

Condensed Consolidated Interim Financial Statements of

MAXIM POWER CORP.

For the Third Quarter Ended September 30, 2020

(Unaudited)

MAXIM POWER CORP.

Unaudited Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

	Note	September 30, 2020	December 31, 2019
ASSETS			
Cash and cash equivalents		5,771	20,924
Trade and other receivables		5,469	4,064
Prepaid expenses and deposits		1,367	1,030
Total current assets		12,607	26,018
Property, plant and equipment, net		190,010	170,317
Restricted cash		7,865	7,849
Deferred tax assets	6	16,505	13,336
Other assets		8,928	7,754
Total non-current assets		223,308	199,256
TOTAL ASSETS		235,915	225,274
LIABILITIES			
Trade and other payables	3	11,517	21,659
Loans and borrowings	4	750	2,559
Total current liabilities		12,267	24,218
Provisions for decommissioning		17,125	13,744
Other long-term liability	3	2,004	1,638
Loans and borrowings	4	65,605	46,442
Total non-current liabilities		84,734	61,824
TOTAL LIABILITIES		97,001	86,042
EQUITY			
Share capital		143,604	144,771
Contributed surplus		12,345	12,175
Deficit		(17,035)	(17,714)
TOTAL EQUITY		138,914	139,232
<i>Commitments and Contingencies</i>	8,9		
<i>Subsequent event</i>	12		
TOTAL LIABILITIES AND EQUITY		235,915	225,274

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)

(in thousands of Canadian dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2020	2019	2020	2019
Revenue		17,726	8,488	29,444	23,363
Expenses					
Operating		11,703	6,910	22,102	22,133
General and administrative		1,042	850	2,917	2,477
Depreciation and amortization		2,146	491	3,398	2,100
Gain on commodity swaps	11	(156)	(1,778)	(593)	(1,778)
Other (income) expense, net		(48)	(55)	670	379
Operating income (loss)		3,039	2,070	950	(1,948)
Finance expense (income), net	5	1,897	(121)	3,782	(478)
Income (loss) before income taxes		1,142	2,191	(2,832)	(1,470)
Income tax expense (benefit)					
Current		-	(13)	-	(13)
Deferred	6	644	-	(3,169)	2,220
		644	(13)	(3,169)	2,207
Net income (loss) and comprehensive income (loss)		498	2,204	337	(3,677)
Earnings per share					
Basic earnings	7	0.01	0.04	0.01	(0.07)
Diluted earnings	7	0.01	0.04	0.01	(0.07)

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, 2019	50,214	144,771	12,175	(17,714)	139,232
Net income	-	-	-	337	337
Repurchase of common shares for cancellation	(405)	(1,167)	-	342	(825)
Share-based compensation	-	-	316	-	316
Stock options settled in cash	-	-	(146)	-	(146)
Equity at September 30, 2020	49,809	143,604	12,345	(17,035)	138,914
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

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	2020	2019
Cash flows from operating activities:			
Net income (loss)		337	(3,677)
Adjustments for items not involving cash or operations:			
Depreciation and amortization		3,398	2,100
Share-based compensation		316	251
Unrealized loss on commodity swaps	11	970	-
Unrealized loss on interest rate swaps	11	56	-
Stock option settlement		(146)	-
Income tax expense (benefit)		(3,169)	2,207
Income taxes refunded		-	13
Finance expense (income), net	5	3,782	(478)
Funds generated from operating activities before changes in working capital		5,544	416
Change in non-cash working capital from operations	10	(8,886)	3,641
Net cash generated from (used in) operating activities		(3,342)	4,057
Cash flows from financing activities:			
Repayment of loans and borrowings		(750)	-
Issuance of loans and borrowings		14,762	-
Repurchase of common shares for cancellation		(825)	(340)
Interest and bank charges		(1,627)	(116)
Net cash generated from (used in) financing activities		11,560	(456)
Cash flows from investing activities:			
Property, plant and equipment additions		(19,033)	(66,140)
Proceeds from withdrawal of short-term investment		-	41,779
Reinvested interest income from short-term investment		-	(227)
Interest income	5	180	792
Change in non-cash working capital	10	(4,435)	12,900
Net cash used in investing activities		(23,288)	(10,896)
Unrealized foreign exchange loss on cash and cash equivalents		(83)	(72)
Decrease in cash and cash equivalents		(15,153)	(7,367)
Cash and cash equivalents, beginning of period		20,924	22,246
Cash and cash equivalents, end of period		5,771	14,879

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, 2020 and 2019
(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.

Interim results will fluctuate due to plant maintenance schedules, seasonal demand for electricity, changes in energy prices and the mid-year commissioning of Milner 2 ("M2"). Consequently, interim results are not necessarily indicative of annual results.

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, 2019 annual audited financial statements and the unaudited condensed consolidated interim financial statements for the second quarter ended June 30, 2020, available at www.sedar.com.

MAXIM's Board of Directors approved these unaudited condensed consolidated interim financial statements on November 10, 2020.

(b) Significant accounting policies and use of judgments and estimates

The use of judgments and estimates in the preparation of these unaudited condensed consolidated interim financial statements have 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, 2019 and notes 3 and 5 of the unaudited condensed consolidated interim financial statements for the second quarter ended June 30, 2020.

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, 2019.

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

	September 30 2020	December 31, 2019
Trade and other payables	8,619	17,235
Deferred vendor payments (a)	1,872	4,424
Risk management liability (b)	1,026	-
Total trade and other payables	11,517	21,659
Other long-term liability (a)	2,004	1,638

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

For the three and nine months ended September 30, 2020 and 2019
(Amounts in thousands of Canadian dollars except as otherwise noted)

3. Trade and other payables and other long-term liability (continued)

(a) Deferred vendor payments

Deferred vendor payments and other long-term liabilities consists of deferred vendor payments for the construction of M2 beyond standard trade payable terms with the final payment in 2021. As at September 30, 2020, the cash price equivalent, plus accrued interest in trade and other payables and other long-term liability for those deferred payments, is \$1,872 and \$2,004 (December 31, 2019 - \$4,424 and \$1,638), respectively.

(b) Risk management liability

Risk management liability consists of a \$970 liability for commodity risk management swaps (note 11) and a \$56 liability for interest rate swaps and options (note 11).

4. Loans and borrowings

	September 30, 2020	December 31, 2019
Construction loan facility (a)	29,250	28,238
Revolver facility (a)	10,000	3,000
Convertible loan facility (b)	29,438	21,595
	68,688	52,833
Less: deferred financing costs	(2,333)	(3,832)
Net loans and borrowings	66,355	49,001
Less: current portion	750	2,559
	65,605	46,442

(a) ATB Financial ("ATB") Credit Facilities

The ATB Credit Facilities consist of various facilities that provide for senior debt financing of up to \$44,000 to support financing requirements of M2, plus credit available for letters of credit and hedging, maturing on November 19, 2022.

Financing is provided as follows:

(i) Term facility

On August 18, 2020, the Corporation converted the \$30,000 construction facility into a term facility. Upon conversion to a term facility, the first amortization payment of \$750 was paid on September 30, 2020, with the second payment of the same amount payable on March 31, 2021 and quarterly thereafter.

(ii) Revolver facility

\$10,000 facility, fully drawn as at September 30, 2020, is available for general corporate purposes.

The term facility and revolver facility bear interest at variable rates upon receipt of the advance. As at September 30, 2020, the Corporation's interest rate for its advances range from 3.48% to 3.51% (December 31, 2019 - 5.03%) on the \$29,250 and \$10,000 (December 31, 2019 - \$28,238 and \$3,000) drawn under the term facility and revolver facility, respectively.

MAXIM POWER CORP.

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

For the three and nine months ended September 30, 2020 and 2019
(Amounts in thousands of Canadian dollars except as otherwise noted)

4. Loans and borrowings (continued)

- (iii) Revolver facility #2
\$4,000 facility, available for certain working capital requirements, undrawn as at September 30, 2020.
- (iv) Letter of credit facility
Cash collateralized availability up to \$8,000 to replace MAXIM's current outstanding letters of credit. As at September 30, 2020, the Corporation has issued \$16 in cash collateralized letters of credit under this facility.
- (v) Hedging facility
A risk management facility allowing for interest rate, commodity and foreign exchange hedging. As at September 30, 2020, the Corporation has a \$9,750 interest rate swap until November 2022 at 3.82%. This swap settles \$250 per quarter beginning in the third quarter of 2020, until the loan matures on November 19, 2022 (note 11).

(b) Convertible loan facility

The convertible loan is a revolving, subordinated, secured credit facility of \$75,000. It is convertible into common shares at \$2.25 per share, bears interest at 12% per annum and is subordinated to the ATB credit facilities. The convertible feature of the loan was valued at \$nil and therefore has no amount allocated to equity. Pursuant to an intercreditor agreement, the term of the convertible loan ends upon repayment of the ATB credit facilities. As at September 30, 2020, the Corporation has \$29,438 (December 31, 2019 - \$21,595) outstanding.

The convertible loan facility was 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.

(c) Bank of Montreal facility

The Corporation has a credit agreement with the Bank of Montreal for a demand facility that requires full cash collateralization of letters of credit on a non-revolving basis. As at September 30, 2020, the Corporation has \$7,849 of outstanding letters of credit and cash of the same amount was deposited into a restricted bank account maintained by the bank. There are no financial covenants under this credit agreement.

(d) Debt covenants

Commencing on December 31, 2020, the Corporation is required to maintain a Debt Service Coverage Ratio of not less than 1.50:1.00 determined as at the last day of each financial quarter on a rolling four quarter basis.

Commencing on December 31, 2020, the Corporation shall not exceed a debt to earnings before interest, taxes, depreciation and amortization of 3.00:1.00 determined as at the last day of each financial quarter on a rolling four quarter basis.

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

For the three and nine months ended September 30, 2020 and 2019
(Amounts in thousands of Canadian dollars except as otherwise noted)

4. Loans and borrowings (continued)

MAXIM shall ensure that, as at the end of each financial quarter the tangible assets of MAXIM, Milner Power II LP and Milner Power LP ("MPLP") are not less than the lesser of (a) 95% of consolidated tangible assets; and (b) consolidated tangible assets (less any consolidated tangible assets attributed to Forked River II, Inc., Forked River II, LLC, Summit Coal, Summit Coal LP, Deerland Power Inc. and Deerland Power Limited Partnership).

In addition, MAXIM is subject to customary affirmative covenants and reporting requirements. As at September 30, 2020, MAXIM is in compliance with all debt covenants.

(e) Repayments

The Corporation's anticipated principal repayment obligations as at September 30, 2020 on the above loans and borrowings over the next five calendar years are as follows:

2020	-
2021	3,000
2022	65,688
	<u>68,688</u>

5. Finance expense (income), net

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Interest expense and bank charges	1,534	40	2,178	116
Amortization of deferred financing costs	470	-	1,511	-
Loss on interest rate swap	9	-	79	-
Accretion of provisions	20	37	54	126
Foreign exchange (gain) loss	(114)	(52)	140	72
Finance expense	1,919	25	3,962	314
Interest income (a)	(22)	(146)	(180)	(792)
Total finance expense (income), net	1,897	(121)	3,782	(478)

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

6. Income tax benefit

For the nine months ended September 30, 2020, the Corporation recognized a future tax benefit of \$3,169, for previously unrecognized available tax pools because of increased estimates of future cash flows from M2. The future taxable income is expected to be sufficient to realize the incremental deferred tax asset.

7. Earnings per share

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net income (loss)	498	2,204	337	(3,677)
Weighted average number of common shares (basic)	49,830,391	52,387,905	50,047,443	52,306,492
Weighted average number of common shares (diluted)	50,074,367	52,387,905	50,260,998	52,306,492
Basic and diluted earnings per share (a)	0.01	0.04	0.01	(0.07)

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

For the three and nine months ended September 30, 2020 and 2019
(Amounts in thousands of Canadian dollars except as otherwise noted)

7. Earnings per share (continued)

- a) For the three and nine months ended September 30, 2020 diluted earnings per share calculation, 243,976 shares and 213,555 shares, respectively, were added to the average number of common shares outstanding during the period for the dilutive effect of exercisable stock options.

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 each exercisable option was greater than the average market price. For the nine months ended September 30, 2019, no shares were added to the average number of common shares outstanding because their additions were antidilutive.

8. Commitments

- (a) 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.

As at September 30, 2020, on a life-to-date basis, the Corporation has billed and collected \$4,472 from the Balancing Pool for remediation of certain lands at Milner. The present value of the residual balance of \$8,749 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 contract for maintenance of equipment for M2. This contract has a minimum commitment totaling \$1,673 as at September 30, 2020.
- (c) The Corporation has entered into a natural gas transportation service agreement from June 1, 2020 to May 31, 2025 to deliver natural gas to M2. The total remaining commitment from this five-year contract as at September 30, 2020 is \$12,665.
- (d) The Corporation has entered into a natural gas transportation service agreement 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, 2020. The Corporation has an additional commitment of \$798 regarding the service portion of the contract.

9. Contingencies

For the current significant outstanding contingencies, refer to Note 22 of the Annual Audited Consolidated Financial Statements. Changes during the nine months ended September 30, 2020, to the contingent asset connected the Alberta Utilities Commission ("AUC") 790-D06-2017 ("D06-Decision") are provided below:

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

For the three and nine months ended September 30, 2020 and 2019
(Amounts in thousands of Canadian dollars except as otherwise noted)

9. Contingencies (continued)

Through its D06-Decision, the AUC asserted its position on several matters related to remedy under Module C of MPLP's complaint relating to the Alberta Electric System Operator ("AESO") Line Loss Proceeding. The D06-Decision confirmed that the same method that was used to calculate 2017 prospective loss factor rates would be used for the historic period of January 1, 2006 to December 31, 2016. The AUC deemed that a single settlement approach will be used whereby the AESO calculates all eleven years before cash is settled. The D06-Decision further confirmed that the settlement be affected 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.

On July 9, 2020, the AUC rendered its decision ("Decision 25150-D02-2020") regarding the AESO's request to review and findings related to single settlement approach as described in D06-Decision. The Commission found that the settlement findings in the D06-Decision should be varied from a single settlement process to a settlement process that is completed in three settlement periods including one for three years (2016 to 2014), and two for four years (2013 to 2010 and 2009 to 2006) for the historical period. The Corporation estimates that total overpayments of approximately \$40 million were made by MPLP to the AESO for the period January 1, 2006 to December 31, 2016, based on calculations established by information currently available on public record, before accounting for the time value of money.

As at September 30, 2020, and other than the subsequent event disclosed in note 12, the precise amount and timing of compensation under Module C cannot be determined.

10. Change in non-cash working capital

	September 30, 2020	September 30, 2019
Operations		
Trade and other receivables	(1,405)	1,729
Prepaid expenses and deposits	(337)	(744)
Trade and other payables	(7,144)	2,656
	(8,886)	3,641
	September 30, 2020	September 30, 2019
Investing		
Trade and other payables	(4,785)	11,095
Other long-term liabilities	366	3,217
Other assets	-	(1,358)
Restricted cash	(16)	(54)
	(4,435)	12,900

11. Financial risk management

During the first nine months of 2020, the COVID-19 pandemic has created a dynamic and challenging environment. Combined with a decline in power prices, the result has been notable financial market volatility, including fluctuations in interest rates, foreign currency rates, natural gas prices and the Corporation's share price. The key implications of these developments on the Corporation's financial risk exposures and key strategies for mitigating those risks are addressed below.

MAXIM POWER CORP.

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

For the three and nine months ended September 30, 2020 and 2019
(Amounts in thousands of Canadian dollars except as otherwise noted)

11. Financial risk management (continued)

The Corporation's risk management process, oversight and techniques are the same as those described in the Corporation's 2019 annual consolidated financial statements.

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 Consolidated Statements of Financial Position and is categorized by hierarchical levels and their related classifications.

September 30, 2020	Total carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Cash and cash equivalents	5,771	5,771	-	-
Trade and other receivables	5,469	5,469	-	-
Restricted cash	7,865	7,865	-	-
Milner decommissioning reimbursement	8,749	-	-	8,749
Total assets	27,854	19,105	-	8,749
Trade and other payables	11,517	10,491	1,026	-
Other long-term liabilities	2,004	2,004	-	-
Loans and borrowings	66,355	-	68,665	-
Total liabilities	79,876	12,495	69,691	-

December 31, 2019	Total carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Cash and cash equivalents	20,924	20,924	-	-
Trade and other receivables	4,064	4,064	-	-
Restricted cash	7,849	7,849	-	-
Milner decommissioning reimbursement	7,574	-	-	7,574
Total assets	40,411	32,837	-	7,574
Trade and other payables	21,659	21,659	-	-
Other long-term liabilities	1,638	1,638	-	-
Loans and borrowings	49,001	-	50,342	-
Total liabilities	72,298	23,297	50,342	-

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements, Page 8

For the three and nine months ended September 30, 2020 and 2019
(Amounts in thousands of Canadian dollars except as otherwise noted)

11. Financial risk management (continued)

(a) Commodity risk management swaps and options

The fair value of the power and natural gas commodity swaps are classified as Level II under the fair value hierarchy as the fair values are based on observable market data. The Corporation 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.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Realized gain on commodity swaps	(647)	(1,778)	(1,563)	(1,778)
Unrealized loss on commodity swaps	491	-	970	-
Total gain on commodity swaps	(156)	(1,778)	(593)	(1,778)

The carrying amount of the of the risk management liability is \$970 (note 3).

(b) Interest rate swaps and options

The Corporation manages interest rate exposure, and is required to under the ATB Credit Facilities (note 4), by entering into interest swaps and purchasing put options, for a portion of the proceeds. The fair value of the interest rate swap and put options are classified as Level II under the fair value hierarchy as the fair values are based on observable market data. For the three and nine months ended September 30, 2020, the unrealized loss on interest rate swaps and options was \$2 and \$56, respectively (September 30, 2019 - \$nil). For three and nine months ended September 30, 2020, the realized loss on interest rate swaps and options was \$7 and \$23, respectively (September 30, 2019 - \$nil). The carrying amount of the risk management liability is \$56 (note 3).

12. Subsequent event

On October 22, 2020, the AESO released the final statement related to years 2014, 2015 and 2016 (first of three settlements disclosed in note 9) of the Line Loss Proceeding. This statement provides that the amount payable to MPLP is \$6.4 million, inclusive of interest of \$0.9 million, and will be paid on December 30, 2020.

13. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.