Condensed Consolidated Interim Financial Statements of

# MAXIM POWER CORP.

For the Second Quarter Ended June 30, 2017

(Unaudited)

**FORM 52-109F2**
**CERTIFICATION OF INTERIM FILINGS**
**FULL CERTIFICATE**

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

1. ***Review:*** I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of Maxim Power Corp. (the "issuer") for the interim period ended June 30, 2017.

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

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim 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 interim 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 end of the period covered by the interim filings

   (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 interim 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 interim MD&A for each material weakness relating to design existing at the end of the interim period

(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. ***Reporting changes in ICFR:*** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on April 1, 2017 and ended on June 30, 2017, that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: August 10, 2017

*(signed) "M. Bruce Chernoff"*

M. Bruce Chernoff
Interim Chief Executive Officer

**FORM 52-109F2**
**CERTIFICATION OF INTERIM FILINGS**
**FULL CERTIFICATE**

I, Michael R. Mayder, Senior Vice President, Finance and Chief Financial Officer of Maxim Power Corp., certify the following:

1. ***Review:*** I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of Maxim Power Corp. (the "issuer") for the interim period ended June 30, 2017.

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

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim 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 interim 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 end of the period covered by the interim filings

   (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 interim 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 interim MD&A for each material weakness relating to design existing at the end of the interim period

(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. ***Reporting changes in ICFR:*** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on April 1, 2017 and ended on June 30, 2017, that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: August 10, 2017

*(signed) "Michael R. Mayder"*

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

Condensed Consolidated Interim Financial Statements of

# MAXIM POWER CORP.

For the Second Quarter Ended June 30, 2017

(Unaudited)

# MAXIM POWER CORP.

Unaudited Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

| | Note | **June 30, 2017** | December 31, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | **114,610** | 15,303 |
| Trade and other receivables | | **241** | 1,856 |
| Prepaid expenses and deposits | | **485** | 272 |
| Inventories | 5 | **-** | 1,029 |
| Risk management assets | | **-** | 1,480 |
| Assets held for sale | 4 | **-** | 120,236 |
| **Total current assets** | | **115,336** | 140,176 |
| Property, plant and equipment, net | 8b | **55,381** | 57,705 |
| Intangible assets, net | 8a | **336** | 7,538 |
| Restricted cash | 6 | **7,914** | - |
| Deferred tax assets | | **3,934** | 4,114 |
| Other assets | | **9,020** | 8,650 |
| **Total non-current assets** | | **76,585** | 78,007 |
| **TOTAL ASSETS** | | **191,921** | 218,183 |
| **LIABILITIES** | | | |
| Trade and other payables | | **6,615** | 9,428 |
| Liabilities held for sale | 4 | **-** | 32,364 |
| **Total current liabilities** | | **6,615** | 41,792 |
| Provisions for decommissioning | | **12,739** | 11,961 |
| Other long-term liability | | **3,461** | 3,581 |
| Deferred tax liabilities | | **3,368** | 3,368 |
| **Total non-current liabilities** | | **19,568** | 18,910 |
| **TOTAL LIABILITIES** | | **26,183** | 60,702 |
| **EQUITY** | | | |
| Share capital | | **156,719** | 156,482 |
| Contributed surplus | | **11,442** | 11,423 |
| Accumulated other comprehensive income | | **-** | 28,172 |
| Retained deficit | | **(2,423)** | (38,790) |
| **Equity attributable to shareholders** | | **165,738** | 157,287 |
| Non-controlling interest | | **-** | 194 |
| **TOTAL EQUITY** | | **165,738** | 157,481 |
| *Commitments and Contingencies* | 6,12,13 | | |
| **TOTAL LIABILITIES AND EQUITY** | | **191,921** | 218,183 |

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

# MAXIM POWER CORP.

Unaudited Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the three and six months ended June 30
(in thousands of Canadian dollars)

| | | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | Note | **2017** | 2016 | **2017** | 2016 |
| **Revenue** | | **45** | 180 | **2,024** | 2,063 |
| **Expenses** | | | | | |
| Operating | | **2,428** | 5,664 | **8,114** | 17,787 |
| General and administrative | | **1,988** | 773 | **2,529** | 1,653 |
| Depreciation and amortization | | **1,252** | 415 | **2,841** | 1,710 |
| Gain on commodity swaps | 16 | **-** | (231) | **(975)** | (231) |
| Asset impairment charges | 8 | **8,344** | - | **8,344** | - |
| Other (income) expense, net | 9 | **(3,315)** | 709 | **(3,369)** | 369 |
| **Operating loss** | | **(10,652)** | (7,150) | **(15,460)** | (19,225) |
| Finance expense (income), net | 10 | **523** | (342) | **220** | (2,411) |
| **Loss before income taxes** | | **(11,175)** | (6,808) | **(15,680)** | (16,814) |
| **Income tax expense (benefit)** | | | | | |
| Current | | **146** | 17 | **152** | 5 |
| Deferred | | **(842)** | - | **(842)** | - |
| | | **(696)** | 17 | **(690)** | 5 |
| **Net loss from continued operations** | | **(10,479)** | (6,825) | **(14,990)** | (16,819) |
| **Discontinued operations** | | | | | |
| Net income (loss) from discontinued operations (net of tax) | 4 | **50,431** | (1,517) | **51,361** | 559 |
| **Net income (loss)** | | **39,952** | (8,342) | **36,371** | (16,260) |
| **Other comprehensive income (loss), net of tax:** | | | | | |
| Items that are or may be reclassified to net income: | | | | | |
| Reclassification to net income on disposal of discontinued foreign operation | 4 | **(26,729)** | - | **(26,729)** | - |
| Translation of discontinued foreign operations | | **-** | (2,225) | **(1,443)** | (11,545) |
| **Total comprehensive income (loss)** | | **13,223** | (10,567) | **8,199** | (27,805) |
| **Net income (loss) attributable to:** | | | | | |
| Non-controlling interest | | **-** | 6 | **4** | 97 |
| Shareholders | | **39,952** | (8,348) | **36,367** | (16,357) |
| **Net income (loss) attributable to shareholders per share:** | | | | | |
| Basic earnings | 11 | **0.73** | (0.15) | **0.67** | (0.30) |
| Diluted earnings | | **0.73** | (0.15) | **0.67** | (0.30) |
| **Net loss attributable to shareholders per share continued operations:** | | | | | |
| Basic earnings | 11 | (0.19) | (0.12) | (0.28) | (0.31) |
| Diluted earnings | | (0.19) | (0.12) | (0.28) | (0.31) |
| **Comprehensive income (loss) attributable to:** | | | | | |
| Non-controlling interest | | **-** | (13) | **2** | 57 |
| Shareholders | | **13,223** | (10,554) | **8,197** | (27,862) |

# MAXIM POWER CORP.

Unaudited Condensed Consolidated Statements of Changes in Equity

For the six months ended June 30
(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, 2016 | 54,301 | 156,482 | 11,423 | 28,172 | (38,790) | 157,287 | 194 | 157,481 |
| Net income | - | - | - | - | 36,367 | 36,367 | 4 | 36,371 |
| Stock options exercised | 79 | 237 | (184) | - | - | 53 | - | 53 |
| Share-based compensation | - | - | 203 | - | - | 203 | - | 203 |
| Translation of foreign operations | - | - | - | (1,443) | - | (1,443) | (2) | (1,445) |
| Distributions to non-controlling interest | - | - | - | - | - | - | (31) | (31) |
| Disposal of foreign operation | - | - | - | (26,729) | - | (26,729) | (165) | (26,894) |
| Equity at June 30, 2017 | **54,380** | **156,719** | **11,442** | **-** | **(2,423)** | **165,738** | **-** | **165,738** |
| Equity at December 31, 2015 | 54,219 | 156,248 | 10,686 | 34,138 | 15,010 | 216,082 | 705 | 216,787 |
| Net income (loss) | - | - | - | - | (16,357) | (16,357) | 97 | (16,260) |
| Stock options exercised | 30 | 75 | (16) | - | - | 59 | - | 59 |
| Share-based compensation | - | - | 593 | - | - | 593 | - | 593 |
| Translation of foreign operations | - | - | - | (11,505) | - | (11,505) | (40) | (11,545) |
| Distributions to non-controlling interest | - | - | - | - | - | - | (47) | (47) |
| Equity at June 30, 2016 | 54,249 | 156,323 | 11,263 | 22,633 | (1,347) | 188,872 | 715 | 189,587 |

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

# MAXIM POWER CORP.

Unaudited Condensed Consolidated Statements of Cash Flows

For the six months ended June 30, 2017
(in thousands of Canadian dollars)

| | Note | **2017** | 2016 |
|---|---|---|---|
| **Cash flows from operating activities**: | | | |
| Net loss from continued operations | | **(14,990)** | (16,819) |
| Adjustments for items not involving cash or operations: | | | |
| Depreciation and amortization | | **2,841** | 1,710 |
| Asset impairment charges | 8 | **8,344** | - |
| Inventories write-down | | **-** | 6,661 |
| Share-based compensation | | **203** | 593 |
| Unrealized gain on commodity swaps | | **-** | (231) |
| Income tax expense (benefit) | | **(690)** | 5 |
| Income taxes paid | | **(61)** | - |
| Finance expense (income) | 10 | **514** | (2,409) |
| Commodity price call option expired out of the money | 16 | **378** | - |
| Cooling tower claims recoveries | 9 | **(4,275)** | - |
| Approved emission performance credits | | **(36)** | (340) |
| Funds used in continued operating activities before changes in working capital | | **(7,772)** | (10,830) |
| Change in non-cash working capital from continued operations | 14 | **(990)** | (917) |
| Net cash used in operating activities from continued operations | | **(8,762)** | (11,747) |
| **Cash flows from financing activities:** | | | |
| Issuance of loans and borrowings | | **-** | 10,718 |
| Net proceeds from exercise of stock options | | **53** | 59 |
| Interest paid | | **(343)** | (332) |
| Net cash generated from (used in) financing activities from continued operations | | **(290)** | 10,445 |
| **Cash flows from investing activities**: | | | |
| Proceeds on sale of United States operating segment, net of closing costs | 4 | **112,624** | - |
| Property, plant and equipment additions | | **(626)** | (350) |
| Proceeds from the cooling tower claims recoveries | 9 | **4,275** | |
| Change in non-cash working capital | 14 | **(7,914)** | (873) |
| Net cash generated from (used) in investing activities from continued operations | | **108,359** | (1,223) |
| Increase (decrease) in cash and cash equivalents from continued operations | | **99,307** | (2,525) |
| Cash and cash equivalents held at discontinued operations, beginning of period | | **3,535** | - |
| Net increase (decrease) in cash and cash equivalents from discontinued operations | 4 | **(3,535)** | 5,515 |
| Cash and cash equivalents, beginning of period | | **15,303** | 5,884 |
| Cash and cash equivalents, end of period | | **114,610** | 8,874 |

*The accompanying notes are an integral part of these condensed consolidated interim 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. The Corporation closed the sale of its United States operating segment on April 3, 2017 and has presented the result of these operations as discontinued operations (note 4). 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

These unaudited condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The unaudited condensed consolidated interim financial statements do not include all the information required for annual financial statements. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Corporation's December 31, 2016 annual audited financial statements, available at www.sedar.com.

MAXIM's Board of Directors approved these unaudited condensed consolidated interim financial statements on August 10, 2017.

## 3. Significant accounting policies

Excepted as noted below, the significant accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements have been applied consistently for all periods presented and are unchanged from the policies disclosed in the notes to the consolidated financial statements for the year ended December 31, 2016.

The use of judgments and estimates in the preparation of these unaudited condensed consolidated interim 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, 2016.

On January 1, 2017, the Corporation adopted the amendments to Statement of Cash Flows ("IAS 7"), Income Taxes ("IAS 12") and Disclosure of Interests in Other Entities ("IFRS 12"). The adoption of these amendments had no impact to the amounts recorded in the Corporation's consolidated financial statements as of January 1, 2017 or comparative periods.

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

## 4. Assets and liabilities held for sale and discontinued operations

On April 3, 2017, the Corporation closed its previously announced agreement with Hull Street Energy, LLC for the sale of the Corporation's United States operating segment for net proceeds of approximately US$84.0 million. Upon close, the Corporation was required, under its Canadian bank facilities, to fully cash collaterize all outstanding letters of credit. The amount available to draw against this facility at April 3, 2017 was reduced to $nil. In addition, the Corporation is subject to customary closing indemnities until April 3, 2018 to a maximum claim of US$8.8 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 following table summarizes the gain on disposal of the United States operating segment for the six months ended June 30, 2017:

| | June 30, 2017 |
|---|---|
| Cash consideration, net of closing costs | 112,624 |
| Net assets disposed | (90,235) |
| Realized gain on translation on disposal of discontinued operations | 11,380 |
| Gain on disposal of United States | 33,769 |

On December 2, 2016, the Corporation closed the sale of the France operating segment.

The following tables represent the discontinued net income for the United States (2017 and 2016) and France (2016) operating segments:

### Total Discontinued Operations

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue | - | 11,433 | 14,246 | 47,768 |
| Expenses (income) (i) | (35,080) | 13,681 | (22,221) | 46,535 |
| Operating income (loss) | 35,080 | (2,248) | 36,467 | 1,233 |
| Finance expense (income), net (ii) | (15,351) | 865 | (14,891) | 1,813 |
| Income (loss) before income taxes | 50,431 | (3,113) | 51,358 | (580) |
| Income tax expense (benefit) | | | | |
| Current | - | (275) | 25 | 653 |
| Deferred | - | (1,321) | (28) | (1,792) |
| | - | (1,596) | (3) | (1,139) |
| **Net income (loss) from discontinued operations** | 50,431 | (1,517) | 51,361 | 559 |
| Attributable to: | | | | |
| Non-controlling interest | - | 6 | 4 | 97 |
| Shareholders | 50,431 | (1,523) | 51,357 | 462 |
| Net income (loss) from discontinued operations attributable to shareholders per share: | | | | |
| Basic earnings | 0.92 | (0.03) | 0.95 | 0.01 |
| Diluted earnings | 0.92 | (0.03) | 0.95 | 0.01 |

(i) Includes a gain on disposal of the United States operating segment for $33,769.

(ii) Includes a realized gain on translation on disposal of discontinued operations for $15,349.

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

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

| | Six months ended June 30 | |
|---|---|---|
| | 2017 | 2016 |
| **Cash flows from (used in) discontinued operations** | | |
| Net cash generated from operating activities | 87 | 15,685 |
| Net cash used in financing activities | (842) | (5,541) |
| Net cash used in investing activities | (313) | (4,012) |
| Cash component of net assets disposed | (2,443) | - |
| Unrealized foreign exchange loss on cash | (24) | (617) |
| **Net cash flows for the period** | (3,535) | 5,515 |

### United States Segment

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue | - | 10,700 | 14,246 | 23,869 |
| Expenses | (35,080) | 11,084 | (22,221) | 24,462 |
| Operating income (loss) | 35,080 | (384) | 36,467 | (593) |
| Finance expense (income), net | (15,351) | 471 | (14,891) | 982 |
| Income (loss) before income taxes | 50,431 | (855) | 51,358 | (1,575) |
| Income tax expense (benefit) | | | | |
| Current | - | - | 25 | 184 |
| Deferred | - | (872) | (28) | (1,819) |
| | - | (872) | (3) | (1,635) |
| **Net income from discontinued operations** | 50,431 | 17 | 51,361 | 60 |
| Attributable to: | | | | |
| Non-controlling interest | - | 18 | 4 | 40 |
| Shareholders | 50,431 | (1) | 51,357 | 20 |

### France Segment

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue | - | 733 | - | 23,899 |
| Expenses | - | 2,597 | - | 22,073 |
| Operating income (loss) | - | (1,864) | - | 1,826 |
| Finance expense, net | - | 394 | - | 831 |
| Income (loss) before income taxes | - | (2,258) | - | 995 |
| Income tax expense (benefit) | | | | |
| Current | - | (275) | - | 469 |
| Deferred | - | (449) | - | 27 |
| | - | (724) | - | 496 |
| **Net income (loss) from discontinued operations** | - | (1,534) | - | 499 |
| Attributable to: | | | | |
| Non-controlling interest | - | (12) | - | 57 |
| Shareholders | - | (1,522) | - | 442 |

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

## 4. 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:

**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 |

**Liabilities classified as held for sale**

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

## 5. Inventories

During the second quarter, the Corporation determined that spare parts previously classified as inventories are expected to be consumed over greater than twelve months as a result of the temporary suspension of operations at the Milner generating facility. On June 30, 2017, the Corporation reclassified $1,038 from inventories to property, plant and equipment ("PP&E").

## 6. Restricted cash

Effective May 1, 2017, the Corporation amended and restated its credit agreement with the Bank of Montreal ("the bank") to a demand facility that will fully cash collaterize up to $8,000 of letters of credit on a non-revolving basis. As at June 30, 2017, the Corporation has $7,914 of outstanding letters of credit and this amount was deposited into a restricted bank account maintained by the bank.

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

## 7. Share-based compensation

| | Six months ended June 30, 2017 | | | Six months ended June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted average exercise price | Number of options | | Weighted average exercise price |
| Outstanding, beginning of period | 1,898,952 | $ | 2.56 | 2,811,681 | $ | 2.67 |
| Settled for cash | (499,943) | | 2.53 | - | | - |
| Exercised | (77,151) | | 2.52 | (29,833) | | 2.00 |
| Forfeited | (3,333) | | 2.62 | - | | - |
| Granted (i) | 498,694 | | 2.77 | 19,833 | | 2.95 |
| Outstanding, end of period | 1,817,219 | $ | 2.62 | 2,801,681 | $ | 2.68 |
| Exercisable | 652,406 | $ | 2.53 | 1,492,535 | $ | 2.80 |

(i) During the second quarter of 2017, the Corporation granted options with a vesting period of one year to certain employees and directors. The fair value of each option granted is estimated at the date of the grant using the Black-Scholes option pricing model with weighted average assumptions for the grant as follows:

| | 2017 |
|---|---|
| Fair value of each option ($) | 0.58 |
| Share price at grant date ($) | 2.77 |
| Exercise price ($) | 2.77 |
| Risk-free interest rate (%) | 0.83 |
| Expected life (years) | 2.00 |
| Expected volatility (%) | 36.00 |
| Forefiture rate (%) | - |

## 8. Asset impairment charges

(a) Intangible assets, net

During the second quarter of 2017, due to adverse changes in the market conditions for environmental credits in Alberta, the Corporation recognized an asset impairment charge of $6,463 with respect to SO2 credits at Milner included in Canada operating segment. The recoverable amount was estimated to be $nil. 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.

(b) PP&E, net

During the second quarter of 2017, due to significant adverse changes at the facility site, the Corporation recognized an asset impairment charge of $1,072 with respect to the Gold Creek generating facility included in the Canada operating segment. In the absence of contractual arrangements or favourable Alberta power prices that would make it economically feasible to connect the facility to a new compressor at the current site or another MAXIM site, the recoverable amount of this facility was estimated at its salvage value of $43.

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

## 8. Asset impairment charges (continued)

During the second quarter of 2017, due to updated information on market conditions, the Corporation obtained an appraisal for raw land it is holding in the United States. Based on a sales approach to same or similar land, the Corporation determined that the book value of the land was greater than the recoverable amount and recognized an $809 asset impairment charge. The recoverable amount was estimated based on the appraisal to be US$4,109.

## 9. Other income

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Cooling tower claims recoveries (i) | (4,275) | - | (4,275) | - |
| Restructuring of Alberta operations (ii) | 1,326 | 709 | 1,326 | 709 |
| Transition service income | (366) | - | (366) | - |
| Approved emission performance credits | - | - | (36) | (340) |
| Gain on sale of equipment | - | - | (18) | - |
| Total other expense (income), net | (3,315) | 709 | (3,369) | 369 |

(i) Proceeds from the final resolution of the cooling tower claims.

(ii) This consists of costs incurred to restructure the Corporation's Alberta operations to reduce ongoing operating costs.

## 10. Finance income, net

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Interest expense | 191 | 190 | 343 | 295 |
| Accretion of provisions | 19 | 18 | 39 | 39 |
| Foreign exchange loss (gain) | 607 | (549) | 132 | (2,743) |
| Finance expense (income) | 817 | (341) | 514 | (2,409) |
| Interest income (i) | (294) | (1) | (294) | (2) |
| Total finance expense (income), net | 523 | (342) | 220 | (2,411) |

(i) Includes interest income on cash and cash equivalents.

## 11. Earnings per share

(a) Basic earnings per share

The calculation of basic per share for the three months ended June 30, 2017 was based on the net income attributable to common shareholders and net loss attributable to common shareholders from continued operations of $39,952 and ($10,479), respectively (June 30, 2016 – losses of ($8,348) and ($6,825), respectively) and weighted average number of common shares outstanding for the period of 54,368,757 (June 30, 2016 – 54,245,730). For the six months ended June 30, 2017 was based on the net income attributable to common shareholders and net loss attributable to common shareholders from continued operations of $36,367 and ($14,990), respectively (June 30, 2016 – losses of ($16,357) and ($16,819), respectively) and weighted average number of common shares outstanding for the period of 54,344,053 (June 30, 2016 – 54,224,723).

**11. Earnings per share (continued)**

(b) Dilutive earnings per share

For the three months ended June 30, 2017 diluted earnings per share calculation, 101,713 (June 30, 2016 – nil) shares were added to the average number of common shares outstanding during the period for the dilutive effects of exercisable stock options. For the six months ended June 30, 2017 diluted earnings per share calculation, 103,376 (June 30, 2016 – nil) shares were added to the average number of common shares outstanding during the period for the dilutive effects of exercisable stock options. For the three and six months ended June 30, 2016, no shares were added to the average number of common shares outstanding because they were antidilutive.

**12. Commitments**

(a) 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.

(b) 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 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 June 30, 2017. The Corporation has an additional commitment of $798 regarding the service portion of the contract.

**13. 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. 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.

**13. Contingencies (continued)**

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.

In addition, the Corporation has closed the sale of the United States operating segment. Under the sales agreement, the Corporation is subject to customary closing indemnities until April 3, 2018 to a maximum claim of US$8,841 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.

(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, the final phase of which is currently underway, 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 June 30, 2017, based on calculations established by information currently available on the public record before accounting for the time value of money. As at June 30, 2017, 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, the Corporation is eligible for compensation up to €6,000, 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 June 30, 2017, the timing and amount of compensation cannot be determined.

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

### 14. Change in non-cash working capital

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Operations | | |
| Trade receivables | 1,615 | 1,161 |
| Prepaid expenses and deposits | (213) | (134) |
| Inventories | (9) | 1,025 |
| Trade payables and other | (2,383) | (2,969) |
| | (990) | (917) |

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Investing | | |
| Trade and other payables | - | (873) |
| Restricted cash | (7,914) | - |
| | (7,914) | (873) |

### 15. 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 operated in one reportable segment with power generation facilities located in Canada. Results are reviewed regularly by the Corporation's interim CEO to make decisions about resources to be allocated to the segments and to assess their performance. The United States and France operating segment ceased to be strategic segment in the second quarter of 2017 and fourth quarter of 2016, respectfully, as a result of the closed sales of these business segments. The Corporation has modified the composition of the reportable segments.

(a) Three months ended

| June 30, 2017 | Canada | Corporate amounts | Subtotal | Discontinued operations from United States | Total consolidated |
|---|---|---|---|---|---|
| Revenues from external customers | 45 | - | 45 | - | 45 |
| Operating income (loss) | (7,320) | (3,332) | (10,652) | 35,080 | 24,428 |

| June 30, 2016 | Canada | Corporate amounts | Subtotal | Discontinued operations from United States | Discontinued operations from France | Total consolidated |
|---|---|---|---|---|---|---|
| Revenues from external customers | 180 | - | 180 | 10,700 | 733 | 11,613 |
| Operating income (loss) | (5,845) | (1,305) | (7,150) | (384) | (1,864) | (9,398) |

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

## 15. Segmented information (continued)

(b) Six months ended

| June 30, 2017 | Canada | Corporate amounts | Subtotal | Discontinued operations from United States | Total consolidated |
|---|---|---|---|---|---|
| Revenues from external customers | 2,024 | - | 2,024 | 14,246 | 16,270 |
| Operating income (loss) | (11,692) | (3,768) | (15,460) | 36,467 | 21,007 |

| June 30, 2016 | Canada | Corporate amounts | Subtotal | Discontinued operations from United States | Discontinued operations from France | Total consolidated |
|---|---|---|---|---|---|---|
| Revenues from external customers | 2,063 | - | 2,063 | 23,869 | 23,899 | 49,831 |
| Operating income (loss) | (17,085) | (2,140) | (19,225) | (593) | 1,826 | (17,992) |

## 16. Fair value and financial instruments

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 Corporation's financial assets and financial liabilities that are not risk management contracts are all classified as Level I under the fair value hierarchy as they are based on unadjusted quoted prices in active markets for identical instruments.

(a) Cash and cash equivalents and restricted cash

The fair value of cash and cash equivalents and restricted cash are classified as Level I under the fair value hierarchy as they are based on active markets for identical assets. All cash balances are invested with one counterparty, which is rated A- by Standard and Poor's rating agency.

(b) Commodity risk management swaps and options

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. For the six months ended June 30, 2017, the unrealized gain on commodity price swaps was $58 (June 30, 2016 - nil). For the six months ended June 30, 2017, the realized gain on commodity risk management swaps and option was $917 (June 30, 2016 - nil). At June 30, 2017, the Corporation had no commodity swaps or options outstanding.

(c) Foreign exchange risk management swap and options

The Corporation, in the discontinued United States operating segment, was exposed to foreign currency exchange risk from the divestment of the operating segment where proceeds are denominated in currencies other than the functional currency of the Corporation. The Corporation managed this exposure by entering into a foreign currency swap or purchasing put options, for a portion of the proceeds. The fair value of the foreign currency swap and put options are classified as

**16. Fair value and financial instruments (continued)**

Level II under the fair value hierarchy as the fair values are based on observable market data.

For the three and six months ended June 30, 2017, the Corporation, realized a $421 thousand loss (June 30, 2016 - $nil), recognized in discontinued operations, on the US$78,000 thousand swap to lock-in a portion of the sales proceeds of the United States operating segment.

For the six months ended June 30, 2017, the Corporation realized a net loss of $1,092 (June 30, 2016 - $nil) upon the expiry of two put options expiring March 24, 2017, consisting of the amortization of premiums paid of $1,378, partially offset by proceeds on exercise of $286. These amounts have been recognized in discontinued operations.

At June 30, 2017, the Corporation had no outstanding foreign exchange risk management swaps and options.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated August 10, 2017 and should be read in conjunction with the unaudited condensed consolidated interim financial statements of Maxim Power Corp. ("MAXIM" or the "Corporation") for the three and six months ended June 30, 2017. The MD&A should also be read in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2016. MAXIM prepares its unaudited condensed consolidated interim financial statements in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting, under International Financial Reporting Standards ("IFRS"), as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants ("GAAP").

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

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## FORWARD-LOOKING INFORMATION

Certain information in this MD&A is forward-looking information ("FLI") and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include the ability of the Corporation to implement its strategic initiatives, the availability and price of energy commodities, government and regulatory decisions, power plant availability, competitive factors in the power industry and prevailing economic conditions in the regions that the Corporation operates. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Corporation believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements speak only to the date of this MD&A. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required pursuant to applicable securities laws.

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

- Management forecasts that cash flows for operating, general and administrative expenses will be funded by its existing cash on hand. Management forecasts that cash flows for development capital will be funded by both its existing cash on hand and future anticipated financing based upon current forecasts.
- Management has determined that it is no longer economically feasible to continue operating the H.R. Milner generating facility ("M1") as a coal-fired facility for the foreseeable future until Alberta power prices increase. Management continues to evaluate its options in regards to operating the facility solely on natural gas in its current state or the repowering of M1 into a 236 MW natural gas-fired facility under the Milner gas repowering ("MGR") project.
- Development projects, including Deerland Peaking Station ("Deerland"), Buffalo Atlee, MGR, Milner gas expansion ("MGE") and Summit Coal ("SUMMIT") are based upon current estimates of capital cost, projected returns on investment, the duration of the regulatory approval process, and the ability to obtain the necessary financing.
- MAXIM estimates total development capital expenditures from continuing operations of $2.1 million to be incurred in 2017. 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 Alberta. The actual future power prices in these areas may be different from expected.
- MAXIM anticipates all necessary provincial 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 anticipates that it will maintain a working capital surplus over the next twelve months.

## OVERALL PERFORMANCE

On April 3, 2017, the Corporation closed its previously announced sale of the United States operating segment to Hull Street Energy, LLC for net proceeds of approximately US$84.0 million. After closing costs and reclassification of foreign currency adjustments, MAXIM recognized a gain on sale of $33.8 million.

Upon close, the Corporation was required, under its Canadian bank facilities, to fully cash collaterize all outstanding letters of credit for approximately $12.6 million. As of the date of this MD&A, this amount was reduced to $7.9 million upon cancellation of an outstanding letter relating to the sale of the France operating segment. The amount available to draw against this facility at April 3, 2017 was $nil. In addition, the Corporation will utilize US$5.3 million to fulfill obligations under the Federal Energy Regulatory Commission ("FERC") Stipulation and Consent Agreement ("Settlement Agreement") previously disclosed on September 26, 2016. The remainder of the proceeds will be held by MAXIM for strategic corporate purposes.

During the second quarter, MAXIM reduced the headcount at its corporate head office by 33%, primarily as a result of the sale of the U.S. operating segment.

On July 28, 2017, MAXIM temporarily suspended the generation of electricity at M1 following the notice provided to the Alberta Electric System Operator ("AESO") on May 1, 2017. M1 has not generated electricity since April 2017. The decision to temporarily suspend the operations at M1 was due to continued record low Alberta power prices, which have undermined profitability for a prolonged period. Laying-up M1 operations will result in a 75% reduction of plant staff while operations are suspended. MAXIM is currently maintaining a smaller operating team to undertake maintenance and repairs for a possible resumption of generation as power market conditions improve. A significant improvement in Alberta power prices in the current "energy only market" will be required to justify resuming operations.

MAXIM is currently evaluating the electricity market transition being undertaken by the Government of Alberta ("GoA"). This includes a shift from the current "energy only market" to a "capacity market" to attract investment needed to support this transition. The government estimates $25.0 billion of new investment in electricity generation is required to meet the electricity needs of a growing province and to support the transition toward cleaner sources of energy mandated by the federal and provincial governments.

### Key Performance Indicators ("KPI")

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000's, unless otherwise noted) | 2017 | 2016 | 2017 | 2016 |
| Revenue | | | | |
| Continuing operations | 45 | 180 | 2,024 | 2,063 |
| Discontinued operations | - | 11,433 | 14,246 | 47,768 |
| Total | 45 | 11,613 | 16,270 | 49,831 |
| Net (income) loss attributable to shareholders | | | | |
| Continuing operations | (10,479) | (6,825) | (14,990) | (16,819) |
| Discontinued operations | 50,431 | (1,523) | 51,357 | 462 |
| Total | 39,952 | (8,348) | 36,367 | (16,357) |
| Basic and diluted net income (loss) per share attributable to shareholders ($ per share) | | | | |
| Continuing operations | (0.19) | (0.12) | (0.28) | (0.31) |
| Discontinued operations | 0.92 | (0.03) | 0.95 | 0.01 |
| Total | 0.73 | (0.15) | 0.67 | (0.30) |
| Total assets | 191,921 | 310,674 | 191,921 | 310,674 |

The Corporation's KPI's were modified as a result of the sale of the U.S. and France operating segments and notice provided to temporarily suspend operations at M1. The Corporation is no longer reporting on adjusted earnings before interest, taxes, depreciation and amortization, funds from operations, market and realized power price's, total generation and loans and borrowings as it no longer uses these indicators to measure operating performance. For comparative purposes, the Corporation will continue to separately illustrate the impact of discontinued operations of the United States and France from continuing operations on remaining KPI's.

**Financial Results**

The financial results of the Canada segment are presented as continuing operations and the financial results of the U.S. and France operating segments are presented as discontinued operations to illustrate the impact to the Corporation of the sale of the foreign segments. Refer to the Assets and Liabilities Held for Sale and Discontinued Operations section on page 8 for a discussion on the financial results of discontinued operations.

Net loss attributable to shareholders from continuing operations increased in the second quarter of 2017 when compared to 2016. The change in this financial measure was primarily due to asset impairment charges recognized in intangible assets and property, plant and equipment ("PP&E") in 2017. This was partially offset by lower operating costs as a result of the temporary suspension of operations at M1 and recoveries from the final resolution of the cooling tower claims.

Net loss attributable to shareholders from continuing operations increased in the first six months of 2017 when compared to 2016. The change in this financial measure was primarily due the same factors impacting the second quarter, in addition to lower fuel and maintenance costs and realized gains on commodity risk management activities in the first quarter of 2017.

## RESULTS OF CONTINUING OPERATIONS – CANADA SEGMENT

**Revenue**

Summary of revenue by segment:

| Segment ($000's) | Three months ended June 30 2017 | Three months ended June 30 2016 | Six months ended June 30 2017 | Six months ended June 30 2016 |
|---|---|---|---|---|
| Revenue | 45 | 180 | 2,024 | 2,063 |

(1) All revenues from continuing operations are electricity sales at spot prices.

Revenue in second quarter and first six months of 2017 was $nil and $2.0 million, respectively, which is comparable to the same periods in 2016.

**Plant Operations**

Summary of plant operations expense by type:

| Three months ended June 30 ($000's) | 2017 | | | 2016 | | | |
|---|---|---|---|---|---|---|---|
| | Fuel | O&M | Total | Inventories write-down | Fuel | O&M | Total |
| Total | 43 | 2,385 | 2,428 | 1,900 | 216 | 3,548 | 5,664 |
| Percent | 2% | 98% | 100% | 33% | 4% | 63% | 100% |

| Six months ended June 30 ($000's) | 2017 | | | 2016 | | | |
|---|---|---|---|---|---|---|---|
| | Fuel | O&M | Total | Inventories write-down | Fuel | O&M | Total |
| Total | 1,425 | 6,689 | 8,114 | 6,661 | 2,327 | 8,799 | 17,787 |
| Percent | 18% | 82% | 100% | 37% | 13% | 49% | 100% |

Second quarter operations and maintenance ("O&M") expenses decreased $1.1 million or 31%, from $3.5 million in 2016 to $2.4 million in 2017, primarily as a result of operating cost savings from cost cutting initiatives and the temporary suspension of operations at M1. For the first six months of 2017 O&M expenses decreased $2.1 million or 24%, from $8.8 million in 2016 to $6.7 million in 2017, primarily due to the same factors impacting the second quarter.

Fuel expenses in the second quarter of 2017 were $nil which is comparable to the same period in 2016. For the first six months of 2017 fuel expenses decreased $0.9 million or 39%, from $2.3 million in 2016 to $1.4 million in 2017, primarily due to lower per unit fuel costs of coal as the inventory value was written down to $nil as at December 31, 2016. This was partially offset by a higher consumption and per unit fuel cost of natural gas.

During the second quarter of 2016, inventories of coal were written down by $1.9 million to net realizable value.

During the first six months of 2016, inventories of coal and spare parts related to coal-fired generation were written down by $6.1 million and $0.6 million, respectively, to net realizable value.

**General and Administrative Expense**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000's) | 2017 | 2016 | 2017 | 2016 |
| Total general and administrative expense | 1,988 | 773 | 2,529 | 1,653 |

Second quarter general and administration expense increased $1.2 million or 150%, from $0.8 million in 2016 to $2.0 million in 2017, primarily due to no administrative costs allocated to the plants as there were fewer plants to allocate to as a result of the sale of the U.S. operating segment and the temporary suspension of operations at M1. This was partially offset by lower personnel costs at the corporate office as a result of cost cutting initiatives.

General and administration expense in the first six months of 2017 increased $0.8 million or 47%, from $1.7 million in 2016 to $2.5 million in 2017, primarily due to the same factors impacting the second quarter.

**Depreciation and Amortization Expense**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000's) | 2017 | 2016 | 2017 | 2016 |
| Total depreciation and amortization expense | 1,252 | 415 | 2,841 | 1,710 |

Depreciation expense in the second quarter of 2017 increased $0.9 million, from $0.4 million in 2016 to $1.3 million in 2017, primarily due to greater stringency limits at the beginning of 2017 around coal-fired generation and the resulting consumption of credits pertaining to Alberta's greenhouse gas reduction program ("Emission Performance Credits").

Depreciation expense in the first six months of 2017 increased $1.1 million, from $1.7 million in 2016 to $2.8 million in 2017, primarily due to the same factors impacting the second quarter.

**Gain on Commodity Risk Management Swaps and Option**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000's) | 2017 | 2016 | 2017 | 2016 |
| Realized gain on commodity swaps | - | - | 1,295 | - |
| Realized loss on commodity option | - | - | (378) | - |
| Unrealized gain on commodity swaps | - | 231 | 58 | 231 |
| Total gain on commodity swaps | - | 231 | 975 | 231 |

In the first six months of 2017, MAXIM recorded a net $1.0 million gain on Alberta power price risk management swaps and options. Alberta spot prices settled lower than the fixed swap price for the first quarter of 2017 and the Corporation realized a gain of $1.3 million. In the first quarter of 2017, a call option expired out of the money and the cost of the option was realized as a loss. At June 30, 2017, the Corporation had no commodity swaps or options outstanding.

### Asset Impairment Charges

The Corporation recognized an asset impairment charge of $6.5 million with respect to sulphur dioxide (“SO2”) credits at M1 included in the Canada operating segment after considering both the temporary suspension of coal-fired generation at M1 and recent announcements from ATCO Ltd. and TransAlta Corporation to convert certain coal-fired generating units to natural gas earlier than mandated timelines to discontinue operating on coal. The recoverable amount was estimated to be $nil. 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.

During the second quarter of 2017, due to significant adverse changes at the facility site, the Corporation recognized an asset impairment charge of $1.0 million with respect to the Gold Creek generating facility included in the Canada operating segment. In the absence of contractual arrangements or favourable Alberta power prices that would make it economically feasible to connect the facility to a new compressor at the current site or another MAXIM site, the recoverable amount of this facility was estimated at its salvage value of $0.1 million.

During the second quarter of 2017, due to updated information on market conditions, the Corporation obtained an appraisal for raw land it is holding in the United States. Based on a sales approach to same or similar land, the Corporation determined that the book value of the land was greater than the recoverable amount and recognized a $0.8 million asset impairment charge. The recoverable amount was estimated based on the appraisal to be US$4.1 million.

### Other Income, Net

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000's) | 2017 | 2016 | 2017 | 2016 |
| Other expense (income), net | (3,315) | 709 | (3,369) | 369 |

Net other income in the second quarter of 2017 increased from an expense of $0.7 million in 2016 to income of $3.3 million in 2017. The increase is primarily due to recoveries from the final resolution of the cooling tower claims and transition services provided to the purchaser of the U.S. operating segment. This was partially offset by an increase in costs incurred to restructure the Corporation's Alberta operations.

Net other income in the first six months of 2017 increased from an expense of $0.4 million in 2016 to income of $3.4 million in 2017, primarily due to the same factors impacting the second quarter.

### Finance Income, Net

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000's) | 2017 | 2016 | 2017 | 2016 |
| Interest expense | 191 | 190 | 343 | 295 |
| Accretion of provisions | 19 | 18 | 39 | 39 |
| Foreign exchange loss (gain) | 607 | (549) | 132 | (2,743) |
| Finance expense (income) | 817 | (341) | 514 | (2,409) |
| Interest income | (294) | (1) | (294) | (2) |
| Total finance expense (income), net | 523 | (342) | 220 | (2,411) |

Net finance expense in the second quarter of 2017 increased from income of $0.3 million in 2016 to expense of $0.5 million in 2017. The increase is primarily due to an increase of foreign exchange losses from income of $0.5 million in 2016 to a loss of $0.6 million in 2017, which is caused primarily by the net impact of foreign exchange rate movement for US dollars and Euros (2016 only) on cash balances and foreign intercompany liabilities held in Canada. This was partially offset by interest income earned on cash and cash equivalents in the second quarter of 2017. Net finance expense in first six months of 2017 increased from income of $2.4 million in 2016 to expense of $0.2 million in 2017, primarily due to the same factors impacting the second quarter.

**Income Tax Expense (Benefit)**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000's) | 2017 | 2016 | 2017 | 2016 |
| Current tax expense | 146 | 17 | 152 | 5 |
| Deferred tax benefit | (842) | - | (842) | - |
| Total income tax expense (benefit) | (696) | 17 | (690) | 5 |

Income tax benefit in the second quarter and first six months of 2017 increased from $nil in 2016 to $0.7 million, primarily due to the Corporation's anticipated ability to realize a portion of future tax assets which were previously derecognized.

### Financial Position

The following highlights the changes in the Corporation's Statement of Financial Position at June 30, 2017 as compared to the previously disclosed pro-forma Statement of Financial Position after closing the sale of the U.S. operating segment from the MD&A in the first quarter of 2017.

| As at ($000's) | June 30, 2017 | April 3, 2017 (pro-forma) | Increase (Decrease) | Primary factors explaining change |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 114,610 | 124,662 | (10,052) | Settlement of outstanding accounts payable and operating cash outflows |
| Trade and other receivables | 241 | 2,881 | (2,640) | Decreased as a result of the suspension of operations at M1 |
| Inventories | - | 1,045 | (1,045) | Spare parts reclassified to PP&E |
| Property, plant and equipment, net | 55,381 | 54,387 | 994 | Spare parts reclassified from inventory and capital additions, partially offset by depreciation |
| Net deferred tax asset | 566 | (1,457) | 2,023 | Increase in net deferred tax benefit due to newly anticipated ability to recognize additional future tax assets |
| Net other assets | 17,755 | 24,048 | (6,293) | Impairment of SO2 Credits |
| **Liabilities & Equity** | | | | |
| Trade and other payables | 6,615 | 13,949 | (7,334) | Decreased as a result of settlement of payables and lower operating and administrative costs |
| Other long-term liability | 3,461 | 3,546 | (85) | Foreign exchange impact on long-term portion of FERC Settlement |
| Provisions for decommissioning | 12,739 | 12,107 | 632 | Increased due to a decrease in long-term discount rates |
| Equity | 165,738 | 175,964 | (10,226) | Net loss for the period from continuing operations |

### DISCONTINUED OPERATIONS

On April 3, 2017, the Corporation closed its previously announced sale of its U.S. operating segment to Hull Street Energy, LLC for net proceeds of approximately US$84.0 million. Upon close, the Corporation was required, under its Canadian bank facilities, to fully cash collaterize all outstanding letters of credit. The amount available to draw against this facility at April 3, 2017 was reduced to $nil. In addition, the Corporation is subject to customary closing indemnities until April 3, 2018 to a maximum claim of US$8.8 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 following table summarizes the gain on disposal of the U.S. operating segment for the six months ended June 30, 2017:

| (000's) | June 30, 2017 |
|---|---|
| Cash consideration, net of closing costs | 112,624 |
| Net assets disposed | (90,235) |
| Reclassification of foreign currency translation losses on disposal | 11,380 |
| Gain on disposal of United States | 33,769 |

On December 2, 2016, the Corporation closed the sale of the France operating segment.

The following table represents the discontinued net income for the U.S. and France (2016) operating segment combined in Canadian dollars:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000's) | 2017 | 2016 | 2017 | 2016 |
| Revenue | - | 11,433 | 14,246 | 47,768 |
| Expense (income) | (35,080) | 13,681 | (22,221) | 46,535 |
| Operating income (loss) | 35,080 | (2,248) | 36,467 | 1,233 |
| Finance expense (income), net | (15,351) | 865 | (14,891) | 1,813 |
| Income (loss) before income taxes | 50,431 | (3,113) | 51,358 | (580) |
| Income tax benefit | - | (1,596) | (3) | (1,139) |
| Net income (loss) from discontinued operations | 50,431 | (1,517) | 51,361 | 559 |

| Six months ended June 30 ($millions) | 2017 | 2016 |
|---|---|---|
| Net cash generated from operating activities | 87 | 15,685 |
| Net cash used in financing activities | (842) | (5,541) |
| Net cash used in investing activities | (313) | (4,012) |
| Cash component of net assets disposed | (2,443) | - |
| Unrealized foreign exchange loss on cash | (24) | (617) |
| Net cash flows for the period | (3,535) | 5,515 |

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Management determined that cash flows for operating, general and administrative expenses will be funded by MAXIM's existing cash on hand. Cash flows for development capital will be funded by both its existing cash on hand and future anticipated financing based upon current forecasts.

Effective May 1, 2017, the Corporation amended and restated its credit agreement with the Bank of Montreal to a demand facility that requires full cash collateralization for $8.0 million of letters of credit on a non-revolving basis. As at June 30, 2017, the Corporation has $7.9 million of outstanding letters of credit outstanding and cash of the same amount was deposited into a restricted bank account maintained by the bank.

At June 30, 2017, the Corporation had unrestricted cash of $114.6 million and working capital of $108.7 million. The Corporation has ample working capital to support development projects, maintain liquidity and support current operations. This preceding statement represents FLI and users are cautioned that actual results may vary.

Cash flow summary:

| Six months ended June 30 ($000's) | 2017 | 2016 |
|---|---|---|
| Cash on hand, unrestricted, January 1 | 15,303 | 5,884 |
| Cash flow used in operations | (8,762) | (11,747) |
| Cash flow generated from (used in) financing | (290) | 10,445 |
| Available for investments | 6,251 | 4,582 |
| Cash flow generated from (used in) investing | 108,359 | (1,223) |
| | 114,610 | 3,359 |
| Cash and cash equivalents held at discontinued operations beginning of period | 3,535 | - |
| Net increase (decrease) in cash from discontinued operations | (3,535) | 5,515 |
| Undrawn revolving credit facility | - | 6,286 |
| Net liquidity available, June 30 | 114,610 | 15,160 |

Cash flow from operations in the six months of 2017 decreased from an outflow of $11.7 million in 2016 to $8.8 million in 2017, which is a decrease of $2.9 million. The decrease in outflow is primarily due to operating cost savings from cost cutting initiatives and the temporary suspension of operations at M1. This was partially offset by one-time higher costs associated with the restructuring of Alberta operations. In addition, fluctuations in working capital represented a cash outflow of $1.0 million, which was comparable to the same period in 2016. See below for further discussion of working capital.

During the first six months of 2017, MAXIM's cash flow used in financing decreased $10.7 million from an inflow of $10.4 million in 2016 to an outflow of $0.3 million in 2017. This decrease is due to drawings on the Canadian bank facility in the first six months of 2016 for $10.7 million, which were subsequently repaid in the second half of 2016.

MAXIM's investing activities in the first six months of 2017 represented a cash inflow of $108.4 million, which primarily consisted of proceeds on the sale of the U.S operating segment and recoveries on cooling tower claims. These amounts were partially offset by cash collaterizing the Corporation's letters of credit and development capital expenditures in Canada.

MAXIM's investing activities in the first six months of 2016 represented a cash outflow of $1.2 million, which primarily consisted of $0.3 million of sustaining M1 and development initiatives capital in Canada and a change in non-cash working capital of $0.9 million.

The Corporation has no debt and as such has discontinued using the percent of net debt to capital to monitor leverage.

**Working Capital**

The Corporation has a working capital surplus of $108.7 million at June 30, 2017, which represents a $10.3 million increase from the working capital surplus of $98.4 million at December 31, 2016. The total increase was due to a $24.9 million decrease in current assets and a $35.2 million decrease in current liabilities.

The decrease in current assets was due to a $120.3 decrease in assets held for sale as they were disposed of in the sale of U.S. operating segment, a $1.6 million decrease in accounts receivable, a $1.5 million decrease to risk management assets from the settlement of commodity options and a $1.0 million decrease in inventories reclassified to PP&E. This was partially offset by a $99.3 million increase to unrestricted cash primarily from the sale of the U.S. operating segment and a $0.2 increase to prepaid expenses and deposits.

The decrease in current liabilities was due to a $32.4 million decrease in liabilities held for sale as they were disposed of in the sale of the U.S. operating segment and a $2.8 million decrease in accounts payable.

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

**Contractual Obligations**

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

## Contingencies

*Contingent 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.

In addition, the Corporation has closed the sale of the U.S. operating segment. Under the sales agreement, the Corporation is subject to customary closing indemnities until April 3, 2018 to a maximum claim of US$8.8 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 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 AESO Line Loss Rule. The Decision confirms the Corporation's view that the AUC's proceedings, the final phase of which is currently underway, 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 June 30, 2017, based on calculations established by information currently available on the public record before accounting for the time value of money. As at June 30, 2017, 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, 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 June 30, 2017, the timing and amount of compensation cannot be determined.

## Capital Resources

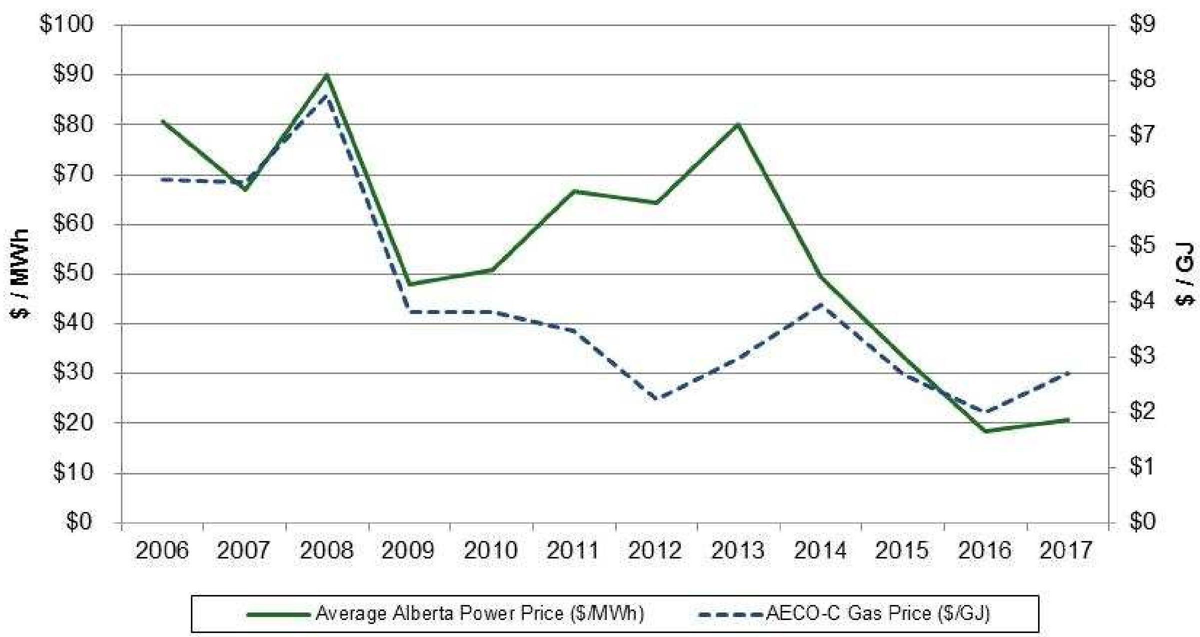
The following represents FLI and users are cautioned that actual results may vary. The Corporation is currently estimating development expenditures from continuing operations of approximately $2.1 million for 2017. Management intends to fund these expenditures with cash flows from operations and existing cash balances.

In addition, the Corporation has incurred $1.1 million in 2017 for required sustaining capital projects at generating facilities in the U.S. operating segment up to April 3, 2017.

## OUTLOOK

The Corporation's outlook is 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 temporarily suspended operations at M1 for the second time in two years on July 28, 2017.

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 in the current energy only market construct. Refer to the Environmental and Climate Change Legislation section on page 14 for discussion of the upcoming capacity market in Alberta.




## ACQUISITION AND DEVELOPMENT INITIATIVES

MAXIM is refocusing 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.

*Milner Gas Repowering ("MGR")*

MAXIM has regulatory approval to increase generating capacity at the M1 site by building two natural gas-fired turbines located next to M1 which is a cost-effective solution to repower M1 solely for natural gas-fired generation. MGR 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 MGR will also result in a reduction to total greenhouse gases and air emissions compared to base load coal-fired generation in previous years. Exhaust energy from MGR's gas turbines will be converted to steam and utilized to generate electricity in the existing M1 steam turbine, displacing coal-sourced steam. MGR will increase the nameplate capacity at the Milner site from 150 MW to 236 MW and will increase natural gas-fired output to the grid from 75 MW to 236 MW. Total emissions of carbon dioxide, nitrogen oxides, sulfur oxides and particulates at the M1 site will decrease compared to base load coal-fired generation in previous years.

*Milner Gas Expansion ("MGE")*

MAXIM has received regulatory approval to construct and operate MGE, a 520 MW natural gas-fired combined cycle generation facility. The MGE 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 MGE project to achieve a competitive advantage as compared to a greenfield development. The MGE 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.

*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.

*Buffalo Atlee*

MAXIM acquired the Buffalo Atlee Power Project, situated near Brooks, Alberta, through an amalgamation with EarthFirst Canada Inc. on March 2, 2010. This project has the potential for development of up to 235 MW of wind generation capacity in multiple phases. The first phase consists of 35 MW which has been submitted in the Alberta Renewable Energy Program Request for Expressions of Interest stage. There is no commitment to participate in further stages and MAXIM is currently evaluating participation in additional stages. The addition of wind generation to MAXIM's existing portfolio of assets would diversify further potential changes to MAXIM's generation fuel types.

*SUMMIT*

SUMMIT is MAXIM's metallurgical coal 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.

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.

*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 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. 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. 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.

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 existing $30 price on GHG emissions would increase by $10 to $40 in order to meet the federal framework.

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 percent of the province’s electrical supply coming from renewable sources such as wind, solar and hydro by 2030. The province commenced its first competition in the first quarter of 2017, which will see investors bidding to provide up to 400 MW of renewable electricity for twenty years. The winning bidders will be announced by the end of 2017 and projects commissioned in 2019. MAXIM is well positioned to participate in future auctions with Buffalo Atlee wind generation development project. Refer to page 13 for discussion on Buffalo Atlee.

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 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 the design of the market. The first auction is expected to occur in 2019 with a contract delivery year targeted for 2021. The AESO has suggested they will need additional capacity in 2021.

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.

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.

## SELECTED QUARTERLY FINANCIAL INFORMATION

### KPI's

| Quarter ended:<br>(unaudited) ($000's unless otherwise noted) | 30-Jun<br>2017 | 31-Mar<br>2017 | 31-Dec<br>2016 | 30-Sep<br>2016 |
|---|---|---|---|---|
| Revenue | | | | |
| Continuing operations | 45 | 1,979 | 2,840 | 1,581 |
| Discontinued operations | - | 14,246 | 18,309 | 21,997 |
| Total | 45 | 16,225 | 21,149 | 23,578 |
| Net income (loss) attributable to shareholders | | | | |
| Continuing operations | (10,479) | (4,511) | (9,721) | (3,334) |
| Discontinued operations | 50,431 | 926 | (7,690) | (16,698) |
| Total | 39,952 | (3,585) | (17,411) | (20,032) |
| Basic and diluted income (loss) per share attributable to shareholders ($ per share) | | | | |
| Continuing operations | (0.19) | (0.08) | (0.18) | (0.06) |
| Discontinued operations | 0.92 | 0.01 | (0.14) | (0.31) |
| Total | 0.73 | (0.07) | (0.32) | (0.37) |
| Total assets | 191,921 | 213,211 | 218,183 | 295,286 |

| Quarter ended:<br>(unaudited) ($000's unless otherwise noted) | 30-Jun<br>2016 | 31-Mar<br>2016 | 31-Dec<br>2015 | 30-Sep<br>2015 |
|---|---|---|---|---|
| Revenue | | | | |
| Continuing operations | 180 | 1,883 | 2,161 | 899 |
| Discontinued operations | 11,433 | 36,335 | 30,631 | 18,806 |
| Total | 11,613 | 38,218 | 32,792 | 19,705 |
| Net income (loss) attributable to shareholders | | | | |
| Continuing operations | (6,825) | (9,994) | (66,011) | (8,916) |
| Discontinued operations | (1,523) | 1,985 | 856 | (1) |
| Total | (8,348) | (8,009) | (65,155) | (8,917) |
| Basic and diluted income (loss) per share attributable to shareholders ($ per share) | | | | |
| Continuing operations | (0.12) | (0.19) | (1.22) | (0.16) |
| Discontinued operations | (0.03) | 0.04 | 0.02 | - |
| Total | (0.15) | (0.15) | (1.20) | (0.16) |
| Total assets | 310,674 | 327,875 | 346,898 | 406,610 |

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

The second quarter of 2017 had a $33.8 million gain on sale of the U.S. operating segment, a $8.3 million impairment to PP&E and intangible assets and a $4.3 million recovery of claims. The first quarter of 2017 had a $0.3 unrealized gain on foreign exchange and commodity swaps. The fourth quarter of 2016 had a $1.9 million write-down of coal inventory, a $1.8 million unrealized loss on commodity swaps, a $1.8 million loss on sale of the France operating segment and a net reversal of asset impairment charges relating to Canada for $2.8 million. 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.

## CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The use of judgements and estimates used in the preparation of the condensed consolidated interim financial statements has been applied consistently for all periods presented and are unchanged from the judgements and estimates disclosed in the notes to the consolidated financial statements for the year ended December 31, 2016.

## NEW ACCOUNTING PRONOUNCEMENTS

### IFRS Standards Issued Not Yet Effective

The International Accounting Standards Board ("IASB") has issued the following new standards to August 10, 2017. These standards have not been applied in preparing MAXIM's second quarter 2017 condensed consolidated interim financial statements as the effective date falls in a subsequent period.

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

*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 timelier 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 has assessed the new standard and determined that the core principles in this standard do not differ from the existing revenue recognition policy used in the Corporations operations and as such, no impact is expected. 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 August 10, 2017. These amendments have not been applied in preparing MAXIM's second quarter condensed consolidated interim financial statements as the effective date falls in a subsequent period.

| Standard amended | Issued Date | Effective Date [1] | Impact on 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 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 |
| *IFRS 17 Insurance Contracts* | May 2017 | January 1, 2021 | 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.

**TRANSACTIONS WITH RELATED PARTIES**

The Corporation did not enter any related party transactions during the first six months of 2017, with the exception of transactions with the Corporation's Directors and members of the Executive Committee in the normal course of business. These transactions in the normal course of business are detailed in note 27 of the 2016 audited annual financial statements.

## CONTROLS AND PROCEDURES

The interim Chief Executive Officer ("CEO") and the Senior Vice President, Finance and Chief Financial Officer ("CFO"), together with management have designed and maintained disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the interim CEO and the CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

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

The interim CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and effectiveness of the Corporation's internal control over financial reporting and have previously identified material weaknesses in the design of the Corporation's internal control over financial reporting. These weaknesses have been remediated as of June 30, 2017; however, the weakness will continue to impact the Corporation's comparative financial information until the December 31, 2018 financial reporting period. At December 31, 2016, the Corporation, predominately in its discontinued France operating segment and as a result of the complexities surrounding the accounting and disclosures associated with the disposition of both the France and United States operating segments, did not have a sufficient number of finance personnel with the required technical knowledge to address all complex accounting and tax issues that may arise and this may result in inaccuracies in financial reporting. Management remediated this weakness in second quarter of 2017 upon completion of disposals of both the France and United States operating segments and resulting simplification of operations.

The Corporation is required to disclose herein any change in the Corporation's internal control over financial reporting that occurred during the period beginning January 1, 2017 and ended on June 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Corporation’s internal control over financial reporting. Apart from the remediation noted above, no material changes in the Corporation's internal control over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

As a result, the Corporation's internal control over financial reporting is effective as of June 30, 2017.

## OTHER INFORMATION

Outstanding share data:

| | |
|---|---|
| Issued common shares at June 30, 2017 | 54,379,842 |
| Outstanding share options at June 30, 2017 | 1,817,219 |
| **Total diluted common shares at June 30, 2017** | 56,197,061 |
| Share options exercised in July 2017 | (235,649) |
| Issued common shares in July 2017 | 235,649 |
| Share options expired and forfeited in July 2017 | (37,914) |
| Share options granted in July 2017 | 16,667 |
| **Total diluted common shares at August 10, 2017** | 56,175,814 |

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 |
| **AUC** | Alberta Utilities Commission |
| **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 capacity are stated in nameplate capacity) |
| **CCR** | Carbon Competitiveness Regulation |
| **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. |
| **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 |
| **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. |
| **FLI** | Forward-looking information |
| **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 |
| **IAS** | International Accounting Standards |
| **IASB** | International Accounting Standards Board |
| **IFRS** | International Financial Reporting Standards |
| **KPI** | Key Performance Indicators |
| **M1** | HR Milner**,** a 150 MW (nameplate capacity) generating facility located near the town of Grande Cache, Alberta has been in continuous operation since 1972 and was acquired by MAXIM on March 31, 2005 |
| **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 |
| **MGE** | Milner gas expansion initiative to develop a 520 MW natural gas-fired generating facility |
| **MGR** | Milner gas repowering initiative to increase generating capacity at M1, comprised of two natural gas-fired turbines located next to M1 |
| **MAXIM or the Corporation** | Maxim Power Corp. |
| **MD&A** | Management's Discussion and Analysis |
| **Milner** | Milner Power Inc., a wholly owned subsidiary of MAXIM |
| **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 |

| | |
|---|---|
| **PP&E** | Property, plant and equipment |
| **O&M** | Operations and maintenance |
| **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 |
| **SUMMIT** | Summit Coal is a wholly-owned MAXIM subsidiary, which owns the Mine 14 and Mine 16S development projects |
| **U.S.** or **United States** | The United States of America |

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