

**Unaudited Interim Consolidated Financial Statements of
Algonquin Power & Utilities Corp.**

For the three and nine months ended September 30, 2018 and 2017

Algonquin Power & Utilities Corp.
Unaudited Interim Consolidated Balance Sheets

(thousands of U.S. dollars)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 88,162	\$ 43,484
Accounts receivable, net (note 4)	205,841	244,617
Fuel and natural gas in storage	44,427	44,414
Supplies and consumables inventory	52,621	45,074
Regulatory assets (note 5)	60,032	66,567
Prepaid expenses	27,822	31,005
Derivative instruments (note 20)	8,524	16,099
Other assets	5,313	7,110
	492,742	498,370
Property, plant and equipment, net	6,353,231	6,304,897
Intangible assets, net	50,957	51,103
Goodwill	954,282	954,282
Regulatory assets (note 5)	377,727	376,800
Derivative instruments (note 20)	56,631	54,115
Long-term investment carried at fair value (note 6)	515,618	—
Long-term investments (note 6)	162,906	67,331
Deferred income taxes (note 15)	71,690	61,357
Restricted cash	18,460	15,939
Other assets	18,306	13,214
	\$ 9,072,550	\$ 8,397,408

Algonquin Power & Utilities Corp.

Unaudited Interim Consolidated Balance Sheets

(thousands of U.S. dollars)

	September 30, 2018	December 31, 2017
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 46,910	\$ 119,887
Accrued liabilities	202,449	280,144
Dividends payable (note 12)	62,775	50,445
Regulatory liabilities (note 5)	49,175	37,687
Long-term debt (note 7)	7,043	12,364
Other long-term liabilities (note 9)	39,638	45,903
Derivative instruments (note 20)	10,444	14,126
Other liabilities	3,793	3,474
	422,227	564,030
Long-term debt (note 7)	3,553,743	3,067,187
Regulatory liabilities (note 5)	566,556	540,278
Deferred income taxes (note 15)	433,378	399,148
Derivative instruments (note 20)	60,516	54,818
Pension and other post-employment benefits obligation (note 8)	170,352	168,189
Other long-term liabilities (note 9)	222,702	228,238
Preferred shares, Series C	13,232	13,867
	5,020,479	4,471,725
Redeemable non-controlling interest	34,326	41,553
Equity:		
Preferred shares	184,299	184,299
Common shares (note 10(a))	3,412,266	3,021,699
Additional paid-in capital	43,622	38,569
Deficit	(571,837)	(524,311)
Accumulated other comprehensive income (loss) (note 11)	6,103	(2,792)
Total equity attributable to shareholders of Algonquin Power & Utilities Corp.	3,074,453	2,717,464
Non-controlling interests	521,065	602,636
Total equity	3,595,518	3,320,100
Commitments and contingencies (note 18)		
Subsequent events (notes 3(a), 7(a) and 7(e))		
	\$ 9,072,550	\$ 8,397,408

See accompanying notes to unaudited interim consolidated financial statements

Algonquin Power & Utilities Corp.
Unaudited Interim Consolidated Statements of Operations

(thousands of U.S. dollars, except per share amounts)

	Three Months Ended September 30		Nine Month Ended September 30	
	2018	2017	2018	2017
Revenue				
Regulated electricity distribution	\$ 225,520	\$ 217,382	\$ 637,988	\$ 576,507
Regulated gas distribution	46,540	47,468	304,033	258,822
Regulated water reclamation and distribution	36,945	38,243	98,059	108,566
Non-regulated energy sales	52,189	45,135	173,077	153,644
Other revenue	5,261	5,447	14,374	14,934
	366,455	353,675	1,227,531	1,112,473
Expenses				
Operating expenses	118,805	111,952	360,189	340,546
Regulated electricity purchased	67,742	65,244	201,768	170,864
Regulated gas purchased	9,922	10,606	123,994	88,586
Regulated water purchased	2,388	2,661	6,718	7,081
Non-regulated energy purchased	7,247	4,293	20,701	13,535
Administrative expenses	11,542	11,501	37,689	34,930
Depreciation and amortization	63,495	56,920	196,925	182,114
Loss (gain) on foreign exchange	274	2,041	(797)	(934)
	281,415	265,218	947,187	836,722
Operating income	85,040	88,457	280,344	275,751
Interest expense on long-term debt and others	37,905	36,429	111,834	109,087
Interest expense on convertible debentures and amortization of acquisition financing	—	—	—	13,383
Change in value of investment carried at fair value (note 6(a))	(10,022)	—	91,949	—
Interest, dividend, equity and other income (note 6)	(11,428)	(1,965)	(32,981)	(6,506)
Pension and post-employment non-service costs (note 8)	1,473	1,672	2,520	6,501
Other losses (gains)	2,006	653	392	(3,030)
Acquisition-related costs	925	855	9,569	46,728
Loss (gain) on derivative financial instruments (note 20(b)(iv))	748	(11)	920	1,201
	21,607	37,633	184,203	167,364
Earnings before income taxes	63,433	50,824	96,141	108,387
Income tax expense (note 15)				
Current	3,218	2,340	8,602	8,084
Deferred	7,516	9,384	42,014	35,611
	10,734	11,724	50,616	43,695
Net earnings	52,699	39,100	45,525	64,692
Net effect of non-controlling interests (note 14)	5,231	8,594	95,465	37,616
Net earnings attributable to shareholders of Algonquin Power & Utilities Corp.	\$ 57,930	\$ 47,694	\$ 140,990	\$ 102,308
Series A and D Preferred shares dividend (note 12)	1,989	2,076	6,059	5,975
Net earnings attributable to common shareholders of Algonquin Power & Utilities Corp.	\$ 55,941	\$ 45,618	\$ 134,931	\$ 96,333
Basic net earnings per share (note 16)	\$ 0.12	\$ 0.12	\$ 0.30	\$ 0.26
Diluted net earnings per share (note 16)	\$ 0.12	\$ 0.12	\$ 0.29	\$ 0.26

See accompanying notes to unaudited interim consolidated financial statements

Algonquin Power & Utilities Corp.
Unaudited Interim Consolidated Statements of Comprehensive Income

(thousands of U.S. dollars)

	Three Months Ended September 30		Nine Month Ended September 30	
	2018	2017	2018	2017
Net earnings	\$ 52,699	\$ 39,100	\$ 45,525	\$ 64,692
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of tax recovery of \$2,668 and \$3,546 (2017 - tax recovery of \$221 and \$794), respectively (notes 20(b)(iii) and 20(b)(iv))	8,962	9,806	(3,854)	(23,890)
Change in fair value of cash flow hedges, net of tax expense of \$734 and \$1,040 (2017 - tax expense of \$3,093 and \$3,859, respectively (note 20(b)(ii))	2,011	5,486	2,814	6,737
Change in value of available-for-sale investments	—	—	—	(19)
Change in pension and other post-employment benefits, net of tax recovery of \$71 and \$127 (2017 - tax expense of \$20 and \$930), respectively (note 8)	(76)	13	(358)	1,488
Other comprehensive income (loss), net of tax	10,897	15,305	(1,398)	(15,684)
Comprehensive income	63,596	54,405	44,127	49,008
Comprehensive net effect of non-controlling interests	(5,553)	(8,594)	(95,800)	(37,616)
Comprehensive income attributable to shareholders of Algonquin Power & Utilities Corp.	\$ 69,149	\$ 62,999	\$ 139,927	\$ 86,624

See accompanying notes to unaudited interim consolidated financial statements

Algonquin Power & Utilities Corp.
Unaudited Interim Consolidated Statement of Equity

(thousands of U.S. dollars)
For the nine months ended September 30, 2018

Algonquin Power & Utilities Corp. Shareholders							
	Common shares	Preferred shares	Additional paid-in capital	Accumulated deficit	Accumulated OCI	Non- controlling interests	Total
Balance, December 31, 2017	\$ 3,021,699	\$ 184,299	\$ 38,569	\$ (524,311)	\$ (2,792)	\$ 602,636	\$ 3,320,100
Cumulative catch-up adjustment related to Adoption of Topic 606 on revenue (note 2(a))	—	—	—	1,860	—	—	1,860
Cumulative catch-up adjustment related to adoption of ASU 2018-02 on tax effects in AOCI (note 2(a))	—	—	—	(9,958)	9,958	—	—
Net earnings (loss)	—	—	—	140,990	—	(95,465)	45,525
Redeemable non-controlling interests not included in equity	—	—	—	—	—	6,696	6,696
Other comprehensive loss	—	—	—	—	(1,063)	(335)	(1,398)
Dividends declared and distributions to non-controlling interests	—	—	—	(138,849)	—	(6,323)	(145,172)
Dividends and issuance of shares under dividend reinvestment plan	39,589	—	—	(39,589)	—	—	—
Common shares issued pursuant to public offering, net of costs (note 10(a))	345,723	—	—	—	—	—	345,723
Common shares issued upon conversion of convertible debentures	430	—	—	—	—	—	430
Common shares issued pursuant to share-based awards (note 10(b))	4,825	—	(2,671)	(1,980)	—	—	174
Share-based compensation (note 10(b))	—	—	7,724	—	—	—	7,724
Contributions received from non-controlling interests	—	—	—	—	—	13,856	13,856
Balance, September 30, 2018	\$ 3,412,266	\$ 184,299	\$ 43,622	\$ (571,837)	\$ 6,103	\$ 521,065	\$ 3,595,518

See accompanying notes to unaudited interim consolidated financial statements

Algonquin Power & Utilities Corp.

Unaudited Interim Consolidated Statements of Cash Flows

(thousands of U.S. dollars)

	Three Months Ended September 30		Nine Month Ended September 30	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating Activities				
Net earnings	\$ 52,699	\$ 39,100	\$ 45,525	\$ 64,692
Adjustments and items not affecting cash:				
Depreciation and amortization	70,183	63,964	207,894	192,393
Deferred taxes	7,516	9,387	42,014	35,614
Unrealized loss (gain) on derivative financial instruments	1,732	1,285	(451)	3,521
Share-based compensation expense	2,209	2,090	5,824	5,516
Cost of equity funds used for construction purposes	(691)	(567)	(2,068)	(1,418)
Change in value of investment carried at fair value	(10,022)	—	91,949	—
Pension and post-employment contributions in excess of expense	527	(14,422)	3,865	(10,100)
Distributions received from equity investments, net of income	2,572	1,889	3,838	2,169
Other	128	760	(1,281)	(3,113)
Changes in non-cash operating items (note 19)	4,653	(5,107)	(35,372)	(78,670)
	131,506	98,379	361,737	210,604
Financing Activities				
Increase in long-term debt	289,081	173,536	1,292,285	1,307,785
Decrease in long-term debt	(188,656)	(68,141)	(791,389)	(1,871,584)
Issuance of convertible debentures, net of costs	—	—	—	571,944
Issuance of common shares, net of costs	(104)	54	347,181	141
Cash dividends on common shares	(45,652)	(33,928)	(121,714)	(94,076)
Dividends on preferred shares	(2,073)	(2,076)	(4,129)	(5,975)
Contributions from non-controlling interests	—	11,516	—	218,393
Production-based cash contributions from non-controlling interest	—	—	13,856	7,930
Distributions to non-controlling interests	(2,462)	(1,301)	(6,814)	(2,350)
Proceeds from settlement of derivative assets	—	—	—	36,676
Proceeds from exercise of share options	—	—	—	9,563
Shares surrendered to fund withholding taxes on exercised share options	—	—	(1,557)	(3,222)
Increase in other long-term liabilities	3,693	4,820	9,587	13,283
Decrease in other long-term liabilities	(4,108)	(5,818)	(14,785)	(9,114)
	49,719	78,662	722,521	179,394
Investing Activities				
Acquisitions of operating entities	—	—	—	(1,519,923)
Divestiture of operating entity	—	—	—	83,863
Additions to property, plant and equipment	(101,254)	(133,515)	(342,524)	(432,172)
Decrease (increase) in other assets	92	157	1,101	(1,906)
Increase in long-term investments	(30,069)	(12,157)	(698,378)	(37,783)
Proceeds from sale of long-lived assets	—	—	3,004	—
	(131,231)	(145,515)	(1,036,797)	(1,907,921)
Effect of exchange rate differences on cash and restricted cash	230	758	(262)	788
Increase (decrease) in cash, cash equivalents and restricted cash	50,224	32,284	47,199	(1,517,135)
Cash, cash equivalents and restricted cash, beginning of period	56,398	41,852	59,423	1,591,271
Cash, cash equivalents and restricted cash, end of period	\$ 106,622	\$ 74,136	\$ 106,622	\$ 74,136

Algonquin Power & Utilities Corp.
Unaudited Interim Consolidated Statements of Cash Flows

Supplemental disclosure of cash flow information:
(thousands of U.S. dollars)

	Three Months Ended September 30		Nine Month Ended September 30	
	2018	2017	2018	2017
Cash paid during the period for interest expense	\$ 36,657	\$ 39,929	\$ 114,300	\$ 107,954
Cash paid during the period for income taxes	\$ 1,868	\$ 3,682	\$ 6,404	\$ 7,637
Non-cash financing and investing activities:				
Property, plant and equipment acquisitions in accruals	\$ 33,150	\$ 113,875	\$ 33,150	\$ 113,875
Acquisition of equity investments in exchange of loans and property, plant and equipment	\$ —	\$ 1,800	\$ 12,971	\$ 1,800
Issuance of common shares under dividend reinvestment plan and share-based compensation plans	\$ 14,878	\$ 11,004	\$ 42,745	\$ 40,934
Issuance of common shares upon conversion of convertible debentures	\$ 133	\$ 530	\$ 450	\$ 845,189

See accompanying notes to unaudited interim consolidated financial statements

Algonquin Power & Utilities Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2018 and 2017

(in thousands of US dollars, except as noted and per share amounts)

Algonquin Power & Utilities Corp. ("APUC" or the "Company") is an incorporated entity under the *Canada Business Corporations Act*. APUC's operations are organized across two primary North American business units consisting of the Liberty Power Group and the Liberty Utilities Group. The Liberty Power Group ("Liberty Power Group") owns and operates a diversified portfolio of non-regulated renewable and thermal electric generation assets; the Liberty Utilities Group ("Liberty Utilities Group") owns and operates a portfolio of regulated electric, natural gas, water distribution and wastewater collection utility systems and transmission operations. APUC also owns a 25% equity interest in Atlantica Yield plc ("Atlantica") (NASDAQ: AY), a company that acquires, owns and manages a diversified international portfolio of contracted renewable energy, power generation, electric transmission and water assets.

1. Significant accounting policies

(a) Basis of preparation

The accompanying unaudited interim consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and Article 10 of Regulation S-X provided by the U.S. Securities and Exchange Commission ("SEC"). In the opinion of management, the unaudited interim consolidated financial statements include all adjustments that are of a recurring nature and necessary for a fair presentation of the results of interim operations.

The significant accounting policies applied to these unaudited interim consolidated financial statements of APUC are consistent with those disclosed in the consolidated financial statements of APUC for the year ended December 31, 2017, except for adopted accounting policies described in note 2(a).

The reporting currency used to prepare these unaudited interim consolidated financial statements and notes is the U.S. dollar. The comparative 2017 unaudited interim financial statements were translated as if the U.S. dollar had been used as the reporting currency since the beginning of 2015. Amounts denominated in Canadian dollars within the notes to these unaudited interim consolidated financial statements are denoted with "C\$" immediately prior to the stated amount. The Company believes that the change in reporting currency in the first quarter of 2018 to U.S. dollars will provide more relevant information for the users of the unaudited interim financial statements as over 90% of the Company's consolidated revenues and assets are derived from operations in the United States.

The Company's Canadian operations are determined to have the Canadian dollar as their functional currency since the preponderance of operating, financing and investing transactions are denominated in Canadian dollars. The financial statements of these operations are translated into U.S. dollars using the current rate method, whereby assets and liabilities are translated at the rate prevailing at the balance sheet date, and revenue and expenses are translated using average rates for the period. Unrealized gains or losses arising as a result of the translation of the financial statements of these entities are reported as a component of other comprehensive income (loss) ("OCI") and are accumulated in a component of equity on the consolidated balance sheets, and are not recorded in income unless there is a complete or substantially complete sale or liquidation of the investment.

(b) Seasonality

APUC's operating results are subject to seasonal fluctuations that could materially impact quarter-to-quarter operating results and, thus, one quarter's operating results are not necessarily indicative of a subsequent quarter's operating results. Where decoupling mechanisms exist, total volumetric revenue is prescribed by the Regulator and is not affected by usage. APUC's different electrical distribution utilities can experience higher or lower demand in the summer or winter depending on the specific regional weather and industry characteristics. During the winter period, natural gas distribution utilities experience higher demand than during the summer period. APUC's water and wastewater utility assets' revenues fluctuate depending on the demand for water, which is normally higher during drier and hotter months of the summer. APUC's hydroelectric energy assets are primarily "run-of-river" and as such fluctuate with the natural water flows. During the winter and summer periods, flows are generally slower, while during the spring and fall periods flows are heavier. For APUC's wind energy assets, wind resources are typically stronger in spring, fall and winter and weaker in summer. APUC's solar energy assets experience greater insolation in summer, weaker in winter.

Algonquin Power & Utilities Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2018 and 2017

(in thousands of US dollars, except as noted and per share amounts)

1. Significant accounting policies (continued)

(c) Revenue recognition

The Company accounts for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, which was adopted on January 1, 2018 using the modified retrospective method, applied to contracts that are not completed at the date of initial application. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605. The adoption of the new standard resulted in an adjustment of \$2,488 or \$1,860 net of taxes to increase opening retained earnings for previously deferred revenue related to the Empire fiber business.

Revenues are recognized when control of the promised goods or services is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Refer to note 17 - Segmented information for details of revenue disaggregation by business units.

Liberty Utilities Group revenue

Liberty Utilities Group revenues consist primarily of the distribution of electricity, natural gas, and water.

Revenues related to utility electricity and natural gas sales and distribution are recognized over time as the energy is delivered. At the end of each month, the electricity and natural gas delivered to the customers from the date of their last meter read to the end of the month is estimated and the corresponding unbilled revenue is recorded. These estimates of unbilled revenue and sales are based on the ratio of billable days versus unbilled days, amount of electricity or natural gas procured during that month, historical customer class usage patterns, weather, line loss, unaccounted-for gas and current tariffs. Unbilled receivables are typically billed within the next month. Some customers elect to pay their bill on an equal monthly plan. As a result, in some months cash is received in advance of the delivery of electricity. Deferred revenue is recorded for that amount. The amount of revenue recognized in the period from the balance of deferred revenue is not significant.

Water reclamation and distribution revenues are recognized over time when water is processed or delivered to customers. At the end of each month, the water delivered and wastewater collected from the customers from the date of their last meter read to the end of the month is estimated and the corresponding unbilled revenue is recorded. These estimates of unbilled revenue are based on the ratio of billable days versus unbilled days, amount of water procured and collected during that month, historical customer class usage patterns and current tariffs. Unbilled receivables are typically billed within the next month.

The majority of Liberty Utilities Group's contracts have a single performance obligation that represents a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The Company's performance obligation is satisfied over time as electricity, natural gas or water is delivered.

On occasion, a utility is permitted to implement new rates that have not been formally approved by the regulatory commission, which are subject to refund. The Company recognizes revenue based on the interim rate and if needed, establishes a reserve for amounts that could be refunded based on experience for the jurisdiction in which the rates were implemented.

Revenue for certain of the Company's regulated utilities is subject to alternative revenue programs approved by their respective regulators, which require to charge approved annual delivery revenue on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is disclosed as alternative revenue in note 17 - Segmented information and is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers (note 5). The amount subsequently billed to customers is recorded as a recovery of the regulatory asset.

Algonquin Power & Utilities Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2018 and 2017

(in thousands of US dollars, except as noted and per share amounts)

1. Significant accounting policies (continued)

(c) Revenue recognition (continued)

Liberty Power Group revenue

Liberty Power Group's revenues consist primarily of the sale of electricity, capacity, and renewable energy credits.

Revenues related to the sale of electricity are recognized over time as the electricity is delivered. The electricity represents a single performance obligation that represents a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer.

Progress towards satisfaction of the single performance obligation is measured using an output method based on units produced and delivered within the production month.

Revenues related to the sale of capacity are recognized over time as the capacity is provided. The nature of the promise to provide capacity is that of a stand-ready obligation. The capacity is generally expressed in monthly volumes and prices. The capacity represents a single performance obligation that represents a promise to transfer to the customer a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer. Progress towards satisfaction of the single performance obligation is measured using an output method based on time elapsed.

Qualifying renewable energy projects receive renewable energy credits ("REC") and solar renewable energy credits ("SRECs") for the generation and delivery of renewable energy to the power grid. The energy credit certificates represent proof that 1 MW of electricity was generated from an eligible energy source. The REC and SREC can be traded and the owner of the REC or SREC can claim to have purchased renewable energy. RECs and SRECs are primarily sold under fixed contracts, and revenue for these contracts is recognized at a point in time, upon generation of the associated electricity. Any RECs or SRECs generated above contracted amounts are held in inventory, with the offset recorded as a decrease in operating expenses.

The majority of Liberty Power Group's contracts with customers are bundled arrangements of multiple performance obligations: electricity, capacity, and renewable energy credits (RECs).

The Company has elected to apply the invoicing practical expedient to the electricity and capacity in Liberty Power contracts. The Company does not disclose the value of unsatisfied performance obligations for these contracts as revenue is recognized at the amount to which the Company has the right to invoice for services performed.

Revenue is recorded net of sales taxes.

2. Recently issued accounting pronouncements

(a) Recently adopted accounting pronouncements

The Financial Accounting Standards Board ("FASB") issued ASU 2018-09, *Codification Improvements* to clarify the Codification and correct unintended application of guidance that is not expected to have a significant impact on current accounting practice. The adoption of this ASU in the second quarter of 2018 had no impact on the Company's unaudited interim consolidated financial statements.

The Financial Accounting Standards Board ("FASB") issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* to clarify the codification and to correct unintended application of the guidance. The Company has early adopted this pronouncement as of January 1, 2018, concurrent with the adoption of ASU 2016-01. The adoption of this update in the first quarter of 2018 had no impact on the Company's unaudited interim consolidated financial statements.

The FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI")* to allow a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company has early adopted this pronouncement as of January 1, 2018, and as a result, a net amount of \$9,958 was reclassified out of AOCI and recorded as an increase to accumulated deficit as at that date.

Algonquin Power & Utilities Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2018 and 2017

(in thousands of US dollars, except as noted and per share amounts)

2. Recently issued accounting pronouncements (continued)

(a) Recently adopted accounting pronouncements (continued)

The FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*, to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718, *Compensation—Stock Compensation*, to a change to the terms or conditions of a share-based payment award. The adoption of this update in the first quarter of 2018 had no impact on the Company's unaudited interim consolidated financial statements.

The FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*, to improve the reporting of defined benefit pension cost and post-retirement benefit cost ("net benefit cost") in the financial statements. This update requires the service cost component to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The update also only allows the service cost component to be eligible for capitalization when applicable. The Company adopted this guidance effective January 1, 2018. The Company's regulated operations only capitalize the service costs component and therefore no regulatory to U.S. GAAP reporting differences exist. The Company applied the practical expedient for retrospective application on the statement of operations (note 8).

The FASB issued ASU 2017-05, *Other Income—Gains and Losses from the Derecognition of Non-financial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. The update clarifies the scope of the standard as well as provides additional guidance on partial sales of non-financial assets. The adoption of this update in the first quarter of 2018 had no impact on the Company's unaudited interim consolidated financial statements.

The FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The update is intended to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company follows the pronouncements of this update as of January 1, 2018. The adoption of this update in the first quarter of 2018 had no impact on the Company's unaudited interim consolidated financial statements.

The FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* to eliminate current diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. Prior to the adoption of this update, the Company presented changes in restricted cash as investing activities on the consolidated statement of cash flows.

The FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. The new standard requires the recognition of current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The adoption of this update in the first quarter of 2018 had no impact on the Company's unaudited interim consolidated financial statements.

The FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments* in order to eliminate current diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of this update in the first quarter of 2018 had no impact on the Company's unaudited interim consolidated financial statements.

The FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* to simplify the measurement, presentation, and disclosure of financial instruments. The adoption of this update in the first quarter of 2018 had no significant impact on the Company's unaudited interim consolidated financial statements.

Algonquin Power & Utilities Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

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(in thousands of US dollars, except as noted and per share amounts)

2. Recently issued accounting pronouncements (continued)

(b) Recently issued accounting guidance not yet adopted

The FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customers Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* to provide additional guidance to address diversity in practice. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Therefore, an entity will follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. In addition, the capitalized implementation costs are required to be expensed over the term of the hosting arrangement. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period. The amendments can either be applied retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently assessing the impacts of this update.

The FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* as part of the disclosure framework project. This update removed certain disclosure requirements regarding accumulated other comprehensive income expected to be recognized in income, related party transactions, and certain sensitivity analyses with respect to health care cost trends. This update also added disclosure requirements around the weighted-average interest crediting rates for cash balance plans and explanations for significant gains or losses in the reporting period. The update is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company is currently assessing the impacts of this update.

The FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* as part of the disclosure framework project. This update removed certain disclosure requirements from Topic 820 including the amount of and reasons for transfers between Level 1 and Level 2 measurements, the policy for timing of transfers between levels, and the valuation processes for Level 3 measurements. This update also clarified disclosure requirements relating to measurement uncertainty, and added disclosure requirements for Level 3 measurements, specifically around the changes in unrealized gains and losses included in other comprehensive income and the range and weighted average of significant unobservable inputs. The update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impacts of this update.

The FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting* to expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. This update changes the measurement basis and date of non-employee share-based payment awards and also makes amendments to how to measure non-employee awards with performance conditions. The update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. No impact on the consolidated financial statements is expected from the adoption of this update.

The FASB issued ASU 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations utilizing leases. This ASU requires lessees to recognize the assets and liabilities arising from all leases on the balance sheet, but the effect of leases in the statement of operations and the statement of cash flows is largely unchanged. The FASB issued an amendment to ASC Topic 842 that permits companies to elect an optional transition practical expedient to not evaluate existing land easements under the new standard if the land easements were not previously accounted for under existing lease guidance. The FASB issued a further update to ASC Topic 842 in ASU 2018-11 to allow companies to elect not to restate their comparative periods in the period of adoption when transitioning to the standard. The FASB has also issued further codification improvements to ASC Topic 842 to correct and clarify specific aspects of the guidance. The standard is effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted.

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Notes to the Unaudited Interim Consolidated Financial Statements

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(in thousands of US dollars, except as noted and per share amounts)

2. Recently issued accounting pronouncements (continued)

- (b) Recently issued accounting guidance not yet adopted (continued)

The Company is in the process of evaluating the impact of adoption of this standard on its financial statements and disclosures. The Company has identified all contracts that may have potential leasing implications and is finalizing the analysis of the terms and conditions. The Company is implementing a new software solution to assist with contract management, information tracking, and measurement as it relates to the new leases standard. The Company is assessing the financial, business and internal controls impacts around both the accounting standard and software implementation. The Company continues to monitor FASB amendments to ASC Topic 842.

3. Business acquisitions and development projects

- (a) Great Bay Solar Facility

In March 2018, the Company placed in service a 75 MWac solar powered generating facility in Somerset County, Maryland. Commercial operations as defined by the power purchase agreement was reached on March 29, 2018.

The Great Bay Solar Facility is controlled by a subsidiary of APUC (Great Bay Holdings, LLC). The Class A partnership units are owned by a third-party tax equity investor who funded \$42,750 in 2017 with the remaining amount of \$15,250 received subsequent to quarter end. Through its partnership interest, the tax equity investor will receive the majority of the tax attributes associated with the project. The Company accounts for this interest as "Non-controlling interest" on the unaudited interim consolidated balance sheets.

- (b) Acquisition of St. Lawrence Gas Company, Inc.

On August 31, 2017, the Company entered into a definitive agreement to acquire St. Lawrence Gas Company, Inc. ("SLG"). SLG is a rate-regulated natural gas distribution utility serving customers in northern New York state. The total purchase price for the transaction is \$70,000, less total third-party debt of SLG outstanding at closing, and subject to customary working capital adjustments. Closing of the transaction remains subject to regulatory approval and other closing conditions and is expected to occur in early 2019.

- (c) Approval to acquire the Perris Water Distribution System

On August 10, 2017, the Company's board approved the acquisition of two water distribution systems serving customers from the City of Perris, California. The anticipated purchase price of \$11,500 is expected to be established as rate base during the regulatory approval process. The City of Perris residents voted to approve the sale on November 7, 2017. Liberty Utilities Group filed an application requesting approval for the acquisition of the assets of the water utilities with the California Public Utility Commission on May 8, 2018. Final approval is expected in Q1 2019.

4. Accounts receivable

Accounts receivable as of September 30, 2018 include unbilled revenue of \$40,329 (December 31, 2017 - \$78,289) from the Company's regulated utilities. Accounts receivable as of September 30, 2018 are presented net of allowance for doubtful accounts of \$5,791 (December 31, 2017 - \$5,555).

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Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of US dollars, except as noted and per share amounts)***5. Regulatory matters**

The Company's regulated utility operating companies are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting policies, issuance of securities, acquisitions and other matters. These utilities operate under cost-of-service regulation as administered by these state authorities. The Company's regulated utility operating companies are accounted for under the principles of ASC Topic 980, *Regulated Operations* ("ASC 980"). Under ASC 980, regulatory assets and liabilities that would not be recorded under U.S. GAAP for non-regulated entities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-setting process.

At any given time, the Company can have several regulatory proceedings underway. The financial effects of these proceedings are reflected in the unaudited interim consolidated financial statements based on regulatory approval obtained to the extent that there is a financial impact during the applicable reporting period. The following regulatory proceedings were recently completed:

Utility	State	Regulatory proceeding type	Annual revenue increase (decrease)	Effective date
Empire Electric System	Missouri	Tax Reform docket	\$(17,837)	Prospective decrease in annual revenue due to the reduction of the US federal corporate income tax rate.
EnergyNorth Gas System	New Hampshire	General Rate Review	\$10,711	May 1, 2018 with a one time recoupment of \$1,326 for the difference between the final rates and temporary rates granted on July 1, 2017
Missouri Gas System	Missouri	General Rate Review	\$4,600	Effective July 1, 2018
New England Natural Gas System	Massachusetts	Gas System Enhancement Plan	\$3,676	Effective May 1, 2018
Various	Various	Various	\$1,632	Other rate reviews closed during and subsequent to the quarter: Missouri Water System (\$1,015) and Litchfield Park Water & Sewer (\$617)

Algonquin Power & Utilities Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of US dollars, except as noted and per share amounts)***5. Regulatory matters (continued)**

Regulatory assets and liabilities consist of the following:

	September 30, 2018	December 31, 2017
Regulatory assets		
Environmental remediation	\$ 81,096	\$ 82,711
Pension and post-employment benefits	101,727	105,712
Debt premium	50,516	57,406
Fuel and commodity costs adjustment	23,635	34,525
Rate adjustment mechanism	40,081	35,813
Clean Energy and other customer programs	21,487	20,582
Deferred construction costs	14,076	14,344
Asset retirement	19,818	16,080
Income taxes	34,798	36,546
Rate review costs	8,922	9,295
Other	41,603	30,353
Total regulatory assets	\$ 437,759	\$ 443,367
Less: current regulatory assets	(60,032)	(66,567)
Non-current regulatory assets	\$ 377,727	\$ 376,800
Regulatory liabilities		
Income taxes	\$ 337,731	\$ 321,138
Cost of removal	191,160	184,188
Rate-base offset	11,479	13,214
Fuel and commodity costs adjustment	29,313	23,543
Deferred compensation received in relation to lost production	7,498	9,398
Deferred construction costs - fuel related	7,298	7,418
Pension and post-employment benefits	16,281	10,082
Other	14,971	8,984
Total regulatory liabilities	\$ 615,731	\$ 577,965
Less: current regulatory liabilities	(49,175)	(37,687)
Non-current regulatory liabilities	\$ 566,556	\$ 540,278

On June 1, 2018, the state of Missouri enacted legislation that, effective for tax years beginning on or after January 1, 2020, reduces the corporate income tax rate from 6.25% to 4%, among other legislative changes. A reduction of regulatory asset and an increase to regulatory liability was recorded for excess deferred taxes probable of being refunded to customers of \$17,350.

As a result of the U.S. Tax Cuts and Jobs Act of 2017 (the "Tax Act") being enacted in 2017, regulators in the states where Liberty Utilities Group operates are contemplating the ratemaking implications of the reduction of federal tax rates from the legacy 35% tax rate and the new 21% federal statutory income tax rate effective January 2018. The Company is working with the regulators to identify the most appropriate way in each jurisdiction to address the impact of the Tax Act on cost of service based rates. As at September 30, 2018, the impact on regulated liability on account of ordered or probable orders related to the Tax Act was immaterial.

Algonquin Power & Utilities Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2018 and 2017

*(in thousands of US dollars, except as noted and per share amounts)***6. Long-term investments**

Long-term investments consist of the following:

	September 30, 2018	December 31, 2017
Long-term investment carried at fair value		
Atlantica (a)	\$ 515,618	\$ —
Equity-method investees		
Red Lily I Wind Facility	17,543	18,174
AAGES (a)	2,494	—
Amherst Island Wind Project (b)	8,066	8,921
Other	3,845	5,172
	31,948	32,267
Notes receivable		
Development loans (c)	126,334	30,060
Other	2,960	3,318
	129,294	33,378
Other investments		
	1,664	1,686
Total long-term investments	678,524	67,331
Amounts recognized on the unaudited interim consolidated balance sheets consist of:		
Long-term investment carried at fair value	\$ 515,618	\$ —
Long-term investments	162,906	67,331
Total long-term investments	\$ 678,524	\$ 67,331

(a) Investment in AAGES and Atlantica

APUC and Abengoa, S.A ("Abengoa") created Abengoa-Algonquin Global Energy Solutions B.V. and AAGES Development Canada Inc. (collectively "AAGES") to identify, develop, and construct clean energy and water infrastructure assets with a global focus. Each partner initially contributed \$5,000 to AAGES. APUC and Abengoa have joint control and all decisions must be unanimous. As such, the Company is accounting for its investment in the joint ventures under the equity method.

On March 9, 2018, APUC purchased from Abengoa a 25% equity interest in Atlantica for a total purchase price of \$607,567, based on a price of \$24.25 per ordinary share of Atlantica plus a contingent payment of up to \$0.60 per-share payable two years after closing, subject to certain conditions. The Company transferred the Atlantica shares to a new entity controlled and consolidated by APUC. The Company has elected the fair value option under ASC 825, *Financial Instruments* to account for its investment in Atlantica, with changes in fair value reflected in the unaudited interim consolidated statement of operations. On March 9, 2018, the difference between the purchase price and the value of the Atlantica shares based on the NASDAQ share price resulted in an immediate fair value loss of \$117,254 while fair value gains of \$10,022 and \$25,305 were recorded for the three and nine-month periods from acquisition to September 30, 2018 respectively. The Company also recorded dividend income of \$8,518 and \$24,303 from the Atlantica shares during the three and nine-month periods from acquisition to September 30, 2018, respectively.

In April 2018, APUC entered into an agreement to acquire an additional 16.5% of equity interest in Atlantica from Abengoa for a purchase price of approximately \$345,000, based on a price of \$20.90 per ordinary share. The transaction is expected to close in the fourth quarter of 2018, subject to certain governmental approvals and other closing conditions.

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Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of US dollars, except as noted and per share amounts)***6. Long-term investments (continued)****(b) Amherst Island Wind Facility**

APUC has a 50% interest in Windlectric Inc. ("Windlectric"), which owns a 75 MW wind generating facility ("Amherst Island Wind Facility") in the province of Ontario. The Company holds an option to acquire the remaining common shares at a fixed price any time prior to January 15, 2019. Construction was completed during the second quarter of 2018 and sale of power under the power purchase agreement has started.

Windlectric is considered a variable interest entity ("VIE") due to the level of equity at risk. The Company is not considered the primary beneficiary of Windlectric as the two shareholders have joint control and all decisions must be unanimous. As such, the Company accounts for its investment in the joint venture under the equity method. The interest capitalized during the three and nine months ended September 30, 2018 to the investment while the Amherst Island Wind Facility was under construction amounted to \$nil and \$739 (2017 - \$393 and \$811), respectively. As at September 30, 2018, the third-party construction debt of the joint venture was C\$207,410 (December 31, 2017 - C\$133,765).

(c) Development loans

The Company has a loan and credit support facility with Windlectric. During construction, the Company was obligated to provide cash advances and credit support (in the form of letters of credit, escrowed cash, or guarantees) in amounts necessary for the continued development and construction of the equity investee's wind project. These advances and credit support remain outstanding as at September 30, 2018. The Company recognized interest income of \$2,428 on the advances and credit support from the day Amherst Island Wind Facility achieved commercial operations to September 30, 2018.

7. Long-term debt

Long-term debt consists of the following:

Borrowing type	Weighted average coupon	Maturity	Par value	September 30, 2018	December 31, 2017
Senior Unsecured Revolving Credit Facilities (a)	—	2018-2023	N/A	\$ 296,685	\$ 51,827
Senior Unsecured Bank Credit Facilities (b)	—	2018-2019	N/A	602,500	134,988
Commercial Paper	—	2023	N/A	—	5,576
U.S. Dollar Borrowings					
Senior Unsecured Notes	4.09%	2020-2047	\$ 1,225,000	1,218,458	1,217,797
Senior Unsecured Utility Notes	5.99%	2020-2035	\$ 222,000	240,543	246,560
Senior Secured Utility Bonds (c)	4.75%	2020-2044	\$ 662,500	677,782	772,871
Canadian Dollar Borrowings					
Senior Unsecured Notes (d)	4.43%	2020-2027	C\$ 650,669	500,219	623,223
Senior Secured Project Notes	10.26%	2020-2027	C\$ 31,897	24,599	26,709
				\$ 3,560,786	\$ 3,079,551
Less: current portion				(7,043)	(12,364)
				\$ 3,553,743	\$ 3,067,187

Long-term debt issued at a subsidiary level (project notes or utility bonds) relating to a specific operating facility is generally collateralized by the respective facility with no other recourse to the Company. Long-term debt issued at a subsidiary level whether or not collateralized generally have certain financial covenants, which must be maintained on a quarterly basis. Non-compliance with the covenants could restrict cash distributions/dividends to the Company from the specific facilities.

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7. Long-term debt (continued)

Short-term obligations of \$602,500 that are expected to be refinanced using the long-term credit facilities are presented as long-term debt.

Recent financing activities:

(a) Senior unsecured revolving credit facilities

On February 23, 2018, the Liberty Utilities Group increased commitments under its credit facility to \$500,000 and extended the maturity to February 23, 2023. Concurrent with this amendment, the Liberty Utilities Group closed Empire's credit facility. Liberty Utilities' credit facility will now be used as a backstop for Empire's commercial paper program and as a source of liquidity for Empire.

On February 16, 2018, the Liberty Power Group increased availability under its revolving letter of credit facility to \$200,000 and extended the maturity to January 31, 2021.

During the quarter, the Liberty Power Group extended the maturity of its senior unsecured revolving bank credit facility from October 6, 2022 to October 6, 2023.

(b) Senior unsecured bank credit facilities

On December 21, 2017, the Company entered into a \$600,000 term credit facility with two Canadian banks maturing on December 21, 2018. On March 7, 2018, the Company drew \$600,000 under this facility. As at September 30, 2018, the Company had repaid \$132,500 of borrowings under this facility. Subsequent to quarter end, the Company repaid \$280,693 of borrowings under this facility with the proceeds from the closing of the Subordinated Notes described below (note 7(e)).

(c) U.S. dollar senior secured utility bonds

On June 1, 2018, the Company repaid, upon its maturity, a \$90,000 secured utility note.

(d) Canadian dollar senior unsecured notes

On July 25, 2018, the Company repaid, upon its maturity, a C\$135,000 unsecured note.

(e) Subordinated notes

Subsequent to quarter end, on October 17, 2018, the Company completed the issuance of \$287,500 unsecured, fixed-to-floating subordinated notes ("Subordinated Notes"). The Subordinated Notes were issued pursuant to a prospectus filed with the Ontario Securities Commission (the "OSC") and a corresponding registration statement filed with the SEC under the United States/ Canada Multijurisdictional Disclosure System. The Subordinated Notes are listed on the New York Stock Exchange. The Subordinated Notes will mature on October 17, 2078. Beginning on October 17, 2023, and on every quarter thereafter that the Subordinated Notes are outstanding (the "Interest Reset Date") until October 17, 2028, the Subordinated Notes will be reset at an interest rate of the three-month LIBOR plus 3.677%, payable in arrears. Beginning on October 17, 2028, and on every Interest Reset Date until October 17, 2043, the Subordinated Notes will be reset at an interest rate of the three-month LIBOR plus 3.927%, payable in arrears. Beginning on October 17, 2043, and on every Interest Reset Date until October 17, 2078, the Subordinated Notes will be reset at an interest rate of the three-month LIBOR plus 4.677%, payable in arrears.

The Company may elect, at its sole option, to defer the interest payable on the Subordinated Notes on one or more occasions for up to five consecutive years. Deferred interest will accrue, compounding on each subsequent interest payment date, until paid. Additionally, on or after October 17, 2023, the Company may, at its option, redeem the Subordinated Notes, at a redemption price equal to 100 percent of the principal amount, together with accrued and unpaid interest.

The proceeds of the Subordinated Notes were applied to partially repay the term credit facility (note 7(b)).

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*(in thousands of US dollars, except as noted and per share amounts)***8. Pension and other post-employment benefits**

The following table lists the components of net benefit costs for the pension and other post-employment benefit ("OPEB") plans in the unaudited interim consolidated statements of operations.

	Pension benefits			
	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Service cost	\$ 3,779	\$ 3,401	\$ 11,006	\$ 10,601
Interest cost	4,566	4,980	13,675	14,953
Expected return on plan assets	(6,995)	(6,452)	(21,005)	(19,068)
Amortization of net actuarial loss	89	298	311	833
Amortization of prior service credits	(156)	(156)	(467)	(467)
Loss on curtailments and settlements	—	—	—	1,007
Amortization of regulatory assets/liability	4,535	2,903	9,692	8,706
Net benefit cost	\$ 5,818	\$ 4,974	\$ 13,212	\$ 16,565

	OPEB			
	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Service cost	\$ 1,464	\$ 1,223	\$ 4,438	\$ 3,778
Interest cost	1,626	1,629	4,877	4,973
Expected return on plan assets	(1,849)	(1,632)	(5,546)	(4,872)
Amortization of net actuarial gain	(36)	(101)	(113)	(173)
Amortization of prior service credits	(65)	(65)	(196)	(196)
Amortization of regulatory assets/liability	(242)	268	1,292	805
Net benefit cost	\$ 898	\$ 1,322	\$ 4,752	\$ 4,315

As a result of the adoption of ASU 2017-07 (note 2(a)), the service cost components of pension plans and other post-employment benefits ("OPEB") are shown as part of operating expenses within operating income in the unaudited interim consolidated statements of operations. The remaining components of net benefit costs are considered non-service costs and have been included outside of operating income in pension and post-employment non-service costs in the unaudited interim consolidated statements of operations. The Company applied the practical expedient for retrospective application on the unaudited interim statement of operations and as such, the \$1,672 and \$6,501 of non-service costs for the three and nine months ended September 30, 2017 has been reclassified from administrative expenses to pension and post-employment non-service costs.

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*(in thousands of US dollars, except as noted and per share amounts)***9. Other long-term liabilities**

Other long-term liabilities consist of the following:

	September 30, 2018	December 31, 2017
Advances in aid of construction	\$ 64,350	\$ 62,683
Environmental remediation obligation	53,483	54,322
Asset retirement obligations	41,081	44,166
Customer deposits	28,981	28,529
Unamortized investment tax credits	17,557	17,839
Deferred credits	18,892	21,168
Other	37,996	45,434
	262,340	274,141
Less current portion	(39,638)	(45,903)
	\$ 222,702	\$ 228,238

10. Shareholders' capital

(a) Common shares

Number of common shares:

	2018
Common shares, beginning of period	431,765,935
Public issuance	37,505,274
Conversion of convertible debentures	54,645
Issuance of shares under the dividend reinvestment plan	4,161,755
Exercise of share-based awards	412,906
Common shares, end of period	473,900,515

On April 24, 2018, APUC issued 37,505,274 common shares at \$9.23 (C\$11.85) per share pursuant to a public offering for gross proceeds of \$346,324 (C\$444,437).

(b) Share-based compensation

During the nine months ended September 30, 2018, the Board of Directors of APUC (the "Board") approved the grant of 1,166,717 options to executives of the Company. The options allow for the purchase of common shares at a weighted average price of C\$12.80, the market price of the underlying common share at the date of grant. One-third of the options vest on each of December 31, 2018, 2019 and 2020. Options may be exercised up to eight years following the date of grant.

The following assumptions were used in determining the fair value of share options granted:

	2018
Risk-free interest rate	2.1%
Expected volatility	21%
Expected dividend yield	4.8%
Expected life	5.50 years
Weighted average grant date fair value per option	C\$ 1.41

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10. Shareholders' capital (continued)

(b) Share-based compensation (continued)

In March 2018, executives of the Company exercised 512,367 stock options at a weighted average exercise price of \$10.29 in exchange for 86,354 common shares issued from treasury, and 426,013 options were settled at their cash value as payment for the exercise price and tax withholdings related to the exercise of the options.

In March 2018, 320,806 Performance Share Units ("PSUs") were granted to executives of the Company. The PSUs vest on January 1, 2021. In May 2018, 316,868 PSUs were granted to employees of the Company. The PSUs vest on January 1, 2021.

During the first quarter, the Company settled 256,977 PSUs in exchange for 133,569 common shares issued from treasury, and 123,408 PSUs were settled at their cash value as payment for tax withholdings related to the settlement of the PSUs.

The Company introduced a new bonus deferral restricted share units ("RSUs") program to certain of its employees. Eligible employees have the option to receive a portion or all of their annual bonus payment in RSUs in lieu of cash. The RSUs provide for settlement in shares, and therefore these options are accounted for as equity awards. The RSUs granted are 100% vested and therefore, compensation expense associated with RSUs is recognized immediately upon issuance. During the second quarter, 128,302 RSUs were granted to employees of the Company. During the quarter, the Company settled 4,544 RSUs in exchange for 2,111 common shares issued from treasury, and 2,433 RSUs were settled at their cash value as payment for tax withholdings related to the settlement of the RSUs.

During the nine months ended September 30, 2018, 65,105 Deferred Share Units ("DSUs") were issued pursuant to the election of the Directors to defer a percentage of their Directors' fee in the form of DSUs.

For the three and nine months ended September 30, 2018, APUC recorded \$2,351 and \$5,996 (2017 - \$2,677 and \$6,069) in total share-based compensation expense. The compensation expense is recorded as part of administrative expenses in the unaudited interim consolidated statements of operations. The portion of share-based compensation costs capitalized as cost of construction is insignificant.

As of September 30, 2018, total unrecognized compensation costs related to non-vested options and PSUs were \$1,840 and \$8,490, respectively, and are expected to be recognized over a period of 1.66 and 1.81 years, respectively.

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*(in thousands of US dollars, except as noted and per share amounts)***11. Accumulated other comprehensive loss**

AOCI consists of the following balances, net of tax:

	Foreign currency cumulative translation	Unrealized gain on cash flow hedges	Net change on available- for-sale investments	Pension and post- employment actuarial changes	Total
Balance, January 1, 2017	\$ (25,921)	\$ 53,739	\$ 66	\$ (10,833)	\$ 17,051
OCI before reclassifications	(21,779)	8,004	—	600	(13,175)
Amounts reclassified	—	(6,378)	(66)	(224)	(6,668)
Net current period OCI	(21,779)	1,626	(66)	376	(19,843)
Balance, December 31, 2017	\$ (47,700)	\$ 55,365	\$ —	\$ (10,457)	\$ (2,792)
Cumulative catch-up adjustment related to adoption of ASU 2018-02 on tax effects in AOCI (note 2(a))	—	11,657	—	(1,699)	9,958
OCI before reclassifications	(3,519)	5,962	—	—	2,443
Amounts reclassified	—	(3,148)	—	(358)	(3,506)
Net current period OCI	\$ (3,519)	\$ 2,814	\$ —	\$ (358)	\$ (1,063)
Balance, September 30, 2018	\$ (51,219)	\$ 69,836	\$ —	\$ (12,514)	\$ 6,103

Amounts reclassified from AOCI for unrealized gain (loss) on cash flow hedges affected revenue from non-regulated energy sales while those for pension and post-employment actuarial changes affected pension and post-employment non-service costs.

12. Dividends

All dividends of the Company are made on a discretionary basis as determined by the Board. The Company declares and pays the dividend on its commons shares in U.S. dollars. Dividends declared during the three and nine months ended September 30, 2018 and 2017 were as follows:

	Three Months Ended September 30			
	2018		2017	
	Dividend	Dividend per share	Dividend	Dividend per share
Common shares	\$ 61,020	\$ 0.1282	\$ 45,278	\$ 0.1165
Series A preferred shares	\$ 1,033	C\$ 0.2813	\$ 1,078	C\$ 0.2813
Series D preferred shares	\$ 956	C\$ 0.3125	\$ 998	C\$ 0.3125

	Nine Months Ended September 30			
	2018		2017	
	Dividend	Dividend per share	Dividend	Dividend per share
Common shares	\$ 172,379	\$ 0.3729	\$ 135,448	\$ 0.3495
Series A preferred shares	\$ 3,146	C\$ 0.8439	\$ 3,102	C\$ 0.8439
Series D preferred shares	\$ 2,913	C\$ 0.9375	\$ 2,873	C\$ 0.9375

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*(in thousands of US dollars, except as noted and per share amounts)***13. Related party transactions***Equity-method investments*

The Company provides administrative and development services to its equity-method investees and is reimbursed for incurred costs. To that effect, the Company charged its equity-method investees \$4,952 and \$6,888 (2017 - \$1,135 and \$3,147) during the three and nine months ended September 30, 2018.

Subject to certain limitations, Atlantica has a right of first offer on any proposed sale, transfer or other disposition by AAGES (other than to APUC) of its interest in infrastructure facilities that are developed or constructed in whole or in part by AAGES under long-term revenue agreements. Similarly, Atlantica has rights, subject to certain limitations, with respect to any proposed sale, transfer or other disposition of APUC's interest, not held through AAGES, in infrastructure facilities that are developed or constructed in whole or in part by APUC outside of Canada or the United States under long-term revenue agreements. There were no such transactions in 2018.

Long Sault Hydro Facility

Effective December 31, 2013, APUC acquired the shares of Algonquin Power Corporation Inc. ("APC"), which was partially owned by Senior Executives. APC owns the partnership interest in the 18MW Long Sault Hydro Facility. A final post-closing adjustment related to the transaction remains outstanding.

The above related party transactions have been recorded at the exchange amounts agreed to by the parties to the transactions.

14. Non-controlling interests

Net loss attributable to non-controlling interests for the three and nine months ended September 30, 2018 and 2017 consists of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
HLBV and other adjustments attributable to:				
Non-controlling interest - Class A partnership units	\$ (3,849)	\$ (6,368)	\$ (90,194)	\$ (31,429)
Non-controlling interest - redeemable Class A partnership units	(1,681)	(2,686)	(6,696)	(7,992)
Other net earnings attributable to non-controlling interests	299	460	1,425	1,805
Net effect of non-controlling interests	\$ (5,231)	\$ (8,594)	\$ (95,465)	\$ (37,616)

The reduced U.S. federal corporate tax rate of 21% and other certain measures included in the Tax Act effective January 1, 2018 were reflected in the calculation of hypothetical liquidation at book value ("HLBV") in 2018. The changes accelerated HLBV income from future years to the first quarter of 2018 in the amount of \$55,900.

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*(in thousands of US dollars, except as noted and per share amounts)***15. Income taxes**

For the nine months ended September 30, 2018, the Company's overall effective tax rate was different from the statutory rate of 26.5% (2017 - 26.5%) due primarily to the immediate fair value loss on its investment in Atlantica, which was not tax benefited (note 6(a)), and the tax impact of the accelerated HLBV income as a result of tax reform (note 14).

As a result of the Tax Act being enacted during 2017, the Company was required to revalue its United States deferred income tax assets and liabilities based on the rates they are expected to reverse at in the future, which is generally 21% for U.S. federal tax purposes. The Company was able to make reasonable estimates of the impact of the Act and recorded provisional amounts for the re-measurement of deferred taxes in the Company's December 31, 2017 financial statements.

The Company has not yet finalized its assessment of the provisional amounts determined at December 31, 2017 and there were no significant adjustments recorded during the nine months ended September 30, 2018. The Company expects to complete its assessment and record any final adjustments to the provisional amounts during the measurement period in 2018 as permitted by SEC Staff Accounting Bulletin 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*.

On June 1, 2018, the state of Missouri enacted legislation that, effective for tax years beginning on or after January 1, 2020, reduces the corporate income tax rate from 6.25% to 4%, among other legislative changes. The Company reduced its regulated net deferred income tax liabilities by \$17,350 and recorded an equivalent increase to net regulatory liabilities since the benefit of lower Missouri state income taxes is probable of being returned to customers by order of the applicable regulator. The impact to income tax expense for the Missouri tax rate change is not significant.

16. Basic and diluted net earnings per share

Basic and diluted net earnings per share have been calculated on the basis of net earnings attributable to the common shareholders of the Company and the weighted average number of common shares and RSUs outstanding. Diluted net earnings per share is computed using the weighted-average number of common shares, subscription receipts outstanding, additional shares issued subsequent to quarter-end under the dividend reinvestment plan, PSUs, and DSUs outstanding during the period and, if dilutive, potential incremental common shares resulting from the application of the treasury stock method to outstanding share options. The convertible debentures are convertible into common shares at any time after the Final Instalment Date, but prior to maturity or redemption by the Company. The Final Instalment Date occurred on February 2, 2017, and as such, the shares issuable upon conversion of the convertible debentures are included in diluted net earnings per share beginning on that date.

The reconciliation of the net earnings and the weighted average shares used in the computation of basic and diluted net earnings per share for the three and nine months ended September 30 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net earnings attributable to shareholders of APUC	\$ 57,930	\$ 47,694	\$ 140,990	\$ 102,308
Series A Preferred shares dividend	1,033	1,078	3,146	3,102
Series D Preferred shares dividend	956	998	2,913	2,873
Net earnings attributable to common shareholders of APUC from continuing operations – Basic and Diluted	\$ 55,941	\$ 45,618	\$ 134,931	\$ 96,333
Weighted average number of shares				
Basic	473,774,957	386,816,307	456,551,230	372,109,455
Effect of dilutive securities	4,450,388	3,438,244	4,147,770	3,696,938
Diluted	478,225,345	390,254,551	460,699,000	375,806,393

The shares potentially issuable for the three and nine months ended September 30, 2018, as a result of 3,380,184 and 3,057,918 share options (2017 - 2,328,343 and 1,897,266) are excluded from this calculation as they are anti-dilutive.

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*(in thousands of US dollars, except as noted and per share amounts)***17. Segmented information**

The Liberty Power Group owns and operates a diversified portfolio of non-regulated renewable and thermal electric generation assets in North America and internationally; the Liberty Utilities Group owns and operates a portfolio of regulated electric, natural gas, water distribution and wastewater collection utility systems and transmission operations in the United States.

For purposes of evaluating divisional performance, the Company allocates the realized portion of any gains or losses on financial instruments to specific divisions. The change in value of investment carried at fair value and unrealized portion of any gains or losses on derivative instruments not designated in a hedging relationship are not considered in management's evaluation of divisional performance and are therefore allocated and reported in the corporate segment. The results of operations and assets for these segments are reflected in the tables below.

	Three Months Ended September 30, 2018			
	Liberty Power Group	Liberty Utilities Group	Corporate	Total
Revenue ⁽¹⁾⁽²⁾	\$ 54,976	\$ 311,479	\$ —	\$ 366,455
Fuel, power and water purchased	7,247	80,052	—	87,299
Net revenue	47,729	231,427	—	279,156
Operating expenses	20,339	98,466	—	118,805
Administrative expenses	1,253	10,239	50	11,542
Depreciation and amortization	16,545	46,702	248	63,495
Loss on foreign exchange	—	—	274	274
Operating income	9,592	76,020	(572)	85,040
Interest expense	12,975	24,336	594	37,905
Interest, dividend, equity and other loss (income)	(11,563)	(1,343)	1,478	(11,428)
Change in value of investment carried at fair value	—	—	(10,022)	(10,022)
Other	2,032	2,195	925	5,152
Earnings before income taxes	\$ 6,148	\$ 50,832	\$ 6,453	\$ 63,433
Capital expenditures	7,253	94,001	—	101,254

⁽¹⁾ Revenues include \$2,479 related to hedging gains for the three months ended September 30, 2018 that do not represent revenues recognized from contracts with customers.

⁽²⁾ Liberty Utilities Group revenues include \$3,956 related to alternative revenue programs for the three months ended September 30, 2018 that do not represent revenues recognized from contracts with customers.

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Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of US dollars, except as noted and per share amounts)***17. Segmented information (continued)**

	Three Months Ended September 30, 2017			
	Liberty Power Group	Liberty Utilities Group	Corporate	Total
Revenue	\$ 47,920	\$ 305,755	\$ —	\$ 353,675
Fuel, power and water purchased	4,293	78,511	—	82,804
Net revenue	43,627	227,244	—	270,871
Operating expenses	17,939	94,013	—	111,952
Administrative expenses	3,850	7,474	177	11,501
Depreciation and amortization	16,076	40,575	269	56,920
Loss on foreign exchange	—	—	2,041	2,041
Operating income	5,762	85,182	(2,487)	88,457
Interest expense	9,651	26,192	586	36,429
Interest, dividend, equity and other income	(563)	(950)	(452)	(1,965)
Other	\$ (12)	\$ 2,327	\$ 854	\$ 3,169
Earnings (loss) before income taxes	(3,314)	57,613	(3,475)	50,824
Capital expenditures	46,707	86,808	—	133,515

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September 30, 2018 and 2017

*(in thousands of US dollars, except as noted and per share amounts)***17. Segmented information (continued)****Nine Months Ended September 30, 2018**

	Liberty Power Group	Liberty Utilities Group	Corporate	Total
Revenue ⁽¹⁾⁽²⁾	\$ 181,745	\$ 1,045,786	\$ —	\$ 1,227,531
Fuel, power and water purchased	20,701	332,480	—	353,181
Net revenue	161,044	713,306	—	874,350
Operating expenses	57,734	302,455	—	360,189
Administrative expenses	8,998	28,296	395	37,689
Depreciation and amortization	59,977	136,187	761	196,925
Gain on foreign exchange	—	—	(797)	(797)
Operating income	34,335	246,368	(359)	280,344
Interest expense	35,842	74,307	1,685	111,834
Interest, dividend, equity and other loss (income)	(29,239)	(4,103)	361	(32,981)
Change in value of investment carried at fair value	—	—	91,949	91,949
Other	1,992	1,840	9,569	13,401
Earnings (loss) before income taxes	\$ 25,740	\$ 174,324	\$ (103,923)	\$ 96,141
Capital expenditures	79,790	262,734	—	342,524
	September 30, 2018			
Property, plant and equipment	\$ 2,182,479	\$ 4,138,014	\$ 32,738	\$ 6,353,231
Equity-method investees (note 6)	30,718	956	274	31,948
Total assets	3,020,795	5,941,554	110,201	9,072,550

⁽¹⁾ Revenues include \$10,787 related to hedging gains for the nine months ended September 30, 2018 that do not represent revenues recognized from contracts with customers.

⁽²⁾ Liberty Utilities Group revenues include \$9,341 related to alternative revenue programs for the nine months ended September 30, 2018 that do not represents revenues recognized from contracts with customers.

Algonquin Power & Utilities Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of US dollars, except as noted and per share amounts)***17. Segmented information (continued)**

	Nine Months Ended September 30, 2017			
	Liberty Power Group	Liberty Utilities Group	Corporate	Total
Revenue	\$ 162,874	\$ 949,599	\$ —	\$ 1,112,473
Fuel and power purchased	13,535	266,531	—	280,066
Net revenue	149,339	683,068	—	832,407
Operating expenses	49,588	290,958	—	340,546
Administrative expenses	11,864	22,564	502	34,930
Depreciation and amortization	56,172	125,172	770	182,114
Gain on foreign exchange	—	—	(934)	(934)
Operating income	31,715	244,374	(338)	275,751
Interest expense	27,495	74,156	20,819	122,470
Interest, dividend and other income	(1,998)	(2,817)	(1,691)	(6,506)
Other	1,716	2,976	46,708	51,400
Earnings (loss) before income taxes	\$ 4,502	\$ 170,059	\$ (66,174)	\$ 108,387
Capital expenditures	133,860	298,312	—	432,172
	December 31, 2017			
Property, plant and equipment	\$ 2,246,869	\$ 4,023,479	\$ 34,549	\$ 6,304,897
Equity-method investees	29,710	2,220	337	32,267
Total assets	2,474,293	5,819,440	103,675	8,397,408

APUC operates in the independent power and utility industries in both Canada and the United States. Information on operations by geographic area is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue				
Canada	\$ 15,005	\$ 15,971	\$ 51,909	\$ 52,704
United States	351,450	337,704	1,175,622	1,059,769
	\$ 366,455	\$ 353,675	\$ 1,227,531	\$ 1,112,473

Algonquin Power & Utilities Corp.

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*(in thousands of US dollars, except as noted and per share amounts)***18. Commitments and contingencies**

(a) Contingencies

APUC and its subsidiaries are involved in various claims and litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider APUC's exposure to such litigation to be material to these financial statements. Accruals for any contingencies related to these items are recorded in the consolidated financial statements at the time it is concluded that its occurrence is probable and the related liability is estimable.

Claim by Gaia Power Inc.

On October 30, 2018, Gaia Power Inc. ("Gaia") commenced an action in the Ontario Superior Court of Justice against APUC and certain of its subsidiaries, claiming damages of not less than \$345,000 and punitive damages in the sum of \$25,000. The action arises from Gaia's 2010 sale, to a subsidiary of APUC, of Gaia's interest in certain proposed wind farm projects in Canada. Pursuant to a 2010 royalty agreement, Gaia is entitled to royalty payments if the projects are developed and achieve certain agreed targets. APUC believes that the claims are without merit, and intends to vigorously defend the action.

Condemnation *Expropriation Proceedings*

Liberty Utilities (Apple Valley Ranchos Water) Corp. is the subject of a condemnation lawsuit filed by the town of Apple Valley. A Court will determine the necessity of the taking by Apple Valley and, if established, a jury will determine the fair market value of the assets being condemned. Resolution of the condemnation proceedings is expected to take two to three years. Any taking by government entities would legally require fair compensation to be paid; however, there is no assurance that the value received as a result of the condemnation will be sufficient to recover the Company's net book value of the utility assets taken.

(b) Commitments

In addition to the commitments related to the proposed acquisitions and development projects disclosed in notes 3 and 6, the following significant commitments exist as of September 30, 2018.

APUC has outstanding purchase commitments for power purchases, gas delivery, service and supply, service agreements, capital project commitments and operating leases.

Detailed below are estimates of future commitments under these arrangements:

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
Power purchase (i)	\$ 45,164	\$ 10,842	\$ 11,059	\$ 11,281	\$ 11,509	\$ 194,138	\$ 283,993
Gas supply and service agreements (ii)	69,848	46,085	26,091	20,057	15,260	36,036	213,377
Service agreements	38,376	40,488	38,587	35,493	37,168	317,386	507,498
Capital projects	49,351	1,760	442	7,725	—	—	59,278
Operating leases	7,901	7,241	7,122	7,099	6,816	181,084	217,263
Total	\$210,640	\$106,416	\$ 83,301	\$ 81,655	\$ 70,753	\$ 728,644	\$ 1,281,409

(i) Power purchase: APUC's electric distribution facilities have commitments to purchase physical quantities of power for load serving requirements. The commitment amounts included in the table above are based on market prices as of September 30, 2018. However, the effects of purchased power unit cost adjustments are mitigated through a purchased power rate-adjustment mechanism.

(ii) Gas supply and service agreements: APUC's gas distribution facilities and thermal generation facilities have commitments to purchase physical quantities of natural gas under contracts for purposes of load serving requirements and of generating power.

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*(in thousands of US dollars, except as noted and per share amounts)***19. Non-cash operating items**

The changes in non-cash operating items consist of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Accounts receivable	\$ (12,296)	\$ (47,732)	\$ 17,488	\$ (6,937)
Fuel and natural gas in storage	(9,348)	(7,009)	(13)	(5,651)
Supplies and consumable inventory	(1,993)	(5,322)	(7,337)	(6,384)
Income taxes recoverable	(3,064)	170	(5,138)	(1,740)
Prepaid expenses	(1,609)	7,161	2,425	1,096
Accounts payable	7,642	40,257	(42,870)	(20,141)
Accrued liabilities	32,888	23,124	3,538	(7,890)
Current income tax liability	3,779	(6,331)	6,568	(5,817)
Net regulatory assets and liabilities	(11,346)	(9,425)	(10,033)	(25,206)
	\$ 4,653	\$ (5,107)	\$ (35,372)	\$ (78,670)

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*(in thousands of US dollars, except as noted and per share amounts)***20. Financial instruments**

(a) Fair value of financial instruments

September 30, 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
Notes receivable	\$ 129,294	\$ 140,300	\$ —	\$ 140,300	\$ —
Investment in Atlantica	515,618	515,618	515,618	—	—
Derivative instruments ⁽¹⁾ :					
Energy contracts designated as a cash flow hedge	64,968	64,968	—	—	64,968
Commodity contracts for regulated operations	110	110	—	110	—
Total derivative instruments	65,078	65,078	—	110	64,968
Total financial assets	\$ 709,990	\$ 720,996	\$ 515,618	\$ 140,410	\$ 64,968
Long-term debt	\$ 3,560,786	\$3,562,597	\$ 510,066	\$3,052,531	\$ —
Convertible debentures	514	679	679	—	—
Preferred shares, Series C	14,182	14,489	—	14,489	—
Derivative instruments:					
Energy contracts designated as a cash flow hedge	23	23	—	—	23
Cross-currency swap designated as a net investment hedge	63,803	63,803	—	63,803	—
Interest rate swap designated as a hedge	5,286	5,286	—	5,286	—
Currency forward contract not designated as a hedge	136	136	—	136	—
Commodity contracts for regulated operations	1,712	1,712	—	1,712	—
Total derivative instruments	70,960	70,960	—	70,937	23
Total financial liabilities	\$ 3,646,442	\$3,648,725	\$ 510,745	\$3,137,957	\$ 23

⁽¹⁾ Balance of \$77 associated with certain weather derivatives has been excluded, as they are accounted for based on intrinsic value rather than fair value.

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*(in thousands of US dollars, except as noted and per share amounts)***20. Financial instruments (continued)**

(a) Fair value of financial instruments (continued)

December 31, 2017	Carrying amount	Fair value	Level 1	Level 2	Level 3
Notes receivable	\$ 33,378	\$ 38,192	\$ —	\$ 38,192	\$ —
Derivative instruments ⁽¹⁾ :					
Energy contracts designated as a cash flow hedge	63,363	63,363	—	—	63,363
Energy contracts not designated as a cash flow hedge	109	109	—	109	—
Commodity contracts for regulatory operations	74	74	—	74	—
Total derivative instruments	63,546	63,546	—	183	63,363
Total financial assets	\$ 96,924	\$ 101,738	\$ —	\$ 38,375	\$ 63,363
Long-term debt	\$3,079,551	\$3,262,711	\$ 651,969	\$2,610,742	\$ —
Convertible debentures	971	1,018	1,018	—	—
Preferred shares, Series C	14,718	15,124	—	15,124	—
Derivative instruments:					
Energy contracts designated as a cash flow hedge	77	77	—	—	77
Energy contracts not designated as a cash flow hedge	31	31	—	31	—
Cross-currency swap designated as a net investment hedge	57,412	57,412	—	57,412	—
Interest rate swaps designated as a hedge	8,460	8,460	—	8,460	—
Currency forward contract not designated as a hedge	344	344	—	344	—
Commodity contracts for regulated operations	2,620	2,620	—	2,620	—
Total derivative instruments	68,944	68,944	—	68,867	77
Total financial liabilities	\$3,164,184	\$3,347,797	\$ 652,987	\$2,694,733	\$ 77

⁽¹⁾ Balance of \$441 associated with certain weather derivatives has been excluded, as they are accounted for based on intrinsic value rather than fair value.

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(in thousands of US dollars, except as noted and per share amounts)

20. Financial instruments (continued)

(a) Fair value of financial instruments (continued)

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value as of September 30, 2018 and 2017 due to the short-term maturity of these instruments.

Notes receivable fair values (Level 2) have been determined using a discounted cash flow method, using estimated current market rates for similar instruments adjusted for estimated credit risk as determined by management.

The fair value of the investment in Atlantica (Level 1) is measured at the closing price on the NASDAQ stock exchange.

The Company's Level 1 fair value of long-term debt is measured at the Canadian over-the-counter closing price. The Company's Level 2 fair value of long-term debt at fixed interest rates and Series C preferred shares has been determined using a discounted cash flow method and current interest rates.

The Company's Level 2 fair value derivative instruments primarily consist of swaps, options, rights and forward physical deals where market data for pricing inputs are observable. Level 2 pricing inputs are obtained from various market indices and utilize discounting based on quoted interest rate curves which are observable in the marketplace.

The Company's Level 3 instruments consist of energy contracts for electricity sales. The significant unobservable inputs used in the fair value measurement of energy contracts are the internally developed forward market prices ranging from \$14.57 to \$159.49 with a weighted average of \$24.36 as of September 30, 2018. The processes and methods of measurement are developed using the market knowledge of the trading operations within the Company and are derived from observable energy curves adjusted to reflect the illiquid market of the hedges and, in some cases, the variability in deliverable energy. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement. The change in the fair value of the energy contracts is detailed in notes 20(b)(ii) and 20(b)(iv).

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There was no transfer into or out of Level 1, Level 2 or Level 3 during the three or nine months ended September 30, 2018 and 2017.

(b) Derivative instruments

Derivative instruments are recognized on the unaudited interim consolidated balance sheets as either assets or liabilities and measured at fair value at each reporting period.

(i) Commodity derivatives – regulated accounting

The Company uses derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases associated with its regulated gas and electric service territories. The Company's strategy is to minimize fluctuations in gas sale prices to regulated customers.

The following are commodity volumes, in dekatherms ("dths") associated with the above derivative contracts:

	2018
Financial contracts: Swaps	3,432,276
Forward contracts	7,460,000

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*(in thousands of US dollars, except as noted and per share amounts)***20. Financial instruments (continued)**

(b) Derivative instruments (continued)

(i) Commodity derivatives – regulated accounting (continued)

The accounting for these derivative instruments is subject to guidance for rate-regulated enterprises. Therefore, the fair value of these derivatives is recorded as current or long-term assets and liabilities, with offsetting positions recorded as regulatory assets and regulatory liabilities in the unaudited interim consolidated balance sheets. The gains or losses on settlement of these contracts are included in the calculation of deferred gas costs (note 5). As a result, the changes in fair value of these natural gas derivative contracts and their offsetting adjustment to regulatory assets and liabilities had no earnings impact.

The following table presents the impact of the change in the fair value of the Company's natural gas derivative contracts had on the unaudited interim consolidated balance sheets:

	September 30, 2018	December 31, 2017
Regulatory assets:		
Swap contracts	\$ 50	\$ —
Forward contracts	\$ 72	\$ 6,319
Regulatory liabilities:		
Swap contracts	\$ 167	\$ 287
Option contracts	\$ —	\$ 138

(ii) Cash flow hedges

The Company reduces the price risk on the expected future sale of power generation at Sandy Ridge, Senate and Minonk Wind Facilities by entering into the following long-term energy derivative contracts.

Notional quantity (MW-hrs)	Expiry	Receive average prices (per MW-hr)	Pay floating price (per MW-hr)
605,893	December 2023	\$ 40.07	PJM Western HUB
2,584,205	December 2023	\$ 29.12	NI HUB
3,097,407	December 2027	\$ 36.46	ERCORT North HUB

The Company was party to a 10-year forward-starting interest rate swap beginning on July 25, 2018 in order to reduce the interest rate risk related to the probable issuance on that date of a 10-year C\$135,000 bond. During the quarter, the Company amended and extended the forward-starting date of the interest rate swap to begin on March 29, 2019. As a result of the amendment, \$898 of hedge ineffectiveness was recognized in earnings upon hedge dedesignation. The change in fair value since the hedge redesignation date resulted in a gain of \$1,394 which is recorded in OCI.

In 2017, the Company settled forward contracts to purchase \$250,000 10-year U.S. Treasury bills at an interest rate of 1.8395% and \$250,000 30-year U.S. Treasury bills at an interest rate of 2.5539% designated as hedge to the interest rate risk related to \$479,000 of senior unsecured notes. The effective portion of the hedge was recorded in OCI at the time and is reclassified to interest expense as the underlying hedged transactions are incurred.

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*(in thousands of US dollars, except as noted and per share amounts)***20. Financial instruments (continued)**

(b) Derivative instruments (continued)

(ii) Cash flow hedges (continued)

The following table summarizes OCI attributable to derivative financial instruments designated as a cash flow hedge:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Effective portion of cash flow hedge	\$ 2,198	\$ 5,810	\$ 5,962	\$ 10,616
Amortization of cash flow hedge	(9)	—	(25)	(14)
Amount reclassified from AOCI	(178)	(324)	(3,123)	(3,865)
OCI attributable to shareholders of APUC	\$ 2,011	\$ 5,486	\$ 2,814	\$ 6,737

The Company expects \$8,295 and \$2,107 of unrealized gains currently in AOCI to be reclassified, net of taxes, into non-regulated energy sales and interest expense, respectively, within the next twelve months, as the underlying hedged transactions settle.

(iii) Foreign exchange hedge of net investment in foreign operation

The Company is exposed to currency fluctuations from its Canadian based operations. APUC manages this risk primarily through the use of natural hedges by using Canadian long-term debt to finance its Canadian operations and a combination of foreign exchange forward contracts and spot purchases. APUC only enters into foreign exchange forward contracts with major North American financial institutions having a credit rating of A or better, thus reducing credit risk on these forward contracts.

The Company's Canadian operations are determined to have the Canadian dollar as their functional currency and are exposed to currency fluctuations from their U.S. dollar transactions. The Company designates the amounts drawn on its revolving and bank credit facilities denominated in U.S. dollars as a hedge of the foreign currency exposure of its net investment in its U.S. investments and subsidiaries. The related foreign currency transaction gain or loss designated as, and effective as, a hedge of the net investment in a foreign operation is reported in the same manner as the translation adjustment (in OCI) related to the net investment. A foreign currency gain of \$316 and \$316 for the three and nine months ended September 30, 2018 (2017 - gain of \$17,308 and \$20,790) was recorded in OCI.

Concurrent with its C\$150,000, C\$200,000 and C\$300,000 debenture offerings in December 2012, January 2014, and January 2017, respectively, the Company entered into cross currency swaps, coterminous with the debentures, to effectively convert the Canadian dollar denominated offering into U.S. dollars. The Company designated the entire notional amount of the cross currency fixed-for-fixed interest rate swap and related short-term U.S. dollar payables created by the monthly accruals of the swap settlement as a hedge of the foreign currency exposure of its net investment in the Liberty Power Group's U.S. operations. The gain or loss related to the fair value changes of the swap and the related foreign currency gains and losses on the U.S. dollar accruals that are designated as, and are effective as, a hedge of the net investment in a foreign operation are reported in the same manner as the translation adjustment (in OCI) related to the net investment. For the three and nine months ended September 30, 2018, a gain of \$9,862 and loss of \$8,079 (2017 - gain of \$19,780 and \$19,540) was recorded in OCI.

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Notes to the Unaudited Interim Consolidated Financial Statements

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(in thousands of US dollars, except as noted and per share amounts)

20. Financial instruments (continued)

(b) Derivative instruments (continued)

(iv) Other derivatives

The Company provides energy requirements to various customers under contracts at fixed rates. While the production from the Tinker Hydroelectric Facility is expected to provide a portion of the energy required to service these customers, APUC anticipates having to purchase a portion of its energy requirements at the ISO NE spot rates to supplement self-generated energy.

This risk is mitigated though the use of short-term financial forward energy purchase contracts that are classified as derivative instruments. The electricity derivative contracts are net settled fixed-for-floating swaps whereby APUC pays a fixed price and receives the floating or indexed price on a notional quantity of energy over the remainder of the contract term at an average rate, as per the following table. These contracts are not accounted for as hedges and changes in fair value are recorded in earnings as they occur.

The Company is exposed to interest rate fluctuations related to certain of its floating rate debt obligation, including certain project specific debt and its revolving credit facilities, its interest rate swaps as well as interest earned on its cash on hand. The Company currently hedges some of that risk (note 20(b)(ii)).

The Company is exposed to foreign exchange fluctuations related to the portion of its dividend declared and payable in U.S. dollars. This risk is mitigated through the use of currency forward contracts. For the three and nine months ended September 30, 2018, a loss on foreign exchange of \$134 and gain of \$70 (2017 - gain of \$1,106 and \$436) was recorded in the unaudited interim consolidated statements of operations. These currency forward contracts are not accounted for as a hedge.

For derivatives that are not designated as hedges and for the ineffective portion of gains and losses on derivatives that are accounted for as hedges, the changes in the fair value are immediately recognized in earnings.

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*(in thousands of US dollars, except as noted and per share amounts)***20. Financial instruments (continued)**

(b) Derivative instruments (continued)

(iv) Other derivatives (continued)

The effects on the unaudited interim consolidated statements of operations of derivative financial instruments not designated as hedges consist of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Change in unrealized loss (gain) on derivative financial instruments:				
Energy derivative contracts	\$ (104)	\$ —	\$ 78	\$ —
Currency forward contract	850	(1,086)	(213)	(254)
Total change in unrealized loss (gain) on derivative financial instruments	\$ 746	\$ (1,086)	\$ (135)	\$ (254)
Realized loss (gain) on derivative financial instruments:				
Interest rate swaps	—	—	—	(144)
Energy derivative contracts	(37)	—	(24)	553
Currency forward contract	(717)	—	142	12,261
Total realized loss on derivative financial instruments	\$ (754)	\$ —	\$ 118	\$ 12,670
Loss (gain) on derivative financial instruments not accounted for as hedges	(8)	(1,086)	(17)	12,416
Ineffective portion of derivative financial instruments accounted for as hedges	889	(11)	866	611
	\$ 881	\$ (1,097)	\$ 849	\$ 13,027
Amounts recognized in the consolidated statements of operations consist of:				
Loss (gain) on derivative financial instruments	748	(11)	920	1,201
Loss (gain) on foreign exchange	133	(1,086)	(71)	11,826
	\$ 881	\$ (1,097)	\$ 849	\$ 13,027

(c) Risk management

In the normal course of business, the Company is exposed to financial risks that potentially impact its operating results. The Company employs risk management strategies with a view of mitigating these risks to the extent possible on a cost effective basis. Derivative financial instruments are used to manage certain exposures to fluctuations in exchange rates, interest rates and commodity prices. The Company does not enter into derivative financial agreements for speculative purposes.

21. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.