the Corporation's internal control over financial reporting is not effective as of December 31, 2016. The Corporation anticipates it will remediate this weakness in the first half of 2017 upon completion of disposals of both the France and United States operating segments and resulting simplification of operations. Therefore, the concern has been address for future years.

#### **OTHER INFORMATION**

Outstanding share data:

Issued common shares at December 31, 2016	54,301,391
Outstanding share options at December 31, 2016	1,898,952
Total diluted common shares at December 31, 2016	56,200,343
Share options exercised in January 2017	(23,767)
Issued common shares in January 2017	23,767
Share options granted in January 2017	3,334
Total diluted common shares at March 16, 2017	56,203,677

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).

## GLOSSARY OF TERMS

The following listing includes definitions of certain terms used throughout this MD&A:

<b>AESO</b>	Alberta Electric System Operator
<b>AEP</b>	Alberta Environment and Parks
<b>Alberta market power prices</b>	The hourly price established by the AESO for electricity bought and sold through the Alberta Power Pool
<b>AUC</b>	Alberta Utilities Commission
<b>Bank EBITDA</b>	EBITDA that includes only Canadian subsidiaries and select U.S. subsidiaries for the purpose of calculating the Net Funded Debt to Bank EBITDA ratio and Interest Coverage ratio
<b>Basin Creek</b>	Basin Creek generating station, a 55 MW generating facility located in Butte, Montana was acquired by MAXIM in April, 2005
<b>BMO</b>	Bank of Montreal
<b>Buffalo Atlee</b>	Buffalo Atlee is a development project for up to 200 MW wind generation situated near Brooks, Alberta.
<b>Capacity</b>	The rated continuous load-carrying ability, expressed in megawatts, of generation equipment (throughout the MD&A references to electric and thermal capacity are stated in nameplate capacity)
<b>CCR</b>	Carbon Competitiveness Regulation
<b>CDECCA</b>	Capital District Energy Center Cogeneration Associates power plant, a 62.1 MW generating facility located in Hartford, CT was acquired by MAXIM on October 1, 2006
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Senior Vice President, Finance and Chief Financial Officer
<b>CLP</b>	Climate Leadership Plan
<b>Coal Beneficiation Plant</b>	A coal beneficiation plant is a facility that handles coal by washing it of impurities and prepares it for transportation to the end user or market.
<b>Cogeneration</b>	The combined, simultaneous generation of heat (usually in the form of hot water or steam) and power (usually in the form of electricity)
<b>Decision</b>	Decision 790-D04-2016 issued by the AUC
<b>Deerland</b>	Deerland is a development project for a 190 MW natural gas-fired peaking station located near Bruderheim, Alberta
<b>DSCR</b>	Debt service coverage ratio
<b>EBITDA</b>	Earnings Before Interest, Tax, Depreciation and Amortization
<b>Emission Performance Credits</b>	Emission performance credits are generated by facilities that have reduced emission of greenhouse gases by 12% since July 1, 2007
<b>FERC</b>	Federal Energy Regulatory Commission is the United States federal agency with jurisdiction over interstate electricity sales, wholesale electric rates, hydroelectric licensing, natural gas pricing and oil pipeline rates.
<b>FFO</b>	Funds from operation activities before changes in working capital
<b>FLI</b>	Forward-looking information
<b>Forked River</b>	Forked River generating station, a 87 MW generating facility located in Forked River, New Jersey was acquired by MAXIM on April 17, 2008
<b>GAAP</b>	IFRS, as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants
<b>GHG</b>	Greenhouse gas
<b>GoA</b>	Government of Alberta
<b>Gold Creek</b>	Gold Creek generating facility, a 6.5 MW generating facility acquired by MAXIM in 2001, utilizes waste heat from a main line gas compressor to generate power
<b>IAS</b>	International Accounting Standards
<b>IASB</b>	International Accounting Standards Board

<b>IFRS</b>	International Financial Reporting Standards
<b>ISO-NE</b>	ISO New England is an independent, non-profit Regional Transmission Organization managing several states in the Northeast United States.
<b>M1</b>	HR Milner, a 150 MW (nameplate capacity) coal-fired generating facility located near the town of Grande Cache, Alberta has been in continuous operation since 1972 and was acquired by MAXIM on March 31, 2005
<b>M14</b>	Mine 14 is a development project of Summit Coal and is located north of Grande Cache, Alberta
<b>M16S</b>	Mine 16S is a development project of Summit Coal containing 1,792 hectares of coal leases and is located 30 kilometers northwest Mine 14 in the Smokey River Coalfield
<b>M2</b>	Milner expansion initiative to develop a 520 MW natural gas-fired generating facility
<b>M3</b>	Milner expansion initiative to develop a 86 MW natural gas-fired combined cycle facility
<b>MAXIM or the Corporation</b>	Maxim Power Corp.
<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>Milner</b>	Milner Power Inc., a wholly owned subsidiary of MAXIM
<b>Milner realized power price</b>	The weighted average price realized by Milner for sale of electricity and spot and fixed prices, in \$/MWh
<b>MW</b>	Megawatt, a measure of electrical generating capacity that is equivalent to one million watts
<b>MWh</b>	Megawatt-hour, a measure of electricity consumption equivalent to the use of 1,000,000 watts of power over a period of one hour
<b>MUSA</b>	MAXIM Power (USA), Inc.
<b>O&amp;M</b>	Operations and maintenance
<b>Pawtucket</b>	Pawtucket generating station, a 64 MW generating facility located in Pawtucket, Rhode Island was acquired by MAXIM on November 10, 2005
<b>Pittsfield</b>	Pittsfield generation station, a 181 MW electric power plant in Pittsfield, Massachusetts, was acquired by MAXIM on November 10, 2005
<b>PP&amp;E</b>	Property, plant and equipment
<b>Settlement Agreement</b>	Stipulation and Consent Agreement that resolves and closes all matters in the Staff Notice of Alleged Violations issued in November of 2014 by FERC
<b>SO2</b>	Sulphur dioxide
<b>SO2 Credits</b>	Emission credits used to offset the production of SO2
<b>SUMMIT</b>	Summit Coal is a wholly-owned MAXIM subsidiary, which owns the Mine 14 and Mine 16S development projects
<b>Unplanned outage</b>	Shutdown of a generating unit due to an unanticipated breakdown
<b>U.S. or United States</b>	The United States of America
<b>U.S. EPA</b>	United States Environmental Protection Agency

Words importing the singular number, where the context requires, include the plural, and vice versa, and words importing any gender include all genders.