

Condensed Consolidated Interim Financial Statements of

MAXIM POWER CORP.

For the Third Quarter Ended September 30, 2019

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The Corporation's independent auditor has not performed a review of the accompanying unaudited condensed consolidated interim financial statements.

The accompanying unaudited condensed consolidated interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management. These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards.

(signed) "M. Bruce Chernoff"

(signed) "Michael R. Mayder"

M. Bruce Chernoff
Chief Executive Officer
Maxim Power Corp.

Michael R. Mayder
President and Chief Financial Officer
Maxim Power Corp.

MAXIM POWER CORP.

Unaudited Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

	Note	September 30, 2019	December 31, 2018
ASSETS			
Cash and cash equivalents		14,879	22,246
Short-term investment		-	41,552
Trade and other receivables		4,568	6,260
Prepaid expenses and deposits		1,243	480
Total current assets		20,690	70,538
Property, plant and equipment, net	4	139,237	71,877
Right-of-use assets		85	-
Restricted cash		7,849	7,795
Deferred tax assets		12,327	14,547
Other assets	10a	9,751	7,431
Total non-current assets		169,249	101,650
TOTAL ASSETS		189,939	172,188
LIABILITIES			
Trade and other payables	5	20,422	6,671
Lease obligation		87	-
Total current liabilities		20,509	6,671
Provisions for decommissioning		21,339	16,977
Other long-term liability	5	3,217	-
Lease obligation		38	-
Total non-current liabilities		24,594	16,977
TOTAL LIABILITIES		45,103	23,648
EQUITY			
Share capital		151,032	151,430
Contributed surplus		12,090	11,839
Deficit		(18,286)	(14,729)
TOTAL EQUITY		144,836	148,540
<i>Commitments and Contingencies</i>	10,11		
<i>Subsequent events</i>	14		
TOTAL LIABILITIES AND EQUITY		189,939	172,188

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

On behalf of the Board:

M. Bruce Chernoff
CEO and Chairman of the Board

Wiley Auch
Director

MAXIM POWER CORP.

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

For the three and nine months ended September 30
(in thousands of Canadian dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
Revenue		8,488	7,880	23,363	9,989
Expenses					
Operating		6,910	8,206	22,133	13,199
General and administrative		850	901	2,477	3,082
Depreciation and amortization		491	1,993	2,100	5,137
Gain on commodity swaps	13	(1,778)	-	(1,778)	-
Other (income) expense, net		(55)	881	379	1,259
Operating income (loss)		2,070	(4,101)	(1,948)	(12,688)
Finance income, net	9	(121)	(358)	(478)	(1,361)
Income (loss) before income taxes		2,191	(3,743)	(1,470)	(11,327)
Income tax (benefit) expense					
Current		(13)	(10)	(13)	(24)
Deferred		-	-	2,220	(6,847)
		(13)	(10)	2,207	(6,871)
Net income (loss) and comprehensive income (loss)		2,204	(3,733)	(3,677)	(4,456)
Earnings per share	8				
Basic earnings		0.04	(0.07)	(0.07)	(0.08)
Diluted earnings		0.04	(0.07)	(0.07)	(0.08)

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

MAXIM POWER CORP.

Unaudited Condensed Consolidated Interim Statements of Changes in Equity

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

	Number of common shares (thousands)	Share capital	Contributed surplus	Deficit	Total
Equity at December 31, 2018	52,526	151,430	11,839	(14,729)	148,540
Net loss	-	-	-	(3,677)	(3,677)
Repurchase of common shares for cancellation	(138)	(398)	-	120	(278)
Share-based compensation	-	-	251	-	251
Equity at September 30, 2019	52,388	151,032	12,090	(18,286)	144,836
Equity at December 31, 2017	54,624	157,471	11,517	(20,314)	148,674
Net loss	-	-	-	(4,456)	(4,456)
Repurchase of common shares for cancellation	(1,477)	(4,253)	-	670	(3,583)
Share-based compensation	-	-	254	-	254
Equity at September 30, 2018	53,147	153,218	11,771	(24,100)	140,889

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

MAXIM POWER CORP.

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the nine months ended September 30
(in thousands of Canadian dollars)

	Note	2019	2018
Cash flows from operating activities:			
Net loss		(3,677)	(4,456)
Adjustments for items not involving cash or operations:			
Depreciation and amortization		2,100	5,137
Share-based compensation		251	254
Income tax expense (benefit)		2,207	(6,871)
Income taxes refunded		13	24
Finance income, net	9	(478)	(1,361)
Loss on disposal of asset		-	614
Funds generated from (used in) operating activities before changes in working capital		416	(6,659)
Change in non-cash working capital from operations	12	3,641	(6,023)
Net cash generated from (used in) operating activities		4,057	(12,682)
Cash flows from financing activities:			
Repurchase of common shares for cancellation		(278)	(3,583)
Payment of lease obligation		(62)	-
Interest and bank charges	9	(116)	(107)
Net cash used in financing activities		(456)	(3,690)
Cash flows from investing activities:			
Property, plant and equipment additions	4	(66,140)	(23,460)
Purchase of short-term investment		-	(25,000)
Proceeds from withdrawal of short-term investment		41,779	25,000
Reinvested interest income from short-term investment		(227)	(1,083)
Proceeds on sale of asset, net of closing costs		-	364
Interest income	9	792	1,580
Change in non-cash working capital	12	12,900	106
Net cash used in investing activities		(10,896)	(22,493)
Unrealized foreign exchange loss on cash and cash equivalents		(72)	-
Decrease in cash and cash equivalents		(7,367)	(38,865)
Cash and cash equivalents, beginning of period		22,246	51,264
Cash and cash equivalents, end of period		14,879	12,399

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

MAXIM POWER CORP.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements, Page 1

For the three and nine months ended September 30, 2019 and 2018
(Amounts in thousands of Canadian dollars except as otherwise noted)

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 in Alberta. The Corporation's common shares trade on the Toronto Stock Exchange under the symbol "MXG". MAXIM's registered office is Suite 1210, 715 – 5 Avenue S.W., Calgary, Alberta, Canada, T2P 2X6.

2. Basis of preparation and statement of compliance

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. The unaudited condensed consolidated interim financial statements do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's December 31, 2018 annual audited financial statements, available at www.sedar.com.

MAXIM's Board of Directors approved these unaudited condensed consolidated interim financial statements on November 7, 2019.

(b) Use of estimates and judgements:

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, 2018.

3. Significant accounting policies

Except 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, 2018.

On January 1, 2019, the Corporation adopted Leases ("IFRS 16"), as well as the amendments to Income Taxes ("IAS 12"), Employee Benefits ("IAS 19"), Borrowing Costs ("IAS 23"), Investments in Associates and Joint Ventures ("IAS 28"), Business Combinations ("IFRS 3") and Financial Instruments ("IFRS 9"). With the exception of IFRS 16, the adoption of these amendments had no impact to the amounts recorded in the Corporation's consolidated financial statements as of January 1, 2019 or comparative periods. The effect of the changes from IFRS 16 were disclosed in the Corporation's condensed consolidated interim financial statements for the first quarter ended March 31, 2019.

4. Property, Plant and Equipment

During the first nine months of 2019, the Corporation spent \$66,140 primarily on the construction of the first stage of Milner 2 ("M2"), a natural gas fired generation facility. This stage is a 204 MW simple cycle gas turbine facility located on the existing HR Milner site.

MAXIM POWER CORP.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements, Page 2

For the three and nine months ended September 30, 2019 and 2018
(Amounts in thousands of Canadian dollars except as otherwise noted)

5. Trade and other payables and other long-term liability

	September 30, 2019	December 31, 2018
Trade and other payables	18,628	6,671
Deferred vendor payments	1,794	-
Total trade and other payables	20,422	6,671
Other long-term liability	3,217	-

During the first nine months of 2019, the Corporation entered into an agreement to purchase and install certain equipment related to the first stage of M2. The terms of this agreement defer payments beyond standard trade payable terms with the final payment in 2021. As at September 30, 2019, the cash price equivalent, plus accrued interest in trade and other payables and other long-term liability for those deferred payments, is \$1,794 and \$3,217, respectively.

6. Loans and borrowings

On September 10, 2019, MAXIM entered into two credit agreements that collectively provide for \$75,000 to fully fund the construction and development of M2. The first loan is a \$22,000, one-year, 12% per annum, revolving, secured loan ("Construction Loan") and is available for the Corporation to draw on as at September 30, 2019. The second loan is a \$75,000, convertible at \$1.90 per share, one-year, 12% per annum, revolving, secured loan (the "Convertible Loan" and together with the Construction Loan, the "Loans"). The term of the Loans may be extended by six months subject to certain conditions, have no financial covenants and are secured by the assets of the Corporation. The Convertible Loan is subject to shareholder approval and will be initially drawn to repay the Construction Loan, which will mature and become repayable on the date the Convertible Loan is available to, and first drawn by, MAXIM.

As at September 30, 2019, MAXIM has not drawn on the Construction Loan.

On October 3, 2019, the Corporation amended the terms of its Convertible Loan to increase the conversion price from \$1.90 per share to \$2.25 per share and add a second six-month to the loan extension period.

On October 15, 2019, the Corporation received approval from its disinterested shareholders for the \$75,000 Convertible Loan, closed the Convertible Loan, and fully repaid outstanding amounts under the Construction Loan by drawing on the Convertible Loan.

7. Related party transactions

The Loans in note 6 were provided by two significant shareholders of the Corporation, one of whom is also Chief Executive Officer and Chairman of the Board and the other whom is Vice Chairman of the Board.

MAXIM POWER CORP.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements, Page 3

For the three and nine months ended September 30, 2019 and 2018
(Amounts in thousands of Canadian dollars except as otherwise noted)

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended September 30, 2019 was based on the net income of \$2,204 (September 30, 2018 – loss of \$3,733) and weighted average number of common shares outstanding for the period of 52,387,905 (September 30, 2018 – 53,300,709). For the nine months ended September 30, 2019 basic earnings per share was based on the net loss of \$3,677 (September 30, 2018 – \$4,456) and weighted average number of common shares outstanding for the period of 52,306,492 (September 30, 2018 – 54,080,371).

(b) Dilutive earnings per share

For the nine months ended September 30, 2019 and three and nine months ended September 30, 2018, no shares were added to the average number of common shares outstanding because their additions were antidilutive. For the three months ended September 30, 2019 diluted earnings per share calculation, no shares were added to the average number of common shares outstanding during the period for the dilutive effects of exercisable stock options as the average prices of all exercisable options was greater than the average market price.

9. Finance expense (income), net

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Interest expense and bank charges	40	36	116	107
Accretion of provisions	37	50	126	117
Foreign exchange (gain) loss	(52)	73	72	(5)
Finance expense	25	159	314	219
Interest income (a)	(146)	(517)	(792)	(1,580)
Total finance income, net	(121)	(358)	(478)	(1,361)

(a) Includes interest income on cash and cash equivalents, short-term investment and restricted cash.

10. Commitments

- (a) The Corporation has entered into capital contracts for engineering, construction and procurement of equipment for M2. These contracts expire in 2019 and 2020 with commitments totaling \$41,614.
- (b) The Corporation has entered into a natural gas transportation service agreement from March 1, 2020 to February 28, 2025 to deliver natural gas to M2. The total commitment from this five-year contract is \$13,570.
- (c) Milner Power Limited Partnership ("MPLP") is responsible for the decommissioning and remediation of the power station lands at Milner 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.

For the nine months ended September 30, 2019, the Corporation has billed the Balancing Pool for \$122, of which \$108 has been collected for remediation of certain lands at Milner. As at September 30, 2019, on a life-to-date basis, the Corporation has billed the Balancing Pool for \$4,233, of which \$4,219 has been collected for remediation of certain lands at Milner. The present value of the residual balance of \$8,213 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.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements, Page 4

For the three and nine months ended September 30, 2019 and 2018
(Amounts in thousands of Canadian dollars except as otherwise noted)

10. Commitments (continued)

- (d) The Corporation has entered into a natural gas transportation service agreement from November 1, 2020 to October 31, 2028 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 September 30, 2019. The Corporation has an additional commitment of \$798 regarding the service portion of the contract.

11. 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 closed the sale of the France operating segment on December 2, 2016. Under the agreement, the Corporation continues to be subject to the claims received for €1,700 thousand in additional costs from suppliers in France. Costs in relation to these claims and potential claims are only recognized when they become probable, and based on the information presently known, it is the view of the Corporation that these claims and potential claims are without merit. Further under the agreement, the Corporation is subject to performance criteria of certain generating units in the France operating segment until October 31, 2017. The Corporation is responsible to reimburse the buyer of the France operating segment for penalties incurred until that time up to a maximum of €1,500 thousand. Any amounts claimed by the buyer in relation to these two amounts will be reduced by any recoveries attained by the buyer from legal proceedings against third parties that were ongoing at the time of the sale and date of these Consolidated Financial Statements. The Corporation is further subject to tax indemnities until December 2, 2019. In addition, the Corporation is subject to customary closing indemnities until December 2, 2019 to a maximum claim of €3,500 thousand.

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

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.

MAXIM POWER CORP.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements, Page 5

For the three and nine months ended September 30, 2019 and 2018
(Amounts in thousands of Canadian dollars except as otherwise noted)

11. Contingencies (continued)

(b) Contingent assets

Through its Decision 790-D06-2017 ("Decision"), the Alberta Utilities Commission ("AUC") asserted its position on several matters related to remedy under Module C of Milner Power Inc.'s complaint relating to the Alberta Electric System Operator ("AESO") Line Loss Rule. The Decision confirms that the same method that was used to calculate 2017 prospective loss factor rates would be used for the retrospective period of January 1, 2006 – December 31, 2016. A single settlement approach will be used whereby the AESO calculates all eleven years before cash is settled. The Decision further confirms that the settlement be effected by reissuing invoices to the original party and that a rider will be applied to transmission rates across the industry to collect any shortfall from the inability to collect from an original party. The Corporation estimates that overpayments of approximately \$40,100 were made by Milner Power Inc. to the AESO for the period January 1, 2006 to December 31, 2016, based on calculations established by information currently available on final public record, before accounting for the time value of money. As at September 30, 2019, the precise amount and timing of compensation under Module C cannot be determined.

The Corporation closed the sale of a development project on June 20, 2018. Under the sales agreement, the Corporation is entitled to additional compensation upon the date of commercial operation. This additional compensation shall not exceed \$2,810. As at September 30, 2019, the precise amount and timing of compensation under the sales agreement cannot be determined.

12. Change in non-cash working capital

	September 30, 2019	September 30, 2018
Operations		
Trade and other receivables	1,729	(3,792)
Prepaid expenses and deposits	(744)	(163)
Trade and other payables	2,656	(2,068)
	3,641	(6,023)
Investing		
Trade and other payables	11,095	66
Other long-term liabilities	3,217	-
Other assets	(1,358)	-
Restricted cash	(54)	40
	12,900	106

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements, Page 6

For the three and nine months ended September 30, 2019 and 2018
(Amounts in thousands of Canadian dollars except as otherwise noted)

13. Financial instruments, financial risk management and fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

The fair 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 following table provides the fair values of the financial assets and liabilities in the Corporation's Condensed Consolidated Interim Statements of Financial Position, and is categorized by hierarchical levels and their related classifications.

September 30, 2019	Total carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Cash and cash equivalents	14,879	14,879	-	-
Trade and other receivables	4,568	4,568	-	-
Restricted cash	7,849	7,849	-	-
Milner decommissioning reimbursement	8,213	-	-	8,213
Total assets	35,509	27,296	-	8,213
Trade and other payables	20,422	20,422	-	-
Other long-term liabilities	3,217	3,217	-	-
Total liabilities	23,639	23,639	-	-

December 31, 2018	Total carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Cash and cash equivalents	22,246	22,246	-	-
Short-term investment	41,552	41,552	-	-
Trade and other receivables	6,260	6,260	-	-
Restricted cash	7,795	7,795	-	-
Milner decommissioning reimbursement	7,187	-	-	7,187
Total assets	85,040	77,853	-	7,187
Trade and other payables	6,671	6,671	-	-
Total liabilities	6,671	6,671	-	-

The fair value of the Corporations 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 three and nine months ended September 30, 2019, the unrealized gain on commodity price swaps was nil (September 30, 2018 - nil). For the three and nine months ended September 30, 2019, the realized gain on commodity price swaps was \$1,778 (September 30, 2018 - nil).

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements, Page 7

For the three and nine months ended September 30, 2019 and 2018
(Amounts in thousands of Canadian dollars except as otherwise noted)

14. Subsequent events

On October 3, 2019, the Corporation amended the terms of its Convertible Loan (note 6).

On October 15, 2019, the Corporation received approval and closed the \$75,000 Convertible Loan (note 6).