Consolidated Financial Statements of

MAXIM POWER CORP.

for the Years Ended December 31, 2016 and 2015
(Audited)

FORM 52-109F1
CERTIFICATION OF ANNUAL FILINGS
FULL CERTIFICATE

I, M. Bruce Chernoff, Interim Chief Executive Officer of Maxim Power Corp., certify the following:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Maxim Power Corp. (the "issuer") for the financial year ended December 31, 2016.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. ***Responsibility:*** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

      (ii) information required to be disclosed by the issuer 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 periods specified in securities legislation; and

   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 ***Control framework:*** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the Internal Control - Integrated Framework (2013) published by the Committee of Sponsoring Organizations, of the Treadway Commission (COSO).

5.2 ***ICFR - material weakness relating to design:*** The issuer has disclosed in its annual MD&A for each material weakness relating to design existing at the financial year end

(a) a description of the material weakness;

(b) the impact of the material weakness on the issuer's financial reporting and its ICFR; and

(c) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.

5.3 **N/A**

6. ***Evaluation:*** The issuer's other certifying officer(s) and I have

(a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and

(b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A

(i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

(ii) for each material weakness relating to operation existing at the financial year end

(A) a description of the material weakness;

(B) the impact of the material weakness on the issuer's financial reporting and its ICFR; and

(C) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness

7. ***Reporting changes in ICFR:*** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2016 and ended on December 31, 2016 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. ***Reporting to the issuer's auditors and board of directors or audit committee:*** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: March 16, 2017

(signed) "M. Bruce Chernoff"

M. Bruce Chernoff
Interim Chief Executive Officer

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CERTIFICATION OF ANNUAL FILINGS
FULL CERTIFICATE

I, Michael R. Mayder, Senior Vice President, Finance & CFO of Maxim Power Corp., certify the following:

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2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

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5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

      (ii) information required to be disclosed by the issuer 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 periods specified in securities legislation; and

   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

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(i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

(ii) for each material weakness relating to operation existing at the financial year end

(A) a description of the material weakness;

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8. ***Reporting to the issuer's auditors and board of directors or audit committee:*** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: March 16, 2017

(signed) "Michael R. Mayder"

Michael R. Mayder
Senior Vice President, Finance & Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Maxim Power Corp.

We have audited the accompanying consolidated financial statements of Maxim Power Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Maxim Power Corp. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(a) in the consolidated financial statements which indicates that Maxim Power Corp. has provided $12.5 million in letters of credit to its suppliers from its credit facility which matures on April 30, 2017. Maxim Power Corp. is dependent on the closing of the sale of the US operating segment, extension of its credit facility, raising of sufficient capital or the sale of other assets to continue as a going concern. These conditions, along with other matters as set forth in Note 2(a) in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Maxim Power Corp.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

March 16, 2017
Calgary, Canada

Consolidated Financial Statements of

MAXIM POWER CORP.

For the Years Ended December 31, 2016 and 2015

(Audited)

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KPMG LLP

Chartered Professional Accountants

March 16, 2017
Calgary, Canada

MAXIM POWER CORP.
Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	Note	**December 31, 2016**	December 31, 2015
ASSETS			
Cash and cash equivalents		**15,303**	5,884
Trade and other receivables	7	**1,856**	20,871
Income taxes recoverable		**-**	1,070
Prepaid expenses and deposits	8	**272**	2,532
Inventories	9	**1,029**	19,331
Risk management assets	31,32	**1,480**	-
Assets held for sale	6	**120,236**	-
Total current assets		**140,176**	49,688
Property, plant and equipment, net	10	**57,705**	257,117
Restricted cash		**-**	1,405
Intangible assets, net	11	**7,538**	23,224
Deferred tax assets	26	**4,114**	5,100
Other assets	12	**8,650**	10,364
Total non-current assets		**78,007**	297,210
TOTAL ASSETS		**218,183**	346,898
LIABILITIES			
Trade and other payables	13,32	**9,428**	28,906
Deferred revenue		**-**	330
Loans and borrowings	14	**-**	7,579
Liabilities held for sale	6	**32,364**	-
Total current liabilities		**41,792**	36,815
Loans and borrowings	14	**-**	61,149
Provisions for decommissioning	15	**11,961**	16,981
Other long-term liability	6	**3,581**	-
Deferred tax liabilities	26	**3,368**	15,166
Total non-current liabilities		**18,910**	93,296
TOTAL LIABILITIES		**60,702**	130,111
EQUITY			
Share capital	16	**156,482**	156,248
Contributed surplus		**11,423**	10,686
Accumulated other comprehensive income		**28,172**	34,138
Retained earnings (deficit)		**(38,790)**	15,010
Equity attributable to shareholders		**157,287**	216,082
Non-controlling interests		**194**	705
TOTAL EQUITY		**157,481**	216,787
Going Concern	2		
Commitments and Contingencies	23,24		
TOTAL LIABILITIES AND EQUITY		**218,183**	346,898

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

(Signed)
Director

(Signed)
Director

MAXIM POWER CORP.

Consolidated Statements of Loss

For the years ended December 31
(in thousands of Canadian dollars)

	Note	2016	2015
Revenue	18	**6,484**	19,556
Expenses			
Operating	9,19	**32,281**	32,236
General and administrative	19	**4,435**	4,392
Depreciation and amortization		**5,238**	6,813
Gain on commodity swaps	32	**(6,266)**	-
(Reversal of) asset impairment charges, net	10,11	**(2,754)**	37,229
Gain on derivative coal contracts	32	**-**	(3,719)
Other expense (income), net	20	**1,753**	(8,992)
Operating loss		**(28,203)**	(48,403)
Finance expense (income), net	21	**(858)**	7,001
Loss before income taxes		**(27,345)**	(55,404)
Income tax expense	26		
Current		**289**	142
Deferred		**2,240**	26,276
		2,529	26,418
Net loss from continued operations		**(29,874)**	(81,822)
Discontinued operations			
Net income (loss) from discontinued operations (net of tax)	6	**(23,815)**	4,513
Net loss		**(53,689)**	(77,309)
Attributable to:			
Non-controlling interest		**111**	109
Shareholders		**(53,800)**	(77,418)
Net loss attributable to shareholders per share:	22		
Basic earnings		**(0.99)**	(1.43)
Diluted earnings		**(0.99)**	(1.43)
Net loss attributable to shareholders per share continued operations:	22		
Basic earnings		**(0.55)**	(1.51)
Diluted earnings		**(0.55)**	(1.51)

The accompanying notes are an integral part of these consolidated financial statements.

MAXIM POWER CORP.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31
(in thousands of Canadian dollars)

	2016	2015
Net loss	(53,689)	(77,309)
Other comprehensive income (loss), net of tax:		
Items that are or may be reclassified to net income		
Unrealized gains (losses) on translation of discontinued foreign operations	(6,988)	25,825
Reclassification of loss on translation on disposal of discontinued foreign operation (note 6)	1,068	-
Total comprehensive loss	(59,609)	(51,484)
Comprehensive income (loss) attributable to:		
Non-controlling interest	157	189
Shareholders	(59,766)	(51,673)

MAXIM POWER CORP.

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars, except common share data)

	Common shares (thousands)	Share capital	Contributed surplus	Accumulated other comprehensive gain (loss)	Retained earnings (deficit)	Equity attributable to shareholders	Non-controlling interest	Total
Equity at December 31, 2015	54,219	156,248	10,686	34,138	15,010	216,082	705	216,787
Net income (loss)	-	-	-	-	(53,800)	(53,800)	111	(53,689)
Stock options exercised	82	234	(41)	-	-	193	-	193
Share-based compensation	-	-	778	-	-	778	-	778
Disposal of foreign operation	-	-	-	1,068	-	1,068	(566)	502
Translation of foreign operations	-	-	-	(7,034)	-	(7,034)	46	(6,988)
Distributions to non-controlling interest	-	-	-	-	-	-	(102)	(102)
Equity at December 31, 2016	**54,301**	**156,482**	**11,423**	**28,172**	**(38,790)**	**157,287**	**194**	**157,481**
Equity at December 31, 2014	54,219	156,248	9,908	8,393	92,428	266,977	606	267,583
Net income (loss)	-	-	-	-	(77,418)	(77,418)	109	(77,309)
Share-based compensation	-	-	778	-	-	778	-	778
Translation of foreign operations	-	-	-	25,745	-	25,745	80	25,825
Distributions to non-controlling interest	-	-	-	-	-	-	(90)	(90)
Equity at December 31, 2015	54,219	156,248	10,686	34,138	15,010	216,082	705	216,787

MAXIM POWER CORP.

Consolidated Statements of Cash Flows

For the years ended December 31
(in thousands of Canadian dollars)

	Note	**2016**	2015
Cash flows from operating activities:			
Net loss from continued operations		**(29,874)**	(81,822)
Adjustments for items not involving cash or operations:			
Depreciation and amortization		**5,238**	6,813
(Reversal of) asset impairment charges	10,11	**(2,754)**	37,229
Inventories write-down	9	**8,612**	4,234
Restructuring of Alberta operations - non-cash consideration	20	**-**	3,676
Share-based compensation		**778**	778
Unrealized gain on derivative coal contracts	32	**-**	(3,719)
Income tax benefit	26	**2,529**	26,418
Income taxes paid		**(255)**	(99)
Finance expense (income)	21	**(857)**	7,011
Loss on disposal of equipment	20	**1,667**	-
Gain on sale of emission performance credits	20	**-**	(5,507)
Approved emission performance credits	20	**(340)**	(10,453)
Funds used in continued operating activities before changes in working capital		**(15,256)**	(15,441)
Change in non-cash working capital from continued operations	29	**1,650**	509
Net cash generated used in operating activities from continued operations		**(13,606)**	(14,932)
Cash flows from financing activities:			
Issuance of loans and borrowings		**9,599**	3,102
Repayment of loans and borrowings		**(9,599)**	(3,102)
Proceeds from exercise of stock options		**193**	-
Interest paid		**(582)**	(316)
Net cash used in financing activities from continued operations		**(389)**	(316)
Cash flows from investing activities:			
Proceeds on sale of France operating segment, net of closing costs	6b	**24,586**	-
Proceeds from insurance recoveries, net of (property, plant and equipment additions)	10	**266**	(8,157)
Proceeds on sale of emission performance credits	20	**-**	8,834
Proceeds on sale of equipment	20	**2,243**	-
Purchase of risk management options	31,32	**(1,480)**	-
Change in non-cash working capital	29	**(835)**	741
Net cash from investing activities from continued operations		**24,780**	1,418
Increase (decrease) in cash and cash equivalents from continued operations		**10,785**	(13,830)
Net increase in cash and cash equivalents from discontinued operations		**2,169**	2,572
Less: Cash held at discontinued operations, end of period		**(3,535)**	-
Cash and cash equivalents, beginning of period		**5,884**	17,142
Cash and cash equivalents, end of period		**15,303**	5,884

The accompanying notes are an integral part of these consolidated financial statements.

1. Reporting entity

Maxim Power Corp. is incorporated in the province of Alberta, Canada. Maxim Power Corp. and its subsidiaries (together "MAXIM" or the "Corporation") is an independent power producer, which acquires or develops, owns and operates power and power related projects. The Corporation has power generation facilities in Alberta and the United States of America ("United States"). The Corporation has presented the result of its operations in the United States as assets and liabilities held for sale and discontinued operations (note 6). The Corporation's common shares trade on the Toronto Stock Exchange under the symbol "MXG". MAXIM's registered office is Suite 1210, 715 – 5 Avenue S.W., Calgary, Alberta, Canada, T2P 2X6.

2. Basis of preparation and statement of compliance

(a) Going Concern

These 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 $15,303 and working capital related to continuing operations of $10,512. 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 (note 14a) 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 (note 6), 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.

2. Basis of preparation and statement of compliance (continued)

(b) Statement of compliance

MAXIM prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on March 16, 2017.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the derivative coal contracts, amounts payable to employees under a restricted share unit ("RSU") plan and stock appreciation rights ("SAR") plan, commodity and foreign exchange risk management contracts, and the reimbursement of decommissioning costs, which are measured at fair value on the statements of financial position.

(d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand unless otherwise noted.

(e) Use of judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions, based on its experience, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(f) Significant Judgments

(i) Operating leases

MAXIM has entered into long-term tolling arrangements with third parties at two of its facilities whereby MAXIM imposes toll charges as compensation for processing natural gas to produce electricity. The counterparties have the right to nominate all facility output, are responsible for procuring natural gas used for power generation, and own the electricity generated by the facility. The initial terms of these agreements are between ten and twenty years with the twenty year agreement having a lessee option to extend the agreement for an additional five to ten years. MAXIM has made the judgment that these arrangements are operating leases as the Corporation retains the principal risks and rewards of ownership of the facilities. The assets subject to these leases continue to be recorded as property, plant and equipment and were depreciated over their useful lives. As a result of the sale of the United States operating segment these assets ceased depreciation on December 23, 2016, as they were considered assets held for sale.

2. Basis of preparation and statement of compliance (continued)

(ii) Contingencies

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 outcome is often difficult to predict, particularly in the earlier stages of the case. By their nature contingencies will only be resolved when one or more uncertain future events not wholly within the control of the Corporation occur or fail to occur. The assessment of the existence of contingencies inherently involves the exercise of significant judgment by management, which includes incorporating external legal advice.

(iii) Assets and liabilities held for sale

Assets and liabilities are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. The Corporation has made the judgment that the United States operating segment met the above criteria as at December 31, 2016.

(iv) Impairment indicators

At the end of each reporting period, management makes a judgment whether there are any indications of impairment of its property, plant and equipment ("PP&E") and intangible assets at the lowest level at which there are separately identifiable cash flows. If there are indications of impairment, MAXIM performs an impairment test on the asset or the cash-generating unit (“CGU”). Intangible assets that are not amortized are tested for impairment annually regardless of indications of impairment.

The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when management has determined that events or circumstances warrant such consideration.

(v) Functional currency

The designation of the functional currency of the Corporation and its foreign operations is a management judgment based on the composition of revenue and costs in the locations in which it operates.

2. Basis of preparation and statement of compliance (continued)

(g) Assumptions and Critical Estimates

(i) 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.

(ii) 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.

(iii) Impairment of non-financial assets

The recoverable amount of CGUs 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.

2. Basis of preparation and statement of compliance (continued)

(iv) 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 monetization of contingent assets and assets and liabilities held for sale. 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.

(v) SO2 credits

The fair value for sulphur dioxide ("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.

3. Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements have been applied consistently for all periods presented and are set out below.

(a) Basis of consolidation

The financial statements include the accounts of the Corporation and its subsidiaries. Subsidiaries are entities which the Corporation controls by having the power to govern the entity's financial and operating policies. The Corporation consolidates all of its wholly-owned subsidiaries and its 95% interest in Basin Creek Holdco LLC. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany balances, transactions and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

The acquisition method of accounting is used to record acquisitions of subsidiaries whereby the recognized amount of identifiable assets acquired and the liabilities assumed are measured at their fair value at the date of acquisition. Non-controlling interests are measured at fair value or as a proportionate share of the identifiable net assets acquired.

(b) Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The non-controlling interests' share in the equity and results of the Corporation's subsidiaries are shown as a separate component of equity in the consolidated statements of financial position.

3. Significant accounting policies (continued)

(c) Foreign currency translation

(i) Foreign operations

The Corporation's subsidiaries' functional currencies were either the Canadian dollar, European Euro or United States dollar. Each subsidiary determines its functional currency based on the currency of the primary economic environment in which it operates.

The financial statements of subsidiaries that have a different functional currency than the Corporation are translated to Canadian dollars at the closing rate at the date of the statements of financial position for assets and liabilities and at the exchange rate at the date of the transaction for income and expenses. The resulting changes in the carrying values on the statements of financial position are recognized in other comprehensive income as cumulative translation adjustments.

When a foreign operation is substantially disposed of, the cumulative amount of foreign currency gains or losses are reclassified to profit or loss.

(ii) Foreign currency transactions

Foreign currency transactions of the Corporation and its subsidiaries are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation, at period end exchange rates, of monetary assets and liabilities denominated in currencies other than the Corporation's or subsidiaries' functional currency are recognized as finance costs in the statements of loss.

(iii) Foreign exchange management

Foreign exchange gains or losses on transactions entered into to manage foreign exchange risks on the proceeds from the sale of foreign operating segments are recognized in the gain or loss on sale for closed transactions or other income for unrealized transactions.

(d) Impairment of non-financial assets

The carrying value of the Corporation's non-financial assets, other than deferred tax assets and inventories, are reviewed at each reporting date to determine whether there are any indicators of impairment. MAXIM performs an impairment test on the CGU if there are indicators of impairment present. Intangible assets that are not amortized are tested for impairment annually regardless of indications of impairment.

The impairment test compares the recoverable amount of the asset to its carrying amount. The recoverable amount is the higher of the asset's value in use (present value of the estimated future cash flows) and its estimated fair value less costs to sell. Management is required to make assumptions about future cash flows including production, fuel costs, operating expenses, power prices and capital programs. 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 including intangible assets.

The Corporation evaluates impairment losses for potential reversals when management has made the judgment that events or circumstances warrant such consideration.

3. Significant accounting policies (continued)

(e) Non-financial derivative contracts

Non-financial derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit and loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes in fair value are recognized in income.

(f) Financial instruments

(i) Recognition

Financial assets and liabilities are recognized on the trade date, which is the date when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation is discharged, cancelled or expires.

(ii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(iii) Measurement and classification

All financial instruments, including all derivatives, are measured at fair value upon initial recognition and are classified into one of the following five categories: financial assets and liabilities at fair value through profit or loss, available-for-sale investments, held-to-maturity investments, loans and receivables or other financial liabilities. The Corporation does not have any available-for-sale investments or held-to-maturity investments.

(iv) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purposes of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statements of loss. Gains and losses arising from changes in fair value are presented in the statements of loss in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion to be realized or paid beyond twelve months of the statements of financial position date, which is classified as non-current.

The instruments held by the Corporation classified in this category are commodity and foreign exchange risk management contracts and the RSU and SAR plans.

(v) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3. Significant accounting policies (continued)

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

The Corporation's loans and receivables are comprised of trade and other receivables and cash and cash equivalents.

(vi) Other financial liabilities

Other financial liabilities include trade payables, loans and borrowings and other long-term liability. Other financial liabilities are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

(vii) Derivative financial instruments and hedges

The Corporation periodically uses risk management techniques including the use of derivative instruments to reduce its exposure to movements in energy commodity prices. Derivative instruments include futures contracts, which are used to establish a fixed price for an energy commodity.

All derivative instruments, are recorded at fair value on the statements of financial position as derivative financial instruments assets or derivative financial instruments liabilities except for embedded derivative instruments that are clearly and closely related to their host contract where the combined instrument is not measured at fair value. Any contract to buy or sell a non-financial item is not treated as a non-financial derivative if that contract was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Corporation's expected purchase, sale or usage requirements. The Corporation accounts separately for any embedded derivatives in any hybrid instruments issued or acquired.

All changes in the fair value of derivatives are recorded in net income unless cash flow hedge accounting is used. If hedge accounting requirements are met, realized gains and losses on financial energy derivatives are recorded in revenues or operating expenses and realized gains and losses on foreign exchange derivatives are recorded in revenues, whereas unrealized gains and losses are recorded in other comprehensive income. If hedge accounting requirements are not met, unrealized and realized gains and losses on financial energy derivatives are recorded in revenues or operating expenses as appropriate.

(viii) Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss.

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

3. Significant accounting policies (continued)

(g) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, demand deposits with banks and other financial institutions, and short-term investments with original maturities of less than three months. Cash deposits held as collateral to various counterparty agreements to secure credit are recorded separately as non-current restricted cash.

(h) Inventories

Inventories are comprised of coal, fuel oil and spare parts, which are valued at the lower of cost and net realizable value. Inventory cost is determined using the weighted average method. The cost of inventory includes the purchase price and all other costs to bring the inventory item to its existing location and condition.

(i) Property, plant and equipment

The Corporation records PP&E at cost less accumulated depreciation and impairment losses. Cost includes expenditures to purchase and construct assets, and other costs associated with purchasing and preparing assets for their intended use. The costs associated with construction include material, labor, interest, and other direct costs required to bring the assets to their intended use.

Cost also includes an initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located to its original state.

Additional expenditures not related to day-to-day servicing of the items are also recognized as part of PP&E. Expenditures for maintenance and repairs are recognized in the statements of loss as incurred.

MAXIM separates PP&E into identifiable components with different useful lives for depreciation purposes. Depreciation is based on the cost of the asset less its residual value. Depreciation of a component commences when the asset is first available for use and ceases when the asset is classified as held for sale or when the asset is derecognized.

The following rates are used in the computation of depreciation expense in the period:

Generating facilities	10 - 44 years straight-line
Equipment	20 - 30% declining balance or 2 - 25 years straight-line

Assets under construction are projects undertaken by the Corporation where the asset is not yet available for use. Capitalization of costs associated with these projects commences once technical feasibility is established. If the project is subsequently abandoned, all costs are expensed in the period.

(j) Other intangible assets

Intangible assets consist of power sales contracts, a ground lease contract, nitrous oxide emission (“NOx”) credits, SO2 Credits and emission performance credits pertaining to Alberta's Greenhouse Gas Reduction Program ("Emission Performance Credits").

The power sales contracts and ground lease contract are initially recorded at cost of acquisition and have finite lives. Any subsequent expenditure that increases the future economic benefit of a specific asset is included as part of the cost. These contracts are amortized over the term of the related contracts.

3. Significant accounting policies (continued)

The NOx credits are recorded at cost of acquisition. The Emission Performance Credits and SO2 Credits are recorded initially at fair value. The Corporation recognizes these intangible assets when there is reasonable assurance that the Corporation will receive the future benefit of the asset. Subsequent to recognition, these intangible assets are measured at cost and tested for impairment if there are indications of impairment.

The Corporation consumes the NOx credits and SO2 Credits at the same rate at which the Milner generating facility produces electricity and as such uses a unit of production method to amortize these assets.

(k) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as finance expense in the consolidated statements of loss using the effective interest method.

(l) Employee benefits

(i) Defined contribution plans

The Corporation has a defined contribution plan under which the Corporation pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts as a result of past service. Contributions are recognized as an employee benefit expense in the statements of loss in the period in which services are rendered by employees.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under a short-term cash bonus if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based compensation

The Corporation records a compensation cost for all stock options granted to employees, directors or officers over the vesting period of the options based on the fair value of the option at grant date. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche’s vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed each period, with the effect of any change being recognized immediately. Consideration paid by employees, directors or officers upon exercise of the stock options and the amount previously recognized in contributed surplus are recorded as an increase to share capital.

The Corporation calculates a liability at each reporting period related to any stock options which the Corporation has an obligation to cash settle. The amount of the liability is based on the fair value of the stock options measured at the reporting date using the Black-Scholes option pricing model.

3. Significant accounting policies (continued)

The Corporation records a compensation cost for all RSU's granted to employees over the vesting period of the RSU based on the fair value of the RSU at grant date. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair values of the amounts payable, which are settled in cash, are recognized as expenses with corresponding increases in liabilities over the period that the employees unconditionally become entitled to payments. The fair value of each grant is measured at the closing share price of MAXIM's shares. The liability is re-measured to fair value at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized in income or loss. The Corporation records compensation costs for all SAR's granted to employees over the vesting period of the SAR based on the fair value of the SAR at grant date. The fair values of the amounts payable, which are settled in cash, are recognized as expense once it is more likely than not to be vested. The fair value of each grant is measured at the closing share price of MAXIM's shares. The liability is re-measured to fair value at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in income or loss.

(m) Provisions

(i) Decommissioning liabilities

The Corporation has an obligation to restore certain project sites to an acceptable level at the end of each project's respective life. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The estimated cash flows for decommissioning costs are discounted at a current pre-tax rate that reflects the risk-free rate specific to the decommissioning liability. The unwinding of the discount due to the passage of time is recorded as an increase to provisions for decommissioning liabilities with the associated expense recognized in the statements of loss as a finance cost. When the Corporation carries out its obligation to restore a site, incurred decommissioning costs will be recorded as a reduction to the decommissioning liability. The estimated future costs of decommissioning are reviewed periodically and adjusted to reflect the current best estimate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset and the liability.

(ii) Other provisions

A provision is recognized if, as a result of a past event, the Corporation has a present or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the Corporation expects some or all of a provision to be reimbursed the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statements of loss net of any reimbursement. Non-current provisions are determined by discounting the expected future cash flows using a risk-free rate. Provisions are not recognized for future operating losses.

(n) Revenue recognition

Revenue is recognized under fixed and variable price contracts for electricity, thermal energy, generation capacity, and availability. For electricity and thermal energy, revenue is recognized upon delivery. Under generation capacity and availability contracts, revenue is recognized over the term of the agreement.

3. Significant accounting policies (continued)

(o) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Payments made under operating leases are charged to the statements of loss on a straight-line basis over the term of the relevant lease. Payments received under operating leases where the Corporation leases out generating equipment under generation capacity and availability contracts are recognized as electricity sales in the statements of loss.

(p) Finance income and finance expense

Finance income comprises interest income on funds invested in short-term investments. Interest income is recognized as it accrues in the statements of loss, using the effective interest method.

Finance expense comprises interest expense on borrowings, amortization of deferred financing costs and unwinding of the discount on provisions.

Foreign currency gains and losses are reported on a net basis as either finance income or finance expense depending on whether foreign currency movements are in a net gain or net loss position.

(q) Income taxes

Income taxes are comprised of current and deferred taxes. Current tax and deferred tax are recognized in the statements of loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts used for taxation purposes. Deferred tax is not recognized for:

(i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss

(ii) Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future and

(iii) Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Corporation intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

3. Significant accounting policies (continued)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which these deductions can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(r) Earnings per share

Basic income per share is calculated by dividing the net income or loss for the period attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted income per share is calculated in the same manner as basic income per share, except that the weighted average number of common shares outstanding is adjusted for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Corporation's potentially dilutive common shares are comprised of stock options granted to employees.

(s) Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segments' operating results are reviewed regularly by the Corporation's chief decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4. Determination of fair value

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other accounts receivable

The fair value of trade and other accounts receivable is estimated as their carrying value due to the short period to maturity.

(b) Intangible assets

The fair value of the Emission Performance Credits and SO2 Credits are estimated at the most reliable of: 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.

4. Determination of fair value (continued)

(c) Other assets

The fair value of long-term deposits and the Milner decommissioning reimbursement (note 11) is estimated at the present value of future cash flows, discounted at the risk-free rate specific to the asset.

(d) Other non-derivative financial liabilities

The fair value of other non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(e) Commodity swaps

The fair value of swaps is based on the amount that would be paid or received to settle the contracts at period end. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Corporation and counterparty when appropriate.

(f) Share-based payment transactions

The fair value of the employee share options are measured using the Black-Scholes model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instrument, expected dividends, and the risk-free interest rate. Assumptions regarding employee turnover, and related forfeitures, are also taken into account in determining fair value. RSU's and SAR's are measured using the closing price of the Corporation's shares at the end of the given reporting period.

(g) Other non-financial assets

The fair value of the Corporation’s Milner generating facility and adjacent lands which include the metallurgical coal development project (“Milner CGU”) is estimated using discounted cash flow. This fair value method is corroborated by reference to recent market transactions. A key assumption in the determination of the fair value includes the proven and probable metallurgical coal reserve volumes as estimated by external experts. These estimated volumes are based on the NI 43-101 Technical Report filed on SEDAR on March 21, 2013.

5. New accounting pronouncements

(a) IFRS adoption of new or amended standards

On January 1, 2016, the Corporation adopted the amendments to Consolidated Financial Statements (IFRS 10), Joint Arrangements (IFRS 11), Disclosure of Interest in Other Entities (IFRS 12, Presentation of Financial Statements (IAS 1), Property, Plant and Equipment (IAS 16), Separate Financial Statements (IAS 27), Investments in Associates and Joint Ventures (IAS 28), Intangible Assets (IAS 38) and Agriculture (IAS 41).

(b) Accounting standards and amendments issued but not yet adopted

(i) 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.

5. New accounting pronouncements (continued)

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.

(ii) IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 and replaces IAS18 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.

5. New accounting pronouncements (continued)

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.

(iii) 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.

There are no other standards, amendments or interpretations 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.

6. Assets and liabilities held for sale and discontinued operations

(a) Assets and liabilities held for sale – United States

On December 23, 2016, the Corporation entered into an agreement to sell the United States operating segment for net proceeds after transaction costs of approximately US$84.0 million.

As such, the assets and liabilities of the United States operating segment were reclassified to assets and liabilities held for sale on the statement of financial position. At the point when these assets and liabilities were reclassified to assets and liabilities held for sale, the Corporation determined that there was no impairment as the carrying amount was less than the anticipated proceeds, less costs to sell, based on the terms of the purchase and sale agreement.

In addition to this, as the segment represents a separate major line of business for the Corporation, the operational results of the United States operating segment have been shown as a discontinued operation on the statement of income.

(Amounts in thousands of Canadian dollars except as otherwise noted)

6. Assets and liabilities held for sale and discontinued operations (continued)

At December 31, 2016, the United States operating segment comprised the following assets and liabilities:

(i) Assets classified as held for sale

	December 31, 2016
Cash and cash equivalents	3,535
Restricted cash	1,259
Trade and other receivables	3,465
Prepaid expenses and deposits	1,205
Inventories	7,295
Income taxes recoverable	154
Property, plant and equipment, net	102,118
Intangible assets, net	961
Future income tax asset	140
Other assets	104
Total held for sale	120,236

(ii) Liabilities classified as held for sale

	December 31, 2016
Trade and other payables	5,783
Loans and borrowings, net of deferred financing costs (i)	22,349
Provisions for decommissioning	4,232
Total held for sale	32,364

(i) US bank facility

MAXIM's subsidiary, Basin Creek Equity Partners, LLC ("Basin Creek"), has a term loan with fixed interest rate of 6.95% per annum, with quarterly repayments, maturing on June 30, 2026. At December 31, 2016, Basin Creek had an outstanding balance of US$17,175 thousand (December 31, 2015 – US$18,423 thousand).

This loan is secured by the PP&E of the Basin Creek facility and has no financial covenants or cross default provisions with the Canadian bank facilities (note 14).

(b) Discontinued operations – United States and France

On September 13, 2016, the Corporation entered into an agreement to sell the France operating segment for €47.1 million including the assumption of €23.4 million of net debt resulting in sales proceeds of €23.7 million, of which €6.0 million is contingent on future events (note 24).

At the point when these assets and liabilities were reclassified to assets and liabilities held for sale, an intangible asset impairment charge of $10,491 and a PP&E impairment charge of $12,259 were recognized. The assets were impaired as the carrying amount was greater than the anticipated proceeds, excluding the contingent payment and less costs to sell, based on the terms of the purchase and sales agreement.

(Amounts in thousands of Canadian dollars except as otherwise noted)

6. Assets and liabilities held for sale and discontinued operations (continued)

On December 2, 2016, the Corporation closed the sale of the France operating segment for proceeds of €17.7 million. These proceeds were used to pay closing costs and the drawn revolving portion of its Canadian bank facilities, with the remainder to be held by MAXIM for strategic corporate purposes. Upon closing this sale, the Corporation recognized a loss on sale of $1,756, the borrowing limit on MAXIM's Canadian bank facilities was reduced from $25.0 million to $13.5 million and incurred contingent obligations disclosed in note 24a.

The following tables summaries the loss on disposal of the France operating segment:

	December 31, 2016
Cash consideration, net	24,586
Less net assets sold	(25,274)
Reclassification of foreign currency translation losses on disposal	(1,068)
Loss on disposal of France	(1,756)

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

United States Segment

	December 31, 2016	December 31, 2015
Revenue	55,639	63,787
Expenses (i)	65,355	57,277
Operating income (loss)	(9,716)	6,510
Finance expense, net	1,932	1,993
Income (loss) before income taxes	(11,648)	4,517
Income tax expense (benefit)		
Current	185	(280)
Deferred	(4,607)	(261)
	(4,422)	(541)
Net income (loss) from discontinued operations	(7,226)	5,058
Attributable to:		
Non-controlling interest	72	47
Shareholders	(7,298)	5,011

	December 31, 2016	December 31, 2015
Cash flows from (used in) discontinued operations		
Net cash generated from operating activities	6,651	13,294
Net cash used in financing activities	(3,330)	(3,277)
Net cash used in investing activities	(4,620)	(9,501)
Unrealized foreign exchange gain on cash	3	1,118
Net cash flows for the period	(1,296)	1,634

(Amounts in thousands of Canadian dollars except as otherwise noted)

6. Assets and liabilities held for sale and discontinued operations (continued)

(i) Includes $10,482 from the Federal Energy Regulatory Commission settlement, of which two equal amounts of $3,581 is included in trade and other payables and other long-term liability.

France Segment

	December 31, 2016	December 31, 2015
Revenue	32,435	39,702
Expenses (i) (ii)	54,953	38,543
Operating income (loss)	(22,518)	1,159
Finance expense, net	1,466	1,566
Loss before income taxes	(23,984)	(407)
Income tax expense (benefit)		
Current	398	611
Deferred (ii)	(7,793)	(473)
	(7,395)	138
Net loss from discontinued operations	(16,589)	(545)
Attributable to:		
Non-controlling interest	39	62
Shareholders	(16,628)	(607)

	December 31, 2016	December 31, 2015
Cash flows from (used in) discontinued operations		
Net cash generated from operating activities	9,620	10,008
Net cash from (used in) financing activities	(5,023)	5,792
Net cash used in investing activities	(775)	(15,178)
Unrealized foreign exchange gain (loss) on cash	(357)	316
Net cash flows for the period	3,465	938

(i) Includes impairment charge of $22,750 and loss on disposal of France of $1,756 for the year ended December 31, 2016.

(ii) Includes $7,126 of income tax benefit related to the impairment charge.

(Amounts in thousands of Canadian dollars except as otherwise noted)

6. Assets and liabilities held for sale and discontinued operations (continued)

Total Discontinued Operations

	Note	December 31, 2016	December 31, 2015
Revenue		88,074	103,489
Expenses		120,308	95,820
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 expense (benefit)			
Current		583	331
Deferred		(12,400)	(734)
		(11,817)	(403)
Net income (loss) from discontinued operations		(23,815)	4,513
Attributable to:			
Non-controlling interest		111	109
Shareholders		(23,926)	4,404
Net income (loss) from discontinued operations attributable to shareholders per share:	22		
Basic earnings		(0.44)	0.08
Diluted earnings		(0.44)	0.08

	December 31, 2016	December 31, 2015
Cash flows from (used in) discontinued operations		
Net cash generated from operating activities	16,271	23,302
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

7. Trade and other receivables

	December 31, 2016	December 31, 2015
Trade receivables	1,856	19,635
Other receivables	-	1,236
Total accounts receivable	1,856	20,871

(Amounts in thousands of Canadian dollars except as otherwise noted)

8. Prepaid expenses and deposits

	December 31, 2016	December 31, 2015
Prepaid expenses	272	1,728
Deposit - environmental credit agency	-	804
Total prepaid expenses and deposits	272	2,532

9. Inventories

	December 31, 2016	December 31, 2015
Coal (a)	-	9,946
Fuel oil	-	3,138
Plant parts and stock items (b)	1,029	6,247
Total inventories	1,029	19,331

(a) During 2016 and 2015, coal inventories were written down by $8,049 and $4,234, respectively, to net realizable value. The write-down is included in operating expenses on the statements of loss.

(b) The cost of consumable inventories recognized in operating expenses, including write-downs, for the year ended December 31, 2016 was $15,170 (2015 - $14,019). During 2016, plant parts and stock items at M1 were written down by $563 to net realizable value. The write-down is included in operating expense in the statement of loss.

(Amounts in thousands of Canadian dollars except as otherwise noted)

10. Property, plant and equipment, net

	Land	Generating Facilities	Equipment	Assets under Construction (a)	Total
Cost					
Balance, December 31, 2014	8,398	330,815	4,299	50,078	393,590
Additions	61	31,522	104	1,572	33,259
Capitalized interest	-	-	-	44	44
Disposals	-	(832)	-	-	(832)
Transfers to generating facilities	-	2,593	-	(2,593)	-
Revisions to decommissioning provisions	-	(3,827)	-	-	(3,827)
Effect of movements in exchange rates	1,555	35,395	147	454	37,551
Balance, December 31, 2015	10,014	395,666	4,550	49,555	459,785
Additions, net of insurance recoveries	542	3,384	-	713	4,639
Capitalized interest	-	-	-	39	39
Revisions to decommissioning provisions	-	(568)	-	-	(568)
Disposals (c)	(594)	(131,972)	(607)	(3,911)	(137,084)
Effect of movements in exchange rates	(312)	(12,745)	(56)	(18)	(13,131)
Transferred to assets held for sale (d)	(3,147)	(170,581)	(639)	(637)	(175,004)
Balance, December 31, 2016	6,503	83,184	3,248	45,741	138,676
Accumulated depreciation					
Balance, December 31, 2014	-	143,471	3,215	-	146,686
Depreciation	-	22,202	249	-	22,451
Asset impairment charges (e)	-	900	-	20,697	21,597
Reversal of asset impairment charges (f)	-	(1,500)	-	-	(1,500)
Effect of movements in exchange rates	-	13,320	114	-	13,434
Balance, December 31, 2015	-	178,393	3,578	20,697	202,668
Depreciation	-	18,221	128	-	18,349
Asset impairment charges (e)	-	12,259	-	-	12,259
Reversal of asset impairment charges (f)	-	-	-	(4,100)	(4,100)
Disposals (c)	-	(69,850)	(421)	-	(70,271)
Effect of movements in exchange rates	-	(5,007)	(41)	-	(5,048)
Transferred to assets held for sale (d)	-	(72,326)	(560)	-	(72,886)
Balance, December 31, 2016	-	61,690	2,684	16,597	80,971
Property, plant and equipment, net (b)					
December 31, 2015	10,014	217,273	972	28,858	257,117
December 31, 2016	6,503	21,494	564	29,144	57,705

(a) Assets under construction

During the year, the Corporation incurred direct costs for assets under construction totaling $713 (2015 - $1,572). Capitalized borrowing costs related to the construction of these projects amounted to $39 (2015 - $44), at a weighted average rate of 4.9% (2015 – 5.8%).

10. Property, plant and equipment, net (continued)

(b) Security

At December 31, 2016 PP&E with a carrying value of $159,823, including assets held for sale, (December 31, 2015 - $257,117) are registered as security against bank loans (note 14).

(c) Disposals

During 2016, the Corporation sold MAXIM Power Europe B.V., whose principal asset was the Comax France S.A.S. (collectively “COMAX”) (note 6b).

During 2016, the Corporation sold its coal mining equipment with a carrying value of $3,910 classified as PP&E (note 20c).

(d) Assets held for sale

During 2016, the Corporation entered into an agreement to sell MAXIM Power USA Inc. As a result all of the PP&E has been reclassified to assets held for sale (note 6a).

(e) Asset impairment charges

(i) During 2016, when the assets and liabilities of COMAX were reclassified to assets and liabilities held for sale, an asset impairment charge of $12,259 was recognized against PP&E in the France operating segment. The assets were impaired as the carrying amount was greater than the anticipated net proceeds under the terms of the purchase and sales agreement (note 6b).

ii) At December 31, 2015, due to significant adverse changes in the market conditions in Alberta, the Corporation recognized an asset impairment charge of $900 with respect to coal-fired components at Milner included in Canada operating segment. In the absence of contractual arrangements at December 31, 2015 that would extend Milner’s ability to operate as a baseload coal-fired generating facility beyond 2019, the recoverable amount of the coal related components of the generating facility was estimated to be $494. The recoverable amount was determined using the value in use method using a pre-tax discount rate of 13.8%.

(iii) At December 31, 2015, due to significant adverse changes in the market conditions for metallurgical coal, the Corporation recognized an asset impairment charge of $20,697 with respect to its assets under construction for its metallurgical coal development project included in Canada operating segment. The recoverable amount was estimated to be $15,405. The recoverable amount was determined using fair value less costs of disposal. The fair value measurement was categorized as Level III within the fair value hierarchy. The fair value measurement valuation technique used was discounted cash flow which was corroborated by reference to recent market transactions. The key assumptions used in determination of fair value include a pre-tax discount rate of 24.7% and the proven and probable metallurgical coal reserve volumes as estimated by external experts. These estimated volumes are based on the NI 43-01 Technical Report filed on SEDAR on March 21, 2013.

(Amounts in thousands of Canadian dollars except as otherwise noted)

10. Property, plant and equipment, net (continued)

(f) Reversal of asset impairment charge

(i) During 2016, due to a significant change in market conditions for metallurgical coal, the Corporation partially reversed $4,100 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. The recoverable amount was estimated to be $15,658. The recoverable amount was determined using fair value less costs of disposal. The fair value measurement was categorized as Level III within the fair value hierarchy. The fair value measurement valuation technique used was discounted cash flow which was corroborated by reference to recent market transactions. The key assumptions used in determination of fair value include a pre-tax discount rate of 20.6% and the proven and probable metallurgical coal reserve volumes as estimated by external experts. These estimated volumes are based on the NI 43-01 Technical Report filed on SEDAR on March 21, 2013.

(ii) During 2015, due to a significant change in fixed capacity rates in future periods in the ISO New England market, the Corporation reversed a previously recognized asset impairment charge of US$1,190 thousand with respect to a generating facility in the United States operating segment. The recoverable amount was determined using the value in use (present value of the estimated future cash flows) method using a pre-tax discount rate of 11.6%.

11. Intangible assets, net

	Goodwill	Power contracts	Emission performance credits (a)	SO2 credits (b)	NOx credits and other	Total
Cost						
Balance, December 31, 2014	15,632	27,780	1,697	-	4,690	49,799
Additions (note 20)	-	-	1,631	8,822	-	10,453
Disposals	-	-	(3,328)	-	-	(3,328)
Impairment (c)	(15,632)	-	-	-	-	(15,632)
Effect of movements in exchange rates	-	2,468	-	-	67	2,535
Balance, December 31, 2015	-	30,248	-	8,822	4,757	43,827
Additions	-	-	340	-	-	340
Impairment (d)	-	(10,491)	-	(1,346)	-	(11,837)
Effect of movements in exchange rates	-	(1,174)	-	-	(7)	(1,181)
Disposals (f)	-	(13,768)	-	-	-	(13,768)
Transferred to assets held for sale (e)	-	(4,815)	-	-	(403)	(5,218)
Balance, December 31, 2016	-	-	340	7,476	4,347	12,163
Accumulated amortization						
Balance, December 31, 2014	-	14,267	-	-	2,437	16,704
Amortization	-	1,822	-	-	604	2,426
Effect of movements in exchange rates	-	1,463	-	-	10	1,473
Balance, December 31, 2015	-	17,552	-	-	3,051	20,603
Amortization	-	1,311	-	756	894	2,961
Effect of movements in exchange rates	-	(912)	-	-	(2)	(914)
Disposals (f)	-	(13,768)	-	-	-	(13,768)
Transferred to assets held for sale (e)	-	(4,183)	-	-	(74)	(4,257)
Balance, December 31, 2016	-	-	-	756	3,869	4,625
Goodwill and other intangible assets, net						
December 31, 2015	-	12,696	-	8,822	1,706	23,224
December 31, 2016	-	-	340	6,720	478	7,538

11. Intangible assets, net (continued)

(a) Emission performance credits

During 2016, the Alberta Environment and Sustainable Resource Development approved the 2014 Emission Performance Credits at 17,005 tonnes and MAXIM recognized other income of $340. During 2015, the Alberta Environment and Sustainable Resource Development approved the 2013 Emission Performance Credits at 115,237 tonnes and MAXIM recognized other income of $1,631. Subsequent to the approval, during 2015, the Corporation closed the sale of its Emission Performance Credits.

(b) SO2 Credits

On November 3, 2015, the Corporation closed the sale of SO2 Credits for cash consideration of $5,460 (note 20). As a result, the Corporation's remaining SO2 Credits were recognized at their fair value of $8,822 (notes 20 and 32) as there is reasonable assurance that the Corporation will receive a future benefit from these assets.

(c) Goodwill impairment test

During 2015, the Corporation has allocated goodwill entirely to the Milner CGU. The Corporation uses the fair value less costs of disposal method as this method yields a higher recoverable amount than the value in use method (present value of the estimated future cash flows). The fair value measurement technique used for the Milner CGU was discounted cash flow. The fair value measurement was categorized as Level III within the fair value hierarchy.

The recoverable amount of the Milner CGU was found to be lower than the carrying amount of the CGU which resulted in an impairment of $15,632 to goodwill in 2015.

(d) Impairment

During 2016, when the assets and liabilities of COMAX were reclassified to assets and liabilities held for sale, an asset impairment charge of $10,491 was recognized against intangible assets in the France operating segment. The assets were impaired as the carrying amount was greater than the anticipated net proceeds under the terms of the purchase and sales agreement (note 6b).

During 2016, due to adverse changes in the market conditions for environmental credits in Alberta, the Corporation recognized an asset impairment charge of $1,346 with respect to SO2 credits at Milner included in Canada operating segment. The recoverable amount was estimated to be $6,720. The recoverable amount was determined using fair value less costs of disposal. The fair value measurement was categorized as Level III within the fair value hierarchy. The fair value measurement valuation technique used was based on management's experience and knowledge of long and short positions of SO2 credits of industry participants.

(e) Assets held for sale

During 2016, the Corporation entered into an agreement to sell MAXIM Power USA Inc. As a result all of the Intangibles have been reclassified to assets held for sale (note 6a).

(f) Disposals

During 2016, the Corporation sold MAXIM Power Europe B.V., whose principal asset was COMAX (note 6b).

(Amounts in thousands of Canadian dollars except as otherwise noted)

12. Other assets

	December 31, 2016	December 31, 2015
Project financing guarantee deposits	-	1,152
Long term prepaid expenses	182	388
Milner decommissioning reimbursement	8,342	8,624
Other long term deposits	126	200
Total other assets	8,650	10,364

13. Trade and other payables

	December 31, 2016	December 31, 2015
Trade payables	1,616	20,449
Accrued liabilities and other payables	7,740	8,335
Risk management liability	58	-
Income taxes payable	14	122
Total trade and other payables	9,428	28,906

14. Loans and borrowings

	December 31, 2016	December 31, 2015
Canadian bank facilities (a)	-	-
French bank facilities (note 6b)	-	42,730
United States facility (note 6a)	-	25,498
Finance leases	-	1,754
	-	69,982
Less: deferred financing costs	-	1,254
Net loans and borrowings	-	68,728
Less: current portion	-	7,579
	-	61,149

(a) Canadian bank facilities

As at December 31, 2016, facility A is a $13,500 revolving credit facility ($40,000 – December 31, 2015). 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 loan was $nil (December 31, 2015 - $nil) and MAXIM has issued letters of credit of $12,534 (December 31, 2015 - $11,378) on the facility. The amount available to draw against Facility A at December 31, 2016 was $966 (December 31, 2015 - $13,622). The facility expired December 31, 2016 and was extended subsequent to year end to a maturity date of April 30, 2017.

As at December 31, 2016, MAXIM breached the following financial covenants in relation to its Canadian bank facilities: DSCR, minimum equity, interest coverage and minimum EBITDA.

Subsequent to year end, management obtained a waiver for the December 31, 2016 covenant breaches from the bank. Accordingly, the issued letters of credit of $12,534 and the $nil drawn against Facility A are unaffected by these covenant breaches as at December 31, 2016.

(Amounts in thousands of Canadian dollars except as otherwise noted)

15. Provisions for decommissioning

The Corporation's provisions are comprised of decommissioning liabilities that relate to the retirement of its electrical generating facilities related to continuing operations. The decommissioning liabilities have been discounted at the risk-free rate, which were 0.6% to 2.3% (December 31, 2015 – 1.2% to 2.2%) depending on the timeframe of when the liability will be settled and inflation rates, which were 1.9% (December 31, 2015 – 2.0%). The Corporation is required to re-measure the provision at each reporting period in order to reflect expected cost, timing and discount rates in effect at that time. The total undiscounted inflation adjusted amounts of estimated obligations related to continuing operations are approximately $9,071 (December 31, 2015 - $10,422) and are expected to be incurred in one to forty three years from the date of these consolidated financial statements.

Because of the long-term nature of the liabilities, the greatest uncertainty in estimating the provision is the costs that will be incurred. In particular, the Corporation has assumed that each site will be restored using technology and materials that are currently available.

Balance, December 31, 2014	22,506
Accretion	438
Change in timing for the decommissioning of Milner as a coal-fired facility	(2,745)
Change in the estimate of decommissioning costs of Milner	(6,634)
Changes in previously estimated liabilities due to discount rate revisions	2,790
Revaluation of foreign currency denominated liabilities	626
Balance, December 31, 2015	16,981
Accretion	301
Changes in previously estimated liabilities due to discount rate revisions	(973)
Revaluation of foreign currency denominated liabilities	(116)
Transferred to liabilities held for sale	(4,232)
Balance, December 31, 2016	11,961

(a) Reimbursement of decommissioning costs

The Corporation is responsible for the decommissioning of the Milner generating facility subject to the Balancing Pool reimbursing MAXIM for the first $15,000 of costs. At December 31, 2016 the fair value of the reimbursement from the Balancing Pool of $8,342 (December 31, 2015 - $8,624) is included in other assets (note 12) and accretion of the asset is included as a credit to finance expense (note 21).

(Amounts in thousands of Canadian dollars except as otherwise noted)

16. Share capital

	Number of Shares	$
Common Shares of Maxim Power Corp.		
Common Shares, December 31, 2014 and 2015	54,218,758	156,248
Share options exercised	82,633	234
Common Shares, December 31, 2016	54,301,391	156,482

The Corporation is authorized to issue the following classes and number of shares:

(a) an unlimited number of Common Shares without nominal or par value

(b) an unlimited number of Preferred Shares

All shares rank equally with regard to the Corporation's equity and shall be entitled to one vote per share at the meetings of the Corporation. The holders of the Common Shares are entitled to receive equally any dividends declared by the Corporation. As at December 31, 2016, there are nil Preferred Shares.

17. Share-based compensation

(a) Stock options

The Corporation has an employee stock option plan under which employees, directors and key consultants are eligible to receive grants.

Stock options granted under the plan vest over a three year period in equal amounts. The grantee has the right to exercise the vested stock options within one year of vesting. The maximum number of outstanding stock options under the plan is limited to 10% of the number of common shares outstanding. The Corporation's Board of Directors determines the number of stock options to be granted, and sets the exercise price based on the market value at the time of granting. Stock options issued and outstanding are as follows:

	Year ended December 31, 2016			Year ended December 31, 2015		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding, beginning of year	2,811,681	$	2.67	1,794,420	$	3.14
Settled for cash	-		-	(1,500)		(2.05)
Exercised	(82,633)		2.35	-		-
Forfeited	(704,435)		2.53	(40,000)		(3.20)
Granted (i)	465,767		2.63	2,145,422		2.52
Expired	(591,428)		3.20	(1,086,661)		(3.13)
Outstanding, end of year (ii)	1,898,952	$	2.56	2,811,681	$	2.67
Exercisable	973,892	$	2.52	634,594	$	3.14

The Corporation recorded non-cash share-based expense of $778 (December 31, 2015 - $778) for the year ended December 31, 2016.

(Amounts in thousands of Canadian dollars except as otherwise noted)

17. Share-based compensation (continued)

(i) During 2016 and 2015, the Corporation granted options to certain employees and directors. The fair value of each option granted is estimated at the date of grant using the Black-Scholes option pricing model with weighted average assumptions for the grant as follows:

	2016	2015
Fair value of each option ($)	0.52	0.48
Share price at grant date ($)	2.63	2.52
Exercise price ($)	2.63	2.52
Risk-free interest rate (%)	0.56	0.55
Expected life (years)	1.02	1.98
Expected volatility (%) (i)	34.05	30.36
Forefiture rate (%)	-	2.36

(i) Expected volatility was calculated by using daily volatility of the historical closing value of the Corporation’s stock, using the date of the grant as the starting point of the retrospective data capture.

(ii) As at December 31, 2016, the range of exercise prices was $2.46 - $3.24 (December 31, 2015 - $1.93 - $3.24) and the weighted average remaining contractual life was 1.11 years (December 31, 2015 – 1.63 years).

(b) RSU's and SAR's

The Corporation has RSU and SAR plans under which employees have received grants. RSU's granted to employees vest over a three year period in equal amounts. Employees are compensated with the vesting units valued at the weighted average of share prices at which the shares are traded on the exchange for the five days immediately preceding the award payment. SAR's granted to employees vest as a result of the completion of key corporate initiatives. Employees are compensated with the vesting units at the share price at the closing date of the key initiatives. The Corporation recorded non-cash RSU and SAR expense of $556 (December 31, 2015 - $162) for the year ended December 31, 2016.

18. Revenue

	December 31, 2016	December 31, 2015
Electricity and power revenue	6,431	17,347
Ancillary and other revenue	53	2,209
Total revenue	6,484	19,556

(Amounts in thousands of Canadian dollars except as otherwise noted)

19. Expenses by nature

	December 31, 2016	December 31, 2015
Fuel costs	14,098	13,363
Operating and maintenance	8,527	8,654
Wages and employee benefits	14,091	14,611
Depreciation and amortization	5,238	6,813
(Reversal of) asset impairment charges, net	(2,754)	37,229
Gain on commodity swaps	(6,266)	-
Unrealized gain on derivative coal contracts	-	(3,719)
Other expense (income), net (note 20)	1,753	(8,992)
Total expenses	34,687	67,959

20. Other expense (income), net

	December 31, 2016	December 31, 2015
Restructuring of Alberta operations (a)	426	6,968
Approved emission performance credits (note 11)	(340)	(1,631)
Recognition of SO2 credits (note 11)	-	(8,822)
Gain on sale of emission performance credits and SO2 credits (b)	-	(5,507)
Loss on disposal of equipment (c)	1,667	-
Total other expense (income), net	1,753	(8,992)

(a) This consists of costs incurred to restructure the Corporation's Alberta operations to reduce ongoing operating costs. These expenses relate to termination of the Corporation's terminal services agreement, long-term coal supply agreement and coal handling agreement, as well as severance payments to employees.

(b) During 2015, the Corporation closed the sale of SO2 Credits for cash consideration of $5,460. The SO2 Credits had a carrying value of $nil and as such, the proceeds of $5,460 were recognized as other income. The Corporation also closed the sale of the Emission Performance Credits for cash consideration of $3,374. As a result, the Corporation realized a pre-tax gain of $47.

(c) During 2016, the Corporation sold its coal mining equipment, classified as PP&E, for cash consideration of $2,243. As a result, the Corporation realized a pre-tax loss of $1,667.

(Amounts in thousands of Canadian dollars except as otherwise noted)

21. Finance expense (income), net

	December 31, 2016	December 31, 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 (income)	(857)	7,011
Interest income	(1)	(10)
Total finance expense (income), net	(858)	7,001

22. Earnings per share

The calculation of basic and diluted earnings per share the year ended December 31, 2016 was based on the net loss attributable to common shareholders and net loss attributable to common shareholders from continued operations of $53,800 and $29,874, respectively (December 31, 2015 – $77,418 and $81,822, respectively) and weighted average number of common shares outstanding for the period of 54,265,836 (December 31, 2015 – 54,218,758), calculated below:

Weighted average number of common shares (basic):

	2016	2015
Issued common shares at January 1	54,218,758	54,218,758
Effect of stock options exercised	47,078	-
Weighted average number of common shares at December 31	54,265,836	54,218,758

The effects of exercisable stock options on diluted earnings per share were nil for the year ended December 31, 2016 (December 31, 2015 – nil) as they were antidilutive.

23. Commitments

(a) Continuing operations

(i) Milner Power Limited Partnership ("MPLP") is responsible for the decommissioning and reclamation of the power station lands at the Milner generating facility and the present value of these amounts have been recorded in provisions. The Balancing Pool has agreed to reimburse MPLP for the first $15,000 in decommissioning expense, the present value of which has been recorded in other assets. Should there be a material breach of environmental laws by MPLP during the period of ownership, then MPLP is required to contribute fully to the incremental costs caused by such material breach.

(ii) The Corporation has entered into a natural gas transportation service agreement from January 1, 2018 to December 31, 2026 for the Deerland peaking station development project (“Deerland”) whereby it is committed to reimburse out-of-pocket costs of the counterparty for the construction of the project. The maximum authorization of expenditure is $1,570 and $15 has been incurred by the counterparty as at December 31, 2016. The Corporation has an additional commitment of $798 regarding the service portion of the contract.

23. Commitments (continued)

(b) Discontinued operations

The Corporation, through its US subsidiaries, has entered into various operating and maintenance ("O&M") contracts for fixed monthly fees which escalate by the amount of inflation on an annual basis. These contracts expire between 2017 and 2026 with commitments totaling US$9,864 thousand.

24. Contingencies

(a) 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 has closed the sale of the France operating segment (note 6b). Under the agreement, the Corporation continues to be subject to the claims received for €1,700 thousand 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 €1,500 thousand. In addition, the Corporation is subject to customary closing indemnities until December 2, 2019 to a maximum claim of €3,500 thousand. 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.

(Amounts in thousands of Canadian dollars except as otherwise noted)

24. Contingencies (continued)

(b) Contingent assets

Through its Decision 790-D04-2016 ("Decision"), released September 28, 2016, the Alberta Utilities Commission ("AUC") asserted its position on several preliminary 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 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 $42,000 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 (note 6b), 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.

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals related to continuing operations are payable as follows:

	December 31, 2016	December 31, 2015
Less than one year	97	457
Between one and five years	283	23
More than five years	-	1
Total	380	481

The Corporation leases office space and equipment under operating leases. These leases typically run for a period of one to eight years and office space leases are customarily renegotiated for similar terms, at then-current market rates. During the year ended December 31, 2016, $358 was recognized as an operating expense in the statements of loss in respect of operating leases related to continuing operations (December 31, 2015 - $438).

(Amounts in thousands of Canadian dollars except as otherwise noted)

26. Income taxes

(a) Tax expense recognized in statements of loss

	December 31, 2016	December 31, 2015
Current tax expense (benefit)		
Current year	313	141
Adjustment for prior years tax returns	(24)	1
	289	142
Deferred tax benefit		
Origination and reversal of temporary differences	(8,123)	(7,660)
Changes in tax rates	(38)	(2,916)
Change in recognized deductible temporary differences	10,094	36,846
Adjustment for prior years tax returns	307	6
	2,240	26,276
Total tax expense	2,529	26,418

(b) Tax recognized in other comprehensive income

	December 31, 2016	December 31, 2015
Exchange differences on translation of foreign operations	(792)	1,156
	(792)	1,156

(c) Reconciliation of effective tax rate

Income tax expense varies from the amount that would be computed by applying the expected basic federal and provincial income tax rates for Canada at December 31, 2016 of 27% (December 31, 2015 - 26%) to income before income taxes. A reconciliation of this difference is presented below.

A reconciliation of the differences is as follows:

	December 31, 2016	December 31, 2015
Net loss before tax from continuing operations	(27,345)	(55,404)
Statutory tax rate	27.00%	26.00%
Computed income taxes	(7,383)	(14,405)
Increase (decrease) in taxes:		
Change in presentation from discontinued operations	1,260	1,165
Change in recognized deductible temporary differences	10,094	36,846
Effect of tax rates in foreign jurisdictions	(19)	(9)
Changes in tax rates	(38)	(2,916)
Non-deductible expenses (non-taxable income), net	(1,668)	5,673
Over provided in prior years	283	64
Total tax expense	2,529	26,418

(Amounts in thousands of Canadian dollars except as otherwise noted)

26. Income taxes (continued)

(d) Unrecognized deferred tax assets

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As at December 31, 2016, there are non-capital loss carry-forwards of $170,112 (December 31, 2015 - $137,163) in Canada. As at December 31, 2016, $159,095 (December 31, 2015 - $118,274) of the tax loss carry-forwards are unrecognized. The assets related to the non-capital loss carry-forwards are unrecognized primarily due to losses in recent periods in Canada and low Alberta power prices in the near term resulting in further expected losses in 2017.

As at December 31, 2016 there are net-capital loss carry-forwards of $18,792 (December 31, 2015 - $15,122) in Canada. These net-capital loss carry-forwards are unrecognized for both fiscal year ends. While these net capital losses do not expire they are only realizable against future net capital gains in Canada.

(e) Unrecognized deferred tax liabilities

As at December 31, 2016, there are no net taxable temporary differences (December 31, 2015 - $61,788) related to investments in certain subsidiaries for which no deferred tax liability has been recognized. No deferred tax liability has been recognized in the prior year because the Corporation controlled whether the liability will be incurred and it was satisfied that it will not be incurred in the foreseeable future at that time.

(f) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
December 31,	2016	2015	2016	2015	2016	2015
Non-capital loss carry forwards	(1,284)	10,497	-	-	(1,284)	10,497
Capital assets	11,352	9,326	(6,375)	(25,138)	4,977	(15,812)
Inventory	-	-	-	(1,583)	-	(1,583)
Other	1,513	1,066	(4,460)	(4,234)	(2,947)	(3,168)
	11,581	20,889	(10,835)	(30,955)	746	(10,066)
Set off of tax	(7,467)	(15,789)	7,467	15,789	-	-
Net tax assets (liabilities)	4,114	5,100	(3,368)	(15,166)	746	(10,066)

As at December 31, 2016, there is a deferred tax asset (net of tax liabilities) of $2,977 (December 31, 2015 - $5,100) related to a Canadian legal entity. This deferred tax asset is dependent on future taxable profits within the legal entity and the legal entity suffered a losses in both 2015 and 2016. This deferred tax asset is primarily arises from by deductible temporary differences related to non-capital losses.

As at December 31, 2016, there is also a deferred tax asset (net of tax liabilities) of $1,137 (December 31, 2015 - $nil) related to a US legal entity not held for sale. This deferred tax asset is dependent on future taxable profits within the legal entity and the legal entity suffered a losses in both 2015 and 2016. This deferred tax asset is primarily triggered by deductible temporary differences related to non-capital losses.

(Amounts in thousands of Canadian dollars except as otherwise noted)

26. Income taxes (continued)

The Corporation anticipates that these recognized assets related to losses will be utilized in the years to come via taxable profits within this legal entity. The recognized and unrecognized assets related to losses start to expire in 2027. Current estimates support the assertion that these recognized assets related to losses will be fully utilized by the time they expire. The utilization of these losses is dependent on monetization of certain assets and collections, in part, of contingent assets.

(g) Movement in deferred tax assets (liabilities) during the year:

	Net Operating	Capital Assets	Inventory	Other	Total
At December 31, 2014	30,080	(9,616)	(1,325)	(2,507)	16,632
Credited (charged) to income	(22,015)	(3,519)	-	(742)	(26,276)
Credited (charged) to discontinued income	(1,143)	1,729	148	-	734
Credited (charged) to other comprehensive income	3,575	(4,406)	(406)	81	(1,156)
At December 31, 2015	10,497	(15,812)	(1,583)	(3,168)	(10,066)
Credited (charged) to income	(6,639)	4,362	-	37	(2,240)
Credited (charged) to discontinued income	2,668	9,194	27	511	12,400
Credited (charged) to other comprehensive income	118	525	-	149	792
Other credited (charged) to assets held for sale	(7,928)	6,708	1,556	(476)	(140)
At December 31, 2016	(1,284)	4,977	-	(2,947)	746

27. Related party transactions

(a) Compensation of key management personnel:

	December 31, 2016	December 31, 2015
Short-term employee benefits, including wages and benefits	3,883	2,263
Share-based compensation	919	597
Total	4,802	2,860

Key management personnel include the Corporation’s Directors and Named Executive Officers.

There were no other related party transactions during 2016 or 2015.

(b) Corporate entities:

	Country of Incorporation	Ownership Interest % 2016	2015
Milner Power Limited Partnership	Canada	100	100
Maxim Power (USA), Inc.	USA	100	100
Comax France S.A.S.	France	-	100
Deerland Power Limited Partnership	Canada	100	100
Summit Coal Limited Partnership	Canada	100	100

(Amounts in thousands of Canadian dollars except as otherwise noted)

28. Employee benefits

Benefits are based on plan contributions under the defined contribution pension plan. During 2016, the pension expense for this plan was $214 (2015 - $288). There has been no change in the contribution rate during 2016.

29. Change in non-cash working capital

	December 31, 2016	December 31, 2015
Operations		
Trade receivables	(409)	641
Prepaid expenses and deposits	180	(329)
Inventories	1,769	(371)
Trade payables and other current liabilities	110	568
	1,650	509

	December 31, 2016	December 31, 2015
Investing		
Trade and other payables	(835)	741
	(835)	741

30. Segmented information

MAXIM is an independent power producer engaged in the development, ownership and operation of power generation facilities and the sale of electricity and heat. The Corporation operates in one reportable segment with power generation facilities located in Canada. For each of the segments, results are reviewed regularly by the Corporation's CEO to make decisions about resources to be allocated to the segments and to assess their performance. The United States and France operating segments ceased to be strategic segments in the second half of 2016 as a result of the pending and closed sale of these business segments. The Corporation has modified the composition of the reportable segments.

Information regarding results of each reportable segment is included below. Performance is measured on income from operations, as included in the internal management reports that are reviewed by the Corporation's CEO. Income from operations is used to measure performance as management believes that such information is the most relevant in evaluating the results of the reportable segments.

December 31, 2016	Canada	Corporate amounts	Subtotal	Discontinued operations from United States	Discontinued operations from France	Total consolidated
Revenues from external customers (a)	6,484	-	6,484	55,639	32,435	94,558
Finance expense (income), net	102	(960)	(858)	1,932	1,466	2,540
Depreciation and amortization	5,215	23	5,238	9,851	6,222	21,311
Operating expense	32,281	-	32,281	44,772	23,242	100,295
Operating loss	(24,221)	(3,982)	(28,203)	(9,716)	(22,518)	(60,437)
Other material non-cash items						
Capital expenditures, net of (proceeds from insurance recoveries)	(266)	-	(266)	3,751	1,154	4,639

(Amounts in thousands of Canadian dollars except as otherwise noted)

30. Segmented information (continued)

December 31, 2015	Canada	Corporate amounts	Subtotal	Discontinued operations from United States	Discontinued operations from France	Total consolidated
Revenues from external customers (a)	19,556	-	19,556	63,787	39,702	123,045
Finance expense, net	218	6,783	7,001	1,993	1,566	10,560
Depreciation and amortization	6,787	26	6,813	8,792	9,272	24,877
Operating expense	32,236	-	32,236	48,913	28,382	109,531
Operating income (loss)	(44,648)	(3,755)	(48,403)	6,510	1,159	(40,734)
Other material non-cash items						
Unrealized gain on derivative coal contracts	(3,719)	-	(3,719)	-	-	(3,719)
Capital expenditures	8,157	-	8,157	9,522	15,580	33,259

The Corporation's revenues in Canada are predominantly from entities formed by governments for the purpose of facilitating commerce in the power and utility sector in each of the reportable segments. During 2016, $6,456 (2015 – $19,523) of the Corporation's revenue was attributable to one of these entities in Canada.

31. Financial risk management

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

- credit risk
- liquidity risk
- foreign currency exchange risk
- interest rate risk
- commodity price risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital.

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 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 and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

(Amounts in thousands of Canadian dollars except as otherwise noted)

31. Financial risk management (continued)

Risk management assets recognized on the Consolidated Statement of Financial Position are attributable to the following:

	December 31, 2016	December 31, 2015
Foreign currency put option	1,102	-
Commodity price call option	378	-
Total	1,480	-

(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 services.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	December 31, 2016	December 31, 2015
Trade and other receivables	1,856	20,871
Risk management assets	1,480	-
Deposits	126	2,156
Milner decommissioning reimbursement (note 12)	8,342	8,624
Cash and cash equivalents	15,303	5,884
Total	27,107	37,535

Trade receivables are predominantly with entities formed by governments for the purpose of facilitating commerce in the power and utility sector (note 30). For trade receivables from customers and deposits to vendors who are not government sponsored entities, the Corporation utilizes regular credit monitoring processes to mitigate credit risk.

The aging of trade and other receivables at the reporting date was:

	2016			2015		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	1,856	-	1,856	18,671	-	18,671
Past due 1-30 days	-	-	-	783	-	783
Past due 31-120 days	-	-	-	637	-	637
Past due more than 120 days	-	-	-	780	-	780
Total	1,856	-	1,856	20,871	-	20,871

Cash and cash equivalents are held with bank counterparties, which are rated A- to A+, based on rating agency Standard & Poor’s.

(Amounts in thousands of Canadian dollars except as otherwise noted)

31. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that MAXIM will not be able to meet its financial obligations as they fall due. MAXIM's approach to managing liquidity is through regular monitoring of cash requirements by preparing short-term and long-term cash flow analyses.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

December 31, 2016	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	2 to 3 years	4 to 5 years	Thereafter
Non-derivative financial instruments							
Trade and other payables	9,428	9,428	5,847	3,581	-	-	-
Other long-term liability	3,581	3,581	-	-	3,581		
	13,009	13,009	5,847	3,581	3,581	-	-

December 31, 2015	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	2 to 3 years	4 to 5 years	Thereafter
Non-derivative financial instruments							
Secured bank loans	66,974	83,778	5,034	4,892	18,889	17,641	37,322
Finance lease payments	1,754	1,866	438	418	1,010	-	-
Trade and other payables	28,906	28,906	28,906	-	-	-	-
	97,634	114,550	34,378	5,310	19,899	17,641	37,322

31. Financial risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and commodity price risks will affect the Corporation’s income 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

The Corporation is exposed to currency risk to the extent that revenue, expenses and monetary assets and liabilities are denominated in currencies that differ from the functional currency of the respective entity within the consolidated group. The Corporation has not hedged the exposure related to revenues and expenses.

At December 31, 2016, the Corporation has monetary assets of US$103 thousand (December 31, 2015 – liability of US$1,204 thousand) and other liabilities of US$5,333 thousand (December 31, 2015 – US$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 $702 (2015 - $1,204) 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.

Principal and interest payments on long-term debt, capital leases and long-term contracts are denominated in currencies that match the cash flows generated by the underlying operations. This provides an economic hedge for these obligations and no derivatives have been entered into.

The Corporation, in the discontinued United States operating segment, is exposed to foreign currency exchange risk from the divestment of operating segments where proceeds are denominated in currencies other than the functional currency of the Corporation. 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$55,000 thousand put option to lock-in a portion of the sales proceeds at a minimum exchange rate at $1.34 in the Corporation's functional currency. This option expires on March 24, 2017.

(Amounts in thousands of Canadian dollars except as otherwise noted)

31. Financial risk management (continued)

(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 loans and borrowings and periodically entering into interest rate swap agreements to change floating rate debt to fixed rate debt.

The carrying amounts of the Corporation's interest-bearing financial liabilities were as follows:

	December 31, 2016	December 31, 2015
Fixed rate instruments		
Financial liabilities	-	65,165
Total	-	65,165
Variable rate instruments		
Financial liabilities	-	3,563
Total	-	3,563

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 (note 6a). 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.

During 2016, the Corporation entered into firm financial swap agreements for net 75 MW to 100 MW of Alberta power at a fixed price beginning July 1, 2016 for terms of six to nine months.

As at December 31, 2016, the Corporation purchased a 50 MW commodity price call option at $50 per MWh on an average daily basis in order to reduce variable Alberta power price exposure, from the swaps described in the paragraph above, for a term from January 1, 2017 to March 31, 2017.

(Amounts in thousands of Canadian dollars except as otherwise noted)

31. Financial risk management (continued)

For the year ended December 31, 2016, an appreciation in electricity prices in the Alberta power market by $1 per MWh would have increased net income by $72 (2015 - $222). A weakening of electricity prices by this amount would have the opposite effect on income. This analysis assumes that all other variables, in particular natural gas prices, coal prices and interest rates remain constant. The analysis is performed on the same basis for 2015.

For the year ended December 31, 2016, an appreciation in realized prices in the ISO-NE power market by US$1 per MWh would have increased net income by $157 (2015 - $161). A weakening of electricity prices by this amount would have the opposite effect on income. This analysis assumes that all other variables, in particular foreign currency rates, natural gas prices and interest rates remain constant. The analysis is performed on the same basis for 2015.

32. Fair value

The fair value of a financial instrument is 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.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statements of financial position, are as follows:

December 31, 2016	Designated at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
Cash and cash equivalents	-	15,303	-	15,303	15,303
Trade and other receivables	-	1,856	-	1,856	1,856
Foreign currency put option	1,102	-	-	1,102	1,102
Commodity price call option	378	-	-	378	378
Long-term deposits	126	-	-	126	126
Milner decommissioning reimbursement	8,342	-	-	8,342	8,342
Total assets	9,948	17,159	-	27,107	27,107
Trade and other payables	58	-	9,370	9,428	9,428
Total liabilities	58	-	9,370	9,428	9,428

December 31, 2015	Designated at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
Cash and cash equivalents	-	5,884	-	5,884	5,884
Trade and other receivables	-	20,871	-	20,871	20,871
Restricted cash	-	1,405	-	1,405	1,405
Long-term deposits	1,352	-	-	1,352	1,352
Milner decommissioning reimbursement	8,624	-	-	8,624	8,624
Total assets	9,976	28,160	-	38,136	38,136
Trade and other payables	-	-	28,906	28,906	28,906
Loans and borrowings	-	-	68,728	68,728	78,277
Total liabilities	-	-	97,634	97,634	107,183

32. Fair value (continued)

The fair value measurement of a financial instrument or derivative contract is included in one of three levels as follows:

- Level I: unadjusted quoted prices in active markets for identical assets or liabilities
- Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly
- Level III: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The fair value of cash and cash equivalents, trade and other receivables, restricted cash, long-term deposits and trade and other payables approximate their carrying amounts due to their short terms to maturity.

The fair value of the loans and borrowings are classified as Level II under the fair value hierarchy as the fair values are based on observable market data. MAXIM determined the fair value of the loans and borrowings using comparable debt instruments with similar maturities. The carrying value of floating rate debt approximates fair value.

During 2016, the Corporation entered into firm financial swap agreements for net 75 MW to 100 MW of Alberta power at a fixed price beginning July 1, 2016 for terms of six to nine months. The fair value of the commodity swaps are classified as Level II under the fair value hierarchy as the fair values are based on observable market data. MAXIM determined the fair value of the swaps by applying the market approach using market settled forward prices as reported by the Natural Gas Exchange for forward contracts of comparable term at the reporting date. The year ended December 31, 2016, the unrealized loss on commodity price swaps was $58 (2015 - nil). For the year ended December 31, 2016, the realized gain on commodity price swaps was $6,324 (December 31, 2015 - nil).

The fair value for the foreign currency put option and commodity price call option are classified as Level II under the fair value hierarchy as the fair values are based on observable market data. MAXIM determined that the fair value was equal to the cost of the options as they were purchased in December 2016 with inconsequential subsequent changes to quoted prices before the date of the Statement of Financial Position.

The fair value for SO2 Credits and coal contracts are classified as Level III under the fair value hierarchy as they are determined using inputs for the asset or liability that are not readily observable. Level III fair values 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.

During 2015, the Corporation terminated its long-term coal supply agreement. For the year ended December 31, 2016, unrealized gains on the coal contracts were $nil (2015 - $3,719). There were no realized amounts in the current and comparative period. During 2016, the Corporation did not enter into any coal supply agreements.

(Amounts in thousands of Canadian dollars except as otherwise noted)

33. Capital management

MAXIM manages its capital in a manner consistent with the risk characteristics of the assets it holds. All transactions, including equity, debt, and capital leases, are analyzed by management and approved by the Board of Directors.

The Corporation's objectives when managing capital are:

(a) to safeguard the Corporation's ability to continue as a going concern and provide returns for shareholders;

(b) to facilitate the acquisition or development of power projects in Canada.

The Corporation is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential expenditures, preparing short-term and long-term cash flow analyses to ensure an adequate amount of liquidity and monthly review of financial results.

The Corporation considers the following items capital of the Corporation:

(a) long-term debt and capital lease obligation, net of cash; and

(b) shareholders' equity

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

	December 31, 2016	December 31, 2015
Long-term debt	-	66,974
Capital lease obligation	-	1,754
Less: Unrestricted cash, net of bank indebtedness	(15,303)	(5,884)
Net debt	(15,303)	62,844
Equity attributable to shareholders	157,287	216,082
	141,984	278,926

The Corporation has the following restrictions on its capital as a result of its Canadian credit facilities:

(a) net funded debt to net earnings before interest, taxes, amortization and depreciation from certain assets shall not be greater than 2.00 to 1;

(b) interest coverage ratio shall not be less than 8.0 times;

(c) debt service coverage ratio shall not be less than 1.25 to 1;

(d) the Corporation's equity balance (defined by the credit facility agreement as the sum of share capital, retained earnings and contributed surplus) shall not be less than $175,000 for the quarter ended December 31, 2016, increasing (decreasing) from the inception of the credit facility each year by 80% of annual net income (loss); as at December 31, 2016, the minimum equity balance required was $175,000;

(e) the funded debt to capital ratio shall not be greater than 0.60 to 1; and

(f) produce a minimum EBITDA of $2,978 for the fourth quarter of 2016.

33. Capital management (continued)

As at December 31, 2016, MAXIM breached the following financial covenants in relation to its Canadian bank facilities: DSCR, minimum equity, interest coverage and minimum EBITDA. Subsequent to year end, management obtained a waiver for the covenant breaches.

The Corporation's objectives when managing capital have changed from the prior year in that capital will currently only be used to facilitate the acquisition or development of power projects in Canada. The proceeds from the sale of the United States and France 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.

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[1]			
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[1]			
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) [2]	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) [3]	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_2 ("SO_2 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_2 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 MWh	2015 MWh
Total MWh generation	312,179	303,481

Revenue

Summary of revenue by segment:

($000's)	2016	2015
Revenue [1]	6,484	19,556

[1] 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:

	2016				2015			
($000's)	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
Assets				
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
Liabilities & Equity				
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 LIABILTIIES 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 convents 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(1)	380	97	175	108	-
Total	14,421	4,707	3,035	2,170	4,509

(1) 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.

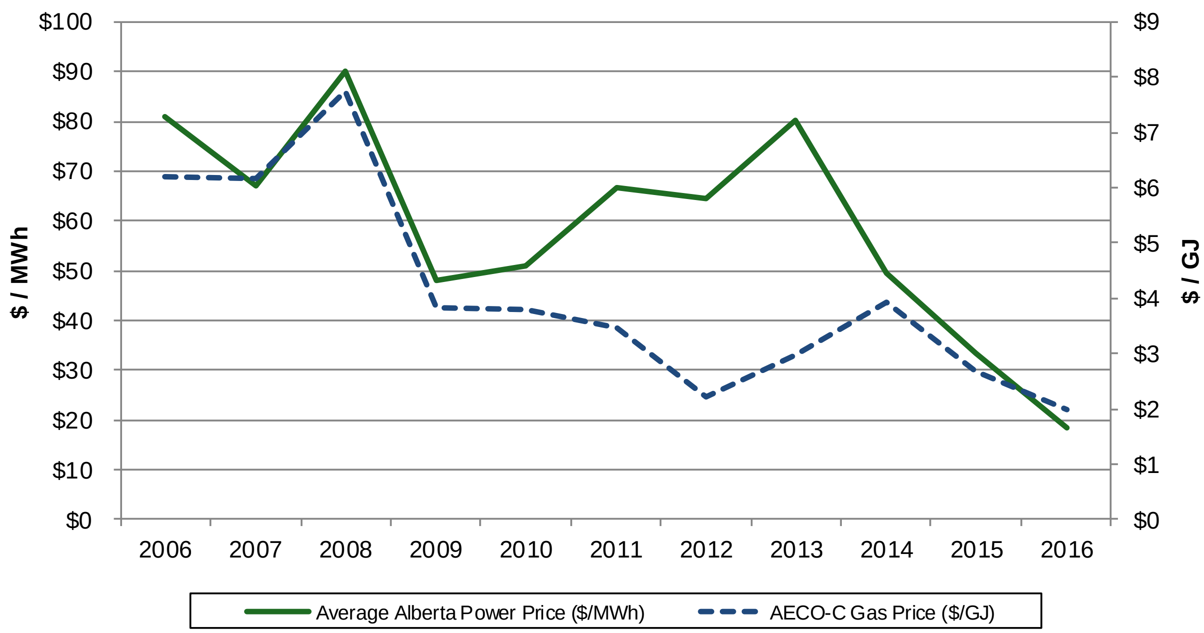
Capital Resources

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 SO2, 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) ($000's unless otherwise noted)	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016
Revenue				
Continuing operations	2,840	1,581	180	1,883
Discontinued operations	18,309	21,997	11,433	36,335
Total	21,149	23,578	11,613	38,218
Adjusted EBITDA[1]				
Continuing operations	(3,402)	(993)	(3,980)	(5,803)
Discontinued operations	524	3,756	781	11,349
Total	(2,878)	2,763	(3,199)	5,546
Net loss attributable to shareholders				
Continuing operations	(9,721)	(3,334)	(6,825)	(9,994)
Discontinued operations	(7,690)	(16,698)	(1,523)	1,985
Total	(17,411)	(20,032)	(8,348)	(8,009)
Basic and diluted loss per share attributable to shareholders ($ 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[1]				
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) [2]	35	34	20	21
Average Northeast U.S. realized electricity price (US$ per MWh)	47	42	37	37

Key performance indicators

Quarter ended: (unaudited) ($000's unless otherwise noted)	31-Dec 2015	30-Sep 2015	30-Jun 2015	31-Mar 2015
Revenue				
Continuing operations	2,161	899	12,241	4,255
Discontinued operations	30,631	18,806	10,786	43,266
Total	32,792	19,705	23,027	47,521
Adjusted EBITDA(1)				
Continuing operations	276	(5,693)	5,469	(4,974)
Discontinued operations	7,943	3,354	1,556	11,570
Total	8,219	(2,339)	7,025	6,596
Net income (loss) attributable to shareholders				
Continuing operations	(66,011)	(8,916)	3,314	(10,209)
Discontinued operations	856	(1)	(733)	4,282
Total	(65,155)	(8,917)	2,581	(5,927)
Basic and diluted income (loss) per share attributable to shareholders ($ 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(1)				
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

(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) 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 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:

($000's, unless otherwise noted)	2016	2015
Revenue		
Continuing operations	2,840	2,161
Discontinued operations	18,309	30,631
Total	21,149	32,792
Adjusted EBITDA[(1)]		
Continuing operations	(3,402)	276
Discontinued operations	524	7,943
Total	(2,878)	8,219
Net loss attributable to shareholders		
Continuing operations	(9,721)	(66,011)
Discontinued operations	(7,690)	856
Total	(17,411)	(65,155)
Basic and diluted net loss per share attributable to shareholders ($ per share)		
Continuing operations	(0.18)	(1.22)
Discontinued operations	(0.14)	0.02
Total	(0.32)	(1.20)
FFO[(1)]		
Continuing operations	(4,949)	(5,183)
Discontinued Operations	1,582	9,627
Total	(3,367)	4,444
Total generation (MWh) [(2)]	126,997	95,478
Average Alberta market power price ($ per MWh)	22.03	21.19
Average Milner realized power price ($ per MWh) [(3)]	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
EBITDA	(21,565)	(48,338)	(16,423)	25,552	(37,988)	(22,786)
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)
Adjusted EBITDA	(14,178)	(4,922)	16,410	24,423	2,232	19,501

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

(1) 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	**$1 per MWh increase in electricity price**	**$1 per MWh decrease in electricity price**
	Profit or loss	Profit or loss
December 31, 2016	72	(72)
December 31, 2015	222	(222)

ISO-NE	**US $1 per MWh increase in electricity price**	**US $1 per MWh decrease in electricity price**
	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 under Maxim Power Corp. and at the Corporation's website www.maximpowercorp.com.

GLOSSARY OF TERMS

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

AESO	Alberta Electric System Operator
AEP	Alberta Environment and Parks
Alberta market power prices	The hourly price established by the AESO for electricity bought and sold through the Alberta Power Pool
AUC	Alberta Utilities Commission
Bank EBITDA	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
Basin Creek	Basin Creek generating station, a 55 MW generating facility located in Butte, Montana was acquired by MAXIM in April, 2005
BMO	Bank of Montreal
Buffalo Atlee	Buffalo Atlee is a development project for up to 200 MW wind generation situated near Brooks, Alberta.
Capacity	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)
CCR	Carbon Competitiveness Regulation
CDECCA	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
CEO	Chief Executive Officer
CFO	Senior Vice President, Finance and Chief Financial Officer
CLP	Climate Leadership Plan
Coal Beneficiation Plant	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.
Cogeneration	The combined, simultaneous generation of heat (usually in the form of hot water or steam) and power (usually in the form of electricity)
Decision	Decision 790-D04-2016 issued by the AUC
Deerland	Deerland is a development project for a 190 MW natural gas-fired peaking station located near Bruderheim, Alberta
DSCR	Debt service coverage ratio
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
Emission Performance Credits	Emission performance credits are generated by facilities that have reduced emission of greenhouse gases by 12% since July 1, 2007
FERC	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.
FFO	Funds from operation activities before changes in working capital
FLI	Forward-looking information
Forked River	Forked River generating station, a 87 MW generating facility located in Forked River, New Jersey was acquired by MAXIM on April 17, 2008
GAAP	IFRS, as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants
GHG	Greenhouse gas
GoA	Government of Alberta
Gold Creek	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
IAS	International Accounting Standards
IASB	International Accounting Standards Board

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