

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated November 8, 2018 and should be read in conjunction with the unaudited condensed consolidated interim financial statements of Maxim Power Corp. ("MAXIM" or the "Corporation") for the three and nine months ended September 30, 2018. The MD&A should also be read in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2017. MAXIM prepares its unaudited condensed consolidated interim financial statements in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting, under International Financial Reporting Standards ("IFRS"), as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants ("GAAP").

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 as at the date of this MD&A:

- MAXIM resumed the generation of electricity at HR Milner ("Milner") on June 13, 2018. Based on settled and forward power and gas prices, MAXIM anticipates generating electricity at the existing Milner facility until late 2019. MAXIM anticipates that it has approximately four months of coal inventory on hand, based on prior consumption. If Milner is unable to consume or resell its coal inventory, it could ultimately incur costs for disposal.
- Development projects, including Milner Gas Expansion ("MGE"), Deerland Peaking Station ("Deerland"), Milner Gas Repowering ("MGR") 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.
- MAXIM is proceeding with the development of the MGE project. The first stage of the development is a 208 MW simple cycle gas turbine facility ("MGE1"). Based on preliminary engineering, MAXIM is currently estimating total development costs to complete MGE1 in simple cycle mode of approximately \$80.0 million, inclusive of the \$20.3 million used to purchase equipment (refer to page 3), and that commercial operation date will occur late in 2019. The Milner site has access to existing assets, which results in a cost-effective solution for new development.
- Management forecasts that cash flows for operating, general and administrative expenses will be funded by its existing cash on hand. Based on preliminary engineering estimates, management forecasts that cash flows for MGE1 will be funded with existing cash on hand. Other development capital will be funded by future anticipated financing.
- MAXIM estimates total capital expenditures of approximately \$36.7 million to be incurred in 2018. This respective estimate in the third quarter of 2018 has increased significantly from the estimate in the second quarter of 2018 primarily from the purchase of a natural gas-fired combustion turbine generator and certain other equipment and additional costs forecasted to commence construction of MGE1.
- In determining potential development sites, management estimates future capacity payments and power prices in Alberta. The actual future capacity and power prices in these areas may be different from expected.
- MAXIM anticipates compliance with all necessary provincial and federal regulations for environmental and climate change legislation. Changes to environmental legislation and operational issues may affect the ability of MAXIM to comply with regulations.
- MAXIM anticipates that it will maintain a working capital surplus over the next twelve months.

## OVERALL PERFORMANCE

### Highlights and Notable Events

During the third quarter, MAXIM announced that it has closed an agreement to purchase a General Electric Frame 7 F-Class combustion turbine generator ("CT") and certain equipment for \$20.3 million for the MGE1 development project. This equipment was previously delivered new to the seller in 2012 and never installed. The purchase price will be funded from cash on hand. The decision to purchase this equipment follows from MAXIM's review and investigation of multiple alternatives in relation to the Milner site to maximize shareholder value. The CT is an efficient turbine generator with competitive variable operating costs. MAXIM anticipates that generation capacity at the Milner site from the CT will average 208 MW in simple cycle mode. Refer to page 12 for further discussion of MGE1.

Based on preliminary engineering, the total estimated capital cost of the project including the above purchase is approximately \$80.0 million, with commercial operation commencing late in 2019. MAXIM currently anticipates that operation of the existing Milner 150 MW dual fuel-fired (coal and natural gas) facility will be phased out during the latter stages of development of this new gas-fired generation capacity.

### Key Performance Indicators ("KPI")

(\$000's, unless otherwise noted)	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Revenue				
Continuing operations	7,880	-	9,989	2,024
Discontinued operations	-	-	-	14,246
Total	7,880	-	9,989	16,270
Net income (loss) attributable to shareholders				
Continuing operations	(3,733)	(3,281)	(4,456)	(18,271)
Discontinued operations	-	(2,156)	-	49,201
Total	(3,733)	(5,437)	(4,456)	30,930
Basic and diluted net income (loss) per share attributable to shareholders (\$ per share)				
Continuing operations	(0.07)	(0.06)	(0.08)	(0.34)
Discontinued operations	-	(0.04)	-	0.91
Total	(0.07)	(0.10)	(0.08)	0.57
Total generation (MWh)	136,293	-	158,162	21,869
Average Alberta market power price (\$ per MWh) <sup>(2)</sup>	54.46	24.54	48.39	22.05
Average Milner realized power price (\$ per MWh) <sup>(2)</sup>	57.76	-	62.99	23.32
Total assets	160,410	181,236	160,410	181,236

(1) For comparative purposes, the Corporation continues to separately illustrate the impact of discontinued operation of the United States from continuing operations on its current KPI's.

(2) Average Alberta market pool price and average Milner realized power price from June 13, 2018 to September 30, 2018 were \$58.13 per MWh and \$62.99 per MWh, respectively.

### Financial Results

The financial results of the Canada segment are presented as continuing operations and the financial results of the U.S. operating segment are presented as discontinued operation to illustrate the impact to the Corporation of the sale of the foreign segment. Refer to Discontinued Operation section on page 8 for information on the financial results of discontinued operation.

Revenue and net loss attributable to shareholders from continuing operations increased in the third quarter of 2018 when compared to 2017. Despite the resumption of operations at Milner, net loss from continuing operations increased as the Corporation incurred additional depreciation on Milner components derecognized and a loss on the sale of a subset of the Corporation's renewable generation development project in 2018. This was partially offset by a lower operating loss at Milner, when excluding the impacts of depreciation, and lower personnel costs at the corporate head office.

Revenue increased in the first nine months of 2018 when compared to 2017 due to the resumption of operations at Milner in June of 2018, in conjunction with higher Alberta power prices. In addition, net loss attributable to shareholders from continuing operations further decreased in the first nine months of 2018 when compared to 2017. The change in this financial measure was primarily due to operating cost savings from cost cutting initiatives and the temporary suspension of operations at Milner from July 2017 to June 2018, lower personnel costs at the corporate head office, lower restructuring costs, and the 2018 rerecognition and derecognition of future tax assets and liabilities, respectively. This was partially offset by higher operations and maintenance ("O&M") expenses incurred from resuming operations at Milner, as well as realized gains on commodity risk management activities and final resolution of the cooling tower claims in 2017.

## RESULTS OF CONTINUING OPERATIONS

### Revenue

Segment (\$000's)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Revenue <sup>(1)</sup>	7,880	-	9,989	2,024

<sup>(1)</sup> All revenues from continuing operations are electricity sales at spot prices, including the impact of line loss credits.

Revenue in the third quarter of 2018 increased from \$nil in 2017 to \$7.9 million in 2018, as a result of increased generation volumes, due to the resumption of operations at Milner, and significantly higher Alberta power prices.

Revenue in the first nine months of 2018 increased \$8.0 million, from \$2.0 million in 2017 to \$10.0 million in 2018, due to the same factors impacting the third quarter.

### Plant Operations

Summary of plant operations expense by type:

Three months ended September 30 (\$000's)	2018			2017		
	Fuel	O&M	Total	Fuel	O&M	Total
Total	1,970	6,236	8,206	-	1,527	1,527
Percent	24%	76%	100%	0%	100%	100%

Nine months ended September 30 (\$000's)	2018			2017		
	Fuel	O&M	Total	Fuel	O&M	Total
Total	2,197	11,002	13,199	1,425	8,216	9,641
Percent	17%	83%	100%	15%	85%	100%

Fuel and O&M expenses in the third quarter of 2018 increased \$6.7 million, from \$1.5 million in 2017 to \$8.2 million in 2018, as Milner was operational in the third quarter of 2018 as compared to the same period in 2017 when operations were temporarily suspended. Fuel and O&M expenses in the first nine months of 2018 increased \$3.6 million or 38%, from \$9.6 million in 2017 to \$13.2 in 2018, primarily due to the same factor impacting the third quarter and increased generation volumes, partially offset by cost savings from cost cutting initiatives and the temporary suspension of operations at Milner from July 2017 to June 2018 and lower per-unit natural gas costs.

## General and Administrative Expense

(\$000's)	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Total general and administrative expense	901	1,429	3,082	3,958

General and administration expense in the third quarter of 2018 decreased \$0.5 million or 36%, from \$1.4 million in 2017 to \$0.9 million in 2018, primarily due to lower personnel costs at the corporate office as a result of headcount reductions.

General and administration expense in the first nine months of 2018 decreased \$0.9 million or 23%, from \$4.0 million in 2017 to \$3.1 million in 2018, primarily due to lower personnel costs at the corporate office as a result of headcount reductions, partially offset by no allocations to the U.S. operating segment in the first quarter of 2018 as a result of the sale of this operating segment in the second quarter of 2017.

## Depreciation and Amortization Expense

(\$000's)	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Total depreciation and amortization	1,993	940	5,137	3,781

Depreciation and amortization expense in the third quarter of 2018 increased \$1.1 million, from \$0.9 million in 2017 to \$2.0 million in 2018, primarily due to additional depreciation recognized on components derecognized in 2018 and a higher asset base for Milner as a result of capital spending.

Depreciation and amortization expense in the first nine months of 2018 increased \$1.3 million or 34%, from \$3.8 million in 2017 to \$5.1 million in 2018, primarily due to the same factors impacting the third quarter.

## Other Expense (Income), Net

(\$000's)	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Other expense (income), net	881	(269)	1,259	(3,638)

Net other expense in the third quarter of 2018 increased from income of \$0.3 million in 2017 to expense of \$0.9 million in 2018. The increase is primarily due to a loss on sale of a subset of the Corporation's renewable generation development project and non-recurring transition services income received in 2017.

Net other expense in the first nine months of 2018 increased from income of \$3.6 million in 2017 to expense of \$1.3 million in 2018. The increase is primarily due to cooling tower claim recoveries in 2017 and the same factors impacting the third quarter, partially offset by higher costs incurred to restructure the Corporation's Alberta operations in 2017.

## Finance Income, Net

(\$000's)	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Interest expense	36	36	107	379
Accretion of provisions	50	24	117	63
Foreign exchange loss (gain)	73	59	(5)	191
Finance expense	159	119	219	633
Interest income	(517)	(394)	(1,580)	(688)
Total finance income, net	(358)	(275)	(1,361)	(55)

Net finance income in the third quarter of 2018 was \$0.4 million, which is comparable to the same period in 2017.

Net finance income in the first nine months of 2018 increased from \$0.1 million in 2017 to income of \$1.4 million in 2018. The increase is primarily due to interest income earned on greater balances of cash and cash equivalents, short-term investment and restricted cash in 2018 as a result of the sale of the U.S. operating segment in the second quarter of 2017. In addition, \$0.1 million of interest expense and bank charges were recognized in 2018 compared to \$0.4 million in 2017, which was primarily due to standby charges on additional letters of credit outstanding.

## Income Tax Benefit

(\$000's)	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Current tax expense (benefit)	(10)	(71)	(24)	81
Deferred tax benefit	-	-	(6,847)	(842)
Total income tax benefit	(10)	(71)	(6,871)	(761)

Income tax benefit in the third quarter of 2018 is comparable to the same period in 2017.

Income tax benefit in the first nine months of 2018 increased \$6.1 million, from \$0.8 million in 2017 to \$6.9 million, as a result of rerecognizing tax assets in 2018 as it is now probable that sufficient future taxable income will be available to utilize underlying tax losses due to the resumption of operations at Milner. In addition, the Corporation derecognized its deferred tax liability in 2018, which was related to timing differences generated from the recognition of capital expenditures for tax purposes, as the Corporation is now able to control the timing of the reversal of these differences.

## Financial Position

The following highlights the changes in the Corporation's unaudited condensed consolidated interim Statement of Financial Position at September 30, 2018 as compared to December 31, 2017.

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As at (\$000's)	September 30, 2018	December 31, 2017	Increase (Decrease)	Primary factors explaining change
<b>Assets</b>				
Cash and cash equivalents and short-term investment	63,620	101,402	(37,782)	Capital additions for the MGE1 project and existing Milner facility, operating cash outflows and the purchase and cancellation of common shares
Trade and other receivables	5,961	2,169	3,792	Increased as a result of resuming operations at Milner, partially offset by lower receivables outstanding for the remediation of certain lands at the Milner site
Property, plant and equipment, net	69,542	47,574	21,968	Capital additions, change in estimated decommission costs and timing at Milner, partially offset by depreciation
Net other assets	21,287	14,977	6,310	Increased due to the recognition of income tax assets and derecognition of liabilities
<b>Liabilities &amp; Equity</b>				
Trade and other payables	4,480	6,393	(1,913)	Lower payables as a result of the final payment of the Federal Energy Regulatory Commission settlement, partially offset by higher payables at Milner due to restart of operations
Provisions for decommissioning	15,041	11,055	3,986	Change in estimated decommission costs and timing at the Milner site, partially offset by continued remediation at the Milner site
Equity	140,889	148,674	(7,785)	Primarily due to a net loss for the period and the purchase and cancellation of common shares

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## DISCONTINUED OPERATION

The following table represents the discontinued net income for the U.S. operating segment combined in Canadian dollars:

	Three months ended September 30 2017	Nine months ended September 30 2017
Revenue	-	14,246
Expenses (income)	2,156	(20,065)
Operating income	(2,156)	34,311
Finance income	-	(14,891)
Income before income taxes	(2,156)	49,202
Income tax expense (benefit)		
Current	-	25
Deferred	-	(28)
	-	(3)
<b>Net income from discontinued operation</b>	<b>(2,156)</b>	<b>49,205</b>

	Nine months ended September 30 2017
<b>Cash flows from (used in) discontinued operation</b>	
Net cash generated from operating activities	87
Net cash used in financing activities	(842)
Net cash used in investing activities	(313)
Cash component of net assets disposed	(2,443)
Unrealized foreign exchange loss on cash	(24)
<b>Net cash flows for the period</b>	<b>(3,535)</b>

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Management has determined that cash flows for operating, general and administrative expenses and the first stage of MGE1 development project will be funded by MAXIM's existing cash on hand based on preliminary engineering estimates. Cash flows for further development capital will be funded by both its existing cash on hand and, potentially, future anticipated financing based upon current forecasts.

The Corporation has a credit agreement with the Bank of Montreal for a demand facility that requires full cash collateralization for \$8.0 million of letters of credit on a non-revolving basis. As at September 30, 2018, the Corporation has \$7.9 million of outstanding letters of credit outstanding and cash of the same amount was deposited into a restricted bank account maintained by the bank. There are no financial covenants under this credit agreement.

At September 30, 2018, the Corporation had unrestricted cash of \$12.4 million and short-term investment of \$51.2 million included in the net working capital surplus of \$65.4 million. Unrestricted cash balances are invested with one Canadian chartered bank yielding the bank's prime rate less 168 basis points and are available on demand. Short-term investment balance is invested with a Canadian financial institution yielding the bank's prime rate less 120 basis points and is available with ninety days' notice. During the third quarter of 2018, the Corporation transferred \$25.0 million to cash and cash equivalents to fund the purchase of a natural gas-fired combustion turbine and certain other equipment for the development of MGE1. Based on current operations and estimated total project costs of \$80.0 million, including the \$20.3 million spent to date, the Corporation has working capital to support construction of MGE phase 1, maintain liquidity and support current operations. This preceding statement represents FLI and users are cautioned that actual results may vary.

Cash flow summary:

Nine months ended September 30 (\$000's)	2018	2017
Cash on hand, unrestricted, January 1	51,264	15,303
Cash flow used in operations	(12,682)	(17,001)
Cash flow generated from (used in) financing	(3,690)	273
Available for investments	34,892	(1,425)
Cash flow generated from (used in) investing	(22,493)	105,851
	12,399	104,426
Cash and cash equivalents held at discontinued operations beginning of period	-	3,535
Net decrease in cash from discontinued operations	-	(3,535)
Net liquidity available, September 30	12,399	104,426

Cash flow used in operations in the first nine months of 2018 decreased from an outflow of \$17.0 million in 2017 to \$12.7 million in 2018, which is a decrease of \$4.3 million. The decrease in outflow is primarily due to favourable cash flows from resuming operations at Milner, lower general and administrative costs in 2018 and lower costs associated with the restructuring of Alberta operations. In addition, fluctuations in working capital represented a cash outflow of \$6.0 million in 2018, as compared to of \$6.4 million in 2017. See below for further discussion of working capital.

During the first nine months of 2018, MAXIM's cash flow used in financing increased \$4.0 million from \$0.3 million generated from financing in 2017 to \$3.7 million used in financing in 2018, primarily due to purchasing and cancelling common shares of the Corporation under a normal course issuer bid.

MAXIM's investing activities in the first nine months of 2018 represented a cash outflow of \$22.5 million, which primarily consisted of \$23.5 million of development initiatives and M1 sustaining capital in Canada. These amounts were partially offset by interest income of \$0.5 million not reinvested into short-term investment, \$0.4 million proceeds on sale of asset and a change in non-cash working capital of \$0.1 million.

MAXIM's investing activities in the first nine months of 2017 represented a cash inflow of \$105.9 million, which primarily consisted of net proceeds on the sale of the U.S operating segment and recoveries on cooling tower claims. These amounts were partially offset by cash collateralizing the Corporation's letters of credit and development capital expenditures in Canada.

### **Working Capital**

The Corporation has a working capital surplus of \$65.4 million at September 30, 2018, which represents a \$31.9 million decrease from the working capital surplus of \$97.3 million at December 31, 2017. The total decrease was due to a \$33.8 million decrease in current assets and a \$1.9 million decrease in current liabilities.

The decrease in current assets was due to a \$38.9 million decrease to unrestricted cash, which was partially offset by a \$3.8 million increase in accounts receivable, \$1.1 million increase to short-term investment and \$0.2 million increase to prepaid expenses.

The decrease in current liabilities was due to a \$1.9 million decrease in accounts payable.

MAXIM anticipates that it will continue to have a working capital surplus for the next twelve months. This preceding statement represents FLI and users are cautioned that actual results may vary.

### **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.

### **Contingencies**

#### *Contingent liabilities*

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 closed the sale of the France operating segment on December 2, 2016. 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. Any amounts claimed by the buyer in relation to these two amounts will be reduced by any recoveries attained by the buyer from legal proceedings against third parties that were ongoing at the time of the sale and date of these Consolidated Financial Statements. The Corporation is further subject to tax indemnities until December 2, 2019. In addition, the Corporation is subject to customary closing indemnities until December 2, 2019 to a maximum claim of €3.5 million.

The Corporation closed the sale of the United States operating segment on April 3, 2017. Under the sales agreement, the Corporation is subject to tax indemnities with an expiry date in accordance with all applicable statutes of limitations with respect to the matters covered thereby.

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 790-D06-2017 ("Decision"), released December 18, 2017, the Alberta Utilities Commission ("AUC") asserted its position on several matters related to remedy under Module C of Milner Power Inc.'s complaint relating to the Alberta Electric System Operator ("AESO") Line Loss Rule. The Decision confirms that the new method that was used to calculate 2017 prospective loss factor rates would be used for the retrospective period of January 1, 2006 – December 31, 2016. A single settlement approach will be used whereby the AESO will calculate all eleven years before cash is settled. The Decision further confirms that the settlement be effected by reissuing invoices to the original party and that a rider will be applied to transmission rates across the industry to collect any shortfall from the inability to collect from an original party. The Corporation estimates that overpayments of approximately \$40.1 million were made by Milner Power Inc. to the AESO for the period January 1, 2006 to December 31, 2016, based on calculations established using information currently available on the final public record, before accounting for the time value of money. The Corporation anticipates, based on the AESO's current published timelines, that collection of these prior overpayments and the time value of money component at the Bank of Canada Bank Rate +1.5% will occur in the fourth quarter of 2019. This timing is subject to appeals by various industry participants. These preceding statements represent FLI and users are cautioned that actual results may vary.

During the third quarter of 2018, the Corporation has closed the sale of a subset of its renewable generation development project. Under the sales agreement, the Corporation is entitled to additional compensation if the purchaser executes a renewable power purchase agreement or begins construction of the project. In addition, the Corporation is entitled to further compensation upon the date of commercial operation. This additional compensation, under both conditions, shall not exceed \$3.5 million. As at the date of this MD&A, the precise amount and timing of compensation under the sales agreement cannot be determined.

### **Capital Resources**

The following represents FLI and users are cautioned that actual results may vary. The Corporation is currently estimating capital expenditures of approximately \$36.7 million for 2018. This respective estimate in the third quarter of 2018 has increased significantly from the estimate in the second quarter of 2018 primarily from the purchase of a natural gas-fired combustion turbine generator and certain other equipment and additional costs forecasted to construct for MGE1.

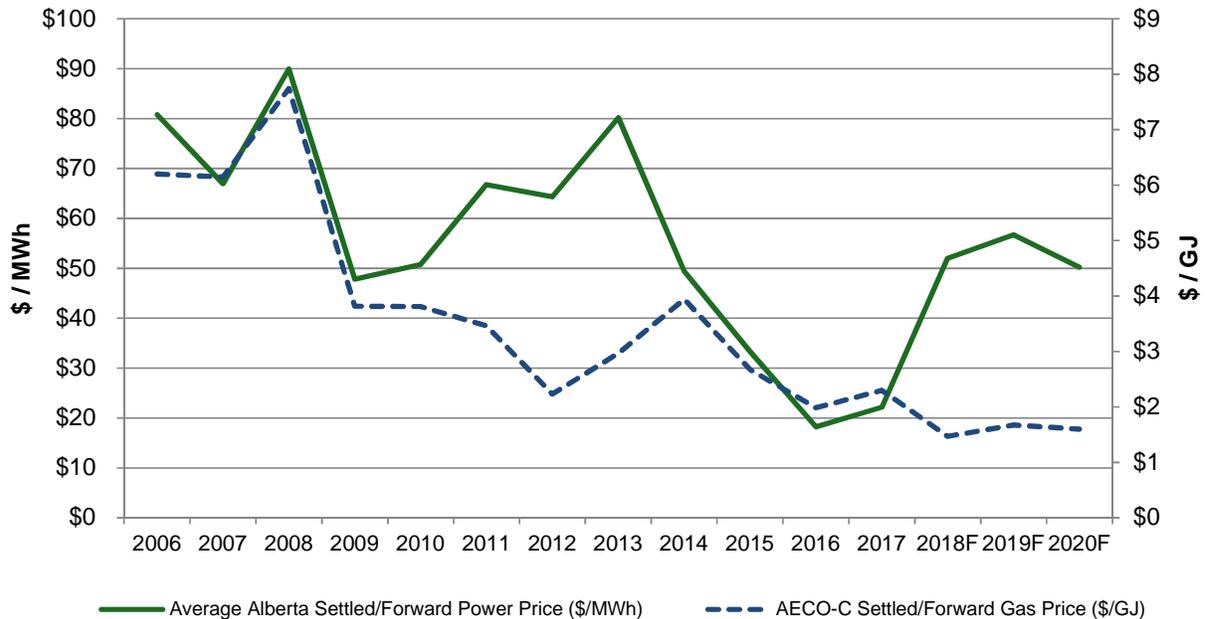
### **OUTLOOK**

#### *Alberta Power Price*

The Corporation's outlook is impacted by Alberta electricity and fuel prices. Alberta electricity prices are a key revenue determinant for Milner. As a result of record low Alberta power prices in late 2016 and early 2017, which undermined profitability for a prolonged period, the Corporation had made the decision to suspend operations at Milner in July 2017. From this point, the Corporation continued to monitor both settled and forward power and gas prices. MAXIM observed favourable conditions and, as a result, the Corporation resumed the generation of electricity at Milner on June 13, 2018.

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 chart on the next page 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 changed at the beginning of 2018 due to the carbon tax and management subsequently observed a change in the offer strategy in the second quarter of 2018 as a result of dispatch control of four units returning to an independent power producer from the Balancing Pool.

Management expects to see a continued break in correlation between Alberta power prices and Alberta natural gas prices due to the carbon tax, announced conversions of existing generating facilities from coal to gas and the impact of the potential capacity market. It is also expected that natural gas prices will remain suppressed as a result of oversupply within the province which will contribute further to the break in correlation. Based on settled and forward power and gas prices, MAXIM anticipates generating electricity at the existing Milner facility until late 2019. In addition, as at the date of this MD&A, MAXIM anticipates that it has approximately four months of coal inventory on hand based on prior consumption.



### Capacity Market Transition

On November 23, 2016, the Government of Alberta ("GoA") announced its plan to transition Alberta's energy-only market to an energy and capacity market structure. The capacity market is intended to ensure that there is sufficient supply as over 6,000 MW of coal generation retires by 2030, while still maintaining a competitive energy market within the overall market design. The new market structure is expected to reduce energy price volatility while compensating power plant owners with monthly capacity payments for making their capacity available, in addition to compensating power plant owners for production in the energy market. On June 29, 2018, the AESO published their final comprehensive market design proposal for the capacity market. The final proposal will be the basis to establish new rules and regulations for the new capacity market and create certain amendments to current rules and regulations. The AESO continues to engage stakeholders during the development of market rules to reflect the final market design. The first capacity auction is expected to begin in December 2019 with a contract delivery year targeted to begin on November 1, 2021.

### ACQUISITION AND DEVELOPMENT INITIATIVES

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 is continually evaluating its plans for these projects as clarity develops for the transition from the current "energy-only market" to a "capacity market" in Alberta.

#### MGE1

MAXIM is proceeding to develop the first stage of the MGE project. MAXIM anticipates that upon COD of the first stage, the project will have generation capacity at the Milner site that will average 208 MW in simple cycle mode. Based on preliminary engineering, MAXIM is currently estimating total development costs to complete MGE1 in simple cycle mode of approximately \$80.0 million, inclusive of the \$20.3 million used to purchase equipment (refer to page 3), and that commercial operation date will occur late in 2019. The Milner site has access to existing assets, which results in a cost-effective solution for new development.

MAXIM retains the option in the future to increase the capacity of the facility, in conjunction with increasing the efficiency of the facility, by investing additional capital to convert MGE1 to operate with combined cycle technology.

#### *Other Development Initiatives*

In addition to MGE1 and the existing Milner facility, MAXIM has an additional 588 MW of permitted generation capacity in Alberta, including 398 MW at the Milner site. As at the date of this MD&A, no definitive commitments on these projects have been made.

#### *Financing*

MAXIM may require capital (debt and equity), from internal or external sources, to finance construction of 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 Property, Plant and Equipment ("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**

#### *Risks*

MAXIM is exposed to risks in potential legislation that have yet to be enacted. Management has assessed that the most significant risks in potential future legislation are: i) Green House Gas ("GHG") stringency requirements on new natural gas-fired generation facilities, ii) GHG stringency requirements on existing natural gas-fired generation components and facilities or coal-to-gas conversions, and more remotely, iii) legislation that phases out natural gas-fired generation entirely, similar to the regulatory actions taken in recent years surrounding coal-fired generation.

#### *Provincial and Federal Legislation*

In 2015, the GoA announced its Climate Leadership Plan ("CLP"). The CLP recommended that Alberta move forward on phasing out coal-fired electricity generation by 2030 and encourages more renewable energy. Under the CLP, the GoA replaced the existing Specified Gas Emitters Regulation with the Carbon Competitiveness Incentive Regulation ("CCIR") which came into effect on January 1, 2018. The CCIR requires electricity 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. In 2018, the Government of Canada enacted regulations to create a federal carbon pricing plan. The Greenhouse Gas Pollution Pricing Act will be effective on January 1, 2019 and will act as a backstop to any province that has not implemented a compliant carbon pricing regime. Based on the current compliant carbon pricing regime in Alberta, these enacted regulations do not have an impact to carbon emitters in Alberta. If the Alberta provincial government modifies or repeals the price of carbon, these regulations are anticipated to impact Alberta carbon emitters.

In 2012, the Government of Canada enacted regulations to reduce carbon dioxide emissions from coal-fired generation facilities. These new regulations dictate that power plants built before 1975 are able to operate at full capacity until the earlier of fifty years after the commissioning date and December 31, 2019. Moreover, power plants built after 1974 are able to operate until the earlier of fifty years after the commissioning date and December 31, 2029. The Milner facility was commissioned in 1972, and, accordingly, is allowed to operate to its full capacity to December 31, 2019 ("end of life"). After December 31, 2019, Milner is allowed to operate at an annual capacity factor of up to 9% (using coal in the fuel supply), which is approximately 113,500 MWh per annum, until December 31, 2029. In February 2018, the Government of Canada issued draft regulations in relation to natural gas-fired units and, more specifically, in relation to coal-to-gas conversions. In the draft regulations, any generation facility that previously used a boiler in conjunction with coal-fired generation that continues to generate electricity without coal as a fuel source, and instead uses natural gas as a fuel source, will be deemed to be a coal-to-gas conversion and will be subject to CO<sub>2</sub> emissions stringency requirements prospectively commencing at the unit's end of life as defined in the current federal coal regulations.

As at the date of this MD&A, MAXIM currently anticipates that it will continue to be permitted to run Milner at full capacity to December 31, 2019 as a dual fuel-fired (coal and natural gas) facility at a 9% capacity factor for the subsequent ten years subject to utilizing coal for a portion of the fuel source each year. Alternatively, MAXIM currently anticipates that if Milner does not use coal as a fuel source, it would not comply with the draft regulations for coal to gas conversions and as such could not operate on natural gas as a fuel source beyond 2019. Management does not anticipate operating the existing Milner facility as a dual fuel-fired facility at a 9% capacity factor beyond 2019. The MGE1 project is not adversely impacted by any of the provincial or federal legislation above.

## SELECTED QUARTERLY FINANCIAL INFORMATION

### KPI's

Quarter ended: (unaudited) (\$000's unless otherwise noted)	30-Sep 2018	30-Jun 2018	31-Mar 2018	31-Dec 2017
Revenue				
Continuing operations	7,880	2,109	-	-
Discontinued operation	-	-	-	-
Total	7,880	2,109	-	-
Net income (loss) attributable to shareholders				
Continuing operations	(3,733)	2,816	(3,539)	(12,454)
Discontinued operation	-	-	-	-
Total	(3,733)	2,816	(3,539)	(12,454)
Basic and diluted income (loss) per share attributable to shareholders (\$ per share)				
Continuing operations	(0.07)	0.05	(0.06)	(0.23)
Discontinued operation	-	-	-	-
Total	(0.07)	0.05	(0.06)	(0.23)
Total assets	160,410	164,971	168,237	169,490

Quarter ended: (unaudited) (\$000's unless otherwise noted)	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016
Revenue				
Continuing operations	-	45	1,979	2,840
Discontinued operations	-	-	14,246	18,309
Total	-	45	16,225	21,149
Net income (loss) attributable to shareholders				
Continuing operations	(3,281)	(10,479)	(4,511)	(9,721)
Discontinued operations	(2,156)	50,431	926	(7,690)
Total	(5,437)	39,952	(3,585)	(17,411)
Basic and diluted income (loss) per share attributable to shareholders (\$ per share)				
Continuing operations	(0.06)	(0.19)	(0.08)	(0.18)
Discontinued operations	(0.04)	0.92	0.01	(0.14)
Total	(0.10)	0.73	(0.07)	(0.32)
Total assets	181,236	191,921	213,211	218,183

Net income (loss) attributable to shareholders is affected by certain non-cash and non-recurring transactions as follows.

The third quarter of 2018 included a \$0.6 million loss on sale of a subset of the Corporation's renewable generation development project. The second quarter of 2018 included rerecognizing \$3.5 million of deferred assets and derecognizing \$3.4 million of deferred tax liabilities. The first quarter of 2018 had \$nil impact to net loss attributable to shareholders from certain non-cash and non-recurring transactions.

The fourth quarter of 2017 had asset impairment charges totaling \$7.4 million relating to PP&E. The third quarter of 2017 had a \$2.2 million post-closing adjustment reducing the gain on sale of the U.S. operating segment. The second quarter of 2017 had a \$33.8 million gain on sale of the U.S. operating segment, a \$8.3 million impairment to PP&E and intangible assets and a \$4.3 million recovery of claims. The first quarter of 2017 had a \$0.3 million unrealized gain on foreign exchange and commodity swaps.

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.

## **CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES**

The use of judgements and estimates used in the preparation of the condensed consolidated interim financial statements has been applied consistently for all periods presented and are unchanged from the judgements and estimates disclosed in the notes to the consolidated financial statements for the year ended December 31, 2017, with the exception of the following.

During the third quarter of 2018, the Corporation revised its business plan for the Milner. The existing facility is anticipated to be phased out during the latter stages of 2019, at which point it will be mothballed and a new natural gas-fired facility will be constructed adjacent to the existing facility. As a result, certain components of the existing facility will have a revised useful life of five to twenty five years. Coal-fired components remain unchanged with useful lives ending at December 31, 2019. In addition, the Corporation revised its expectation of the timing of decommissioning Milner's natural gas-fired components to be consistent with the useful life of the new natural gas-fired facility. As a result, there was an increase in property, plant and equipment of \$1.1 million, an increase to other assets related to the decommissioning reimbursement of \$1.6 million and an increase to provisions for decommissioning of \$2.7 million.

During the first quarter of 2018, the Corporation continued remediation of certain lands at the Milner site, and as a result management updated the cost estimate to decommission Milner. The updated cost estimates resulted in an increase to decommissioning costs estimate as it reflects current information.

## **NEW ACCOUNTING PRONOUNCEMENTS**

### **IFRS Adoption of New Standards and Amendments**

On January 1, 2018, the Corporation adopted Financial Instruments (IFRS 9) and Revenue from Contracts with Customers (IFRS 15), as well as the amendments to Investments in Associates and Joint Ventures (IAS 28), Transfers of Investment Property (IAS 40), Share-Based Payments (IFRS 2) and Insurance Contracts (IFRS 4). With the exception of IFRS 9, the adoption of these new standards and amendments had no impact to the amounts recorded or related disclosures in the Corporation's consolidated financial statements as of January 1, 2018 or comparative periods. The effect of the changes from IFRS 9 were disclosed in the Corporation's Unaudited Condensed Consolidated Interim Financial Statements and MD&A for the first quarter ended March 31, 2018. In addition, IFRS 15 did not impact amounts recorded, but did impact the Corporation's significant accounting policies disclosure which was disclosed in the Corporation's condensed consolidated interim financial statements for the second quarter ended June 30, 2018.

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

The International Accounting Standards Board ("IASB") has issued the following new standards to November 8, 2018. These standards have not been applied in preparing MAXIM's third quarter 2018 condensed consolidated interim 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.

#### *Leases*

Leases (IFRS 16), was issued in January 2016 and will replace the current Leases standard (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. Management is currently assessing the impact of the application of this standard, but does not anticipate that there will be a significant impact as the Corporation currently only utilizes operating leases for office space and fixtures therein. The Corporation will not early adopt this new standard.

## IFRS amendments

The IASB has issued the following amendments to November 8, 2018. These amendments have not been applied in preparing MAXIM's third quarter condensed consolidated interim 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 12 Income Taxes</i>	December 2017	January 1, 2019	Not applicable to MAXIM
<i>IAS 19 Employee Benefits</i>	February 2018	January 1, 2019	Not applicable to MAXIM
<i>IAS 23 Borrowing Costs</i>	December 2017	January 1, 2019	Not applicable to MAXIM
<i>IAS 28 Investments in Associates and Joint Ventures</i>	October 2017	January 1, 2019	Not applicable to MAXIM
<i>IFRS 3 Business Combinations</i>	December 2017	January 1, 2019	Not applicable to MAXIM
<i>IFRS 9 Financial Instruments</i>	October 2017	January 1, 2019	Not applicable to MAXIM
<i>IFRS 17 Insurance Contracts</i>	May 2017	January 1, 2021	Not applicable to MAXIM
<i>Conceptual Framework</i>	March 2018	January 1, 2020	No impact 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.

## TRANSACTIONS WITH RELATED PARTIES

The Corporation did not enter any related party transactions during the first nine months of 2018, with the exception of transactions with the Corporation's Directors and members of the Executive Committee in the normal course of business. These transactions in the normal course of business are detailed in note 28 of the 2017 audited annual financial statements.

## CONTROLS AND PROCEDURES

The interim Chief Executive Officer ("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.

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 previously identified material weaknesses in the design of the Corporation's internal control over financial reporting. These weaknesses have been remediated as of September 30, 2018; however, the weakness will continue to impact the Corporation's comparative financial information until the December 31, 2018 financial reporting period. At December 31, 2016, the Corporation, predominately in its discontinued France operating segment and as a result of the complexities surrounding the accounting and disclosures associated with the disposition of both the France and United States operating segments, did 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 remediated this weakness in second quarter of 2017 upon completion of disposals of both the France and United States operating segments and resulting simplification of operations.

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, 2018 and ended on September 30, 2018 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 effective as of September 30, 2018.

Notwithstanding the foregoing, because of its inherent limitations a control system can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Management's estimates may be incorrect, or assumptions about future events may be incorrect, resulting in varying results. In addition, management has attempted to minimize the likelihood of fraud. However, any control system can be circumvented through collusion and illegal acts.

#### **OTHER INFORMATION**

Outstanding share data:

Issued common shares at September 30, 2018	53,147,109
Outstanding share options at September 30, 2018	1,382,653
<b>Total diluted common shares at September 30, 2018</b>	<b>54,529,762</b>
Share options expired in October 2018	(305,284)
Share options granted in October 2018	298,617
Common shares cancelled in November 2018	(79,420)
<b>Total diluted common shares at November 8, 2018</b>	<b>54,443,675</b>

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>AUC</b>	Alberta Utilities Commission
<b>Capacity</b>	The rated continuous load-carrying ability, expressed in megawatts, of generation equipment, with the exception of "capacity payments" and "capacity market" (throughout the MD&A references to capacity are stated in nameplate capacity)
<b>CCIR</b>	Carbon Competitiveness Incentive Regulation
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Senior Vice President, Finance and Chief Financial Officer
<b>CLP</b>	Climate Leadership Plan
<b>CT</b>	Combustion turbine
<b>Decision</b>	Decision 790-D06-2017 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>FLI</b>	Forward-looking information
<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>IAS</b>	International Accounting Standards
<b>IASB</b>	International Accounting Standards Board
<b>IFRS</b>	International Financial Reporting Standards
<b>KPI</b>	Key Performance Indicators
<b>Milner</b>	HR Milner, a 150 MW (nameplate capacity) 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>MGE</b>	Milner gas expansion initiative to develop a 520 MW natural gas-fired generating facility
<b>MGE1</b>	First stage of development of MGE, which is a 208 MW simple cycle gas turbine facility
<b>MGR</b>	Milner gas repowering initiative to increase generating capacity at Milner to 236 MW, comprised of two natural gas-fired turbines located next to Milner
<b>MAXIM or the Corporation</b>	Maxim Power Corp.
<b>MD&amp;A</b>	Management's Discussion and Analysis
<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>PP&amp;E</b>	Property, plant and equipment
<b>O&amp;M</b>	Operations and maintenance
<b>SUMMIT</b>	Summit Coal is a wholly-owned MAXIM subsidiary, which owns the Mine 14 and Mine 16S development projects
<b>U.S. or United States</b>	The United States of America

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