

**Unaudited Interim Consolidated Financial Statements of  
Algonquin Power & Utilities Corp.  
For the three and nine months ended September 30, 2021 and 2020**

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2021	2020	2021	2020
<i>(thousands of U.S. dollars, except per share amounts)</i>				
<b>Revenue</b>				
Regulated electricity distribution	\$ 308,116	\$ 218,667	\$ 922,100	\$ 562,961
Regulated gas distribution	62,584	55,286	353,909	317,765
Regulated water reclamation and distribution	64,008	39,354	176,600	102,076
Non-regulated energy sales	73,595	56,053	182,268	182,288
Other revenue	20,272	7,121	55,763	20,646
	<b>528,575</b>	<b>376,481</b>	<b>1,690,640</b>	<b>1,185,736</b>
<b>Expenses</b>				
Operating expenses	177,204	116,037	528,343	364,405
Regulated electricity purchased	94,435	58,106	382,726	158,154
Regulated gas purchased	14,497	13,254	113,983	96,174
Regulated water purchased	3,888	3,747	10,036	9,234
Non-regulated energy purchased	11,898	4,969	25,887	11,714
Administrative expenses	15,165	14,534	48,930	50,557
Depreciation and amortization	96,553	71,528	292,153	226,075
Loss (gain) on foreign exchange	1,267	(936)	3,412	(5,630)
	<b>414,907</b>	<b>281,239</b>	<b>1,405,470</b>	<b>910,683</b>
<b>Operating income</b>	<b>113,668</b>	<b>95,242</b>	<b>285,170</b>	<b>275,053</b>
Interest expense	(51,654)	(45,560)	(159,416)	(136,626)
Income (loss) from long-term investments (note 6)	(114,242)	(3,067)	(104,243)	168,365
Other net losses (note 16)	(889)	(16,928)	(11,086)	(44,758)
Pension and other post-employment non-service costs (note 8)	(3,875)	(2,369)	(11,420)	(9,342)
Gain (loss) on derivative financial instruments (note 21(b)(iv))	(1,817)	301	(2,082)	1,747
<b>Earnings (loss) before income taxes</b>	<b>(58,809)</b>	<b>27,619</b>	<b>(3,077)</b>	<b>254,439</b>
<b>Income tax recovery (expense) (note 15)</b>				
Current	(3,755)	524	(10,994)	(5,585)
Deferred	23,143	19,179	56,215	(7,927)
	<b>19,388</b>	<b>19,703</b>	<b>45,221</b>	<b>(13,512)</b>
<b>Net earnings (loss)</b>	<b>(39,421)</b>	<b>47,322</b>	<b>42,144</b>	<b>240,927</b>
Net effect of non-controlling interests (note 14)				
Non-controlling interests	14,087	11,294	54,989	47,270
Non-controlling interests held by related party	(2,588)	(2,765)	(7,886)	(9,924)
	\$ 11,499	\$ 8,529	\$ 47,103	\$ 37,346
<b>Net earnings (loss) attributable to shareholders of Algonquin Power &amp; Utilities Corp.</b>	\$ (27,922)	\$ 55,851	\$ 89,247	\$ 278,273
Series A and D Preferred shares dividend (note 12)	2,267	2,102	6,757	6,259
<b>Net earnings (loss) attributable to common shareholders of Algonquin Power &amp; Utilities Corp.</b>	\$ (30,189)	\$ 53,749	\$ 82,490	\$ 272,014
Basic net earnings (loss) per share (note 17)	\$ (0.05)	\$ 0.09	\$ 0.13	\$ 0.50
Diluted net earnings (loss) per share (note 17)	\$ (0.05)	\$ 0.09	\$ 0.13	\$ 0.49

See accompanying notes to unaudited interim consolidated financial statements

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

<i>(thousands of U.S. dollars)</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2021	2020	2021	2020
Net earnings (loss)	\$ (39,421)	\$ 47,322	\$ 42,144	\$ 240,927
Other comprehensive income (loss) (“OCI”):				
Foreign currency translation adjustment, net of tax expense of \$291 and tax recovery of \$1,068 (2020 - tax recovery of \$954 and tax expense of \$1,828), respectively (notes 21(b)(iii) and 21(b)(iv))	(28,904)	10,812	(32,172)	(17,245)
Change in fair value of cash flow hedges, net of tax recovery of \$12,062 and \$22,346 (2020 - tax recovery of \$1,821 and \$9,210, respectively (note 21(b)(ii)))	(31,599)	(4,761)	(55,746)	(25,062)
Change in pension and other post-employment benefits, net of tax expense of \$97 and \$432 (2020 - tax expense of \$81 and \$72), respectively (note 8)	321	196	2,486	175
OCI, net of tax	(60,182)	6,247	(85,432)	(42,132)
Comprehensive income (loss)	(99,603)	53,569	(43,288)	198,795
Comprehensive loss attributable to the non-controlling interests	(12,801)	(7,055)	(46,476)	(39,986)
Comprehensive income (loss) attributable to shareholders of Algonquin Power & Utilities Corp.	\$ (86,802)	\$ 60,624	\$ 3,188	\$ 238,781

See accompanying notes to unaudited interim consolidated financial statements

**Algonquin Power & Utilities Corp.**  
**Unaudited Interim Consolidated Balance Sheets**

(thousands of U.S. dollars)

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 190,835	\$ 101,614
Accounts receivable, net (note 4)	325,582	325,887
Fuel and natural gas in storage	67,796	30,567
Supplies and consumables inventory	100,035	104,078
Regulatory assets (note 5)	140,661	63,042
Prepaid expenses	69,047	49,640
Derivative instruments (note 21)	9,017	13,106
Other assets	14,835	7,266
	<b>917,808</b>	695,200
Property, plant and equipment, net	<b>11,098,380</b>	8,241,838
Intangible assets, net	<b>107,408</b>	114,913
Goodwill	<b>1,204,728</b>	1,208,390
Regulatory assets (note 5)	<b>1,024,687</b>	782,429
Long-term investments (note 6)		
Investments carried at fair value	<b>1,787,295</b>	1,839,212
Other long-term investments	<b>419,859</b>	214,583
Derivative instruments (note 21)	<b>16,958</b>	39,001
Deferred income taxes	<b>34,179</b>	21,880
Other assets	<b>87,650</b>	66,703
	<b>\$ 16,698,952</b>	\$ 13,224,149

See accompanying notes to unaudited interim consolidated financial statements

**Algonquin Power & Utilities Corp.**  
**Unaudited Interim Consolidated Balance Sheets (continued)**

(thousands of U.S. dollars)

	September 30, 2021	December 31, 2020
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 144,926	\$ 192,160
Accrued liabilities	445,938	369,530
Dividends payable (note 12)	106,731	92,720
Regulatory liabilities (note 5)	44,349	38,483
Long-term debt (note 7)	516,712	139,874
Other long-term liabilities (note 9)	160,515	72,748
Derivative instruments (note 21)	51,838	41,980
Other liabilities	11,740	7,901
	<b>1,482,749</b>	955,396
Long-term debt (note 7)	<b>6,353,335</b>	4,398,596
Regulatory liabilities (note 5)	<b>538,851</b>	563,035
Deferred income taxes	<b>519,667</b>	568,644
Derivative instruments (note 21)	<b>73,298</b>	68,430
Pension and other post-employment benefits obligation	<b>319,076</b>	341,502
Other long-term liabilities (note 9)	<b>526,008</b>	339,181
	<b>9,812,984</b>	7,234,784
Redeemable non-controlling interests		
Redeemable non-controlling interest, held by related party (note 13(b))	<b>306,492</b>	306,316
Redeemable non-controlling interests	<b>14,971</b>	20,859
	<b>321,463</b>	327,175
Equity:		
Preferred shares	<b>184,299</b>	184,299
Common shares (note 10(a))	<b>5,382,318</b>	4,935,304
Additional paid-in capital	<b>1,959</b>	60,729
Retained earnings (deficit)	<b>(343,974)</b>	45,753
Accumulated other comprehensive loss ("AOCI") (note 11)	<b>(114,937)</b>	(22,507)
Total equity attributable to shareholders of Algonquin Power & Utilities Corp.	<b>5,109,665</b>	5,203,578
Non-controlling interests		
Non-controlling interests	<b>1,407,036</b>	399,487
Non-controlling interest, held by related party (note 13(c))	<b>47,804</b>	59,125
	<b>1,454,840</b>	458,612
Total equity	<b>6,564,505</b>	5,662,190
Commitments and contingencies (note 19)		
Subsequent events (notes 3, 5, 10 and 13)		
	<b>\$ 16,698,952</b>	\$13,224,149

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 three months ended September 30, 2021

**Algonquin Power & Utilities Corp. Shareholders**

	<b>Common shares</b>	<b>Preferred shares</b>	<b>Additional paid-in capital</b>	<b>Deficit</b>	<b>AOCI</b>	<b>Non-controlling interests</b>	<b>Total</b>
Balance, June 30, 2021	\$ 5,251,808	\$ 184,299	\$ —	\$ (205,764)	\$ (56,057)	\$ 1,474,761	\$ 6,649,047
Net loss	—	—	—	(27,922)	—	(11,499)	(39,421)
Effect of redeemable non-controlling interests not included in equity (note 14)	—	—	—	—	—	(874)	(874)
OCI	—	—	—	—	(58,880)	(1,302)	(60,182)
Dividends declared and distributions to non-controlling interests	—	—	—	(86,208)	—	(6,246)	(92,454)
Dividends and issuance of shares under dividend reinvestment plan	23,288	—	—	(23,288)	—	—	—
Common shares issued upon public offering, net of tax effected cost	104,326	—	—	—	—	—	104,326
Common shares issued under employee share purchase plan	1,267	—	—	—	—	—	1,267
Share-based compensation	—	—	3,675	—	—	—	3,675
Common shares issued pursuant to share-based awards	1,629	—	(1,716)	(792)	—	—	(879)
Balance, September 30, 2021	\$ 5,382,318	\$ 184,299	\$ 1,959	\$ (343,974)	\$ (114,937)	\$ 1,454,840	\$ 6,564,505

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 three months ended September 30, 2020

<b>Algonquin Power &amp; Utilities Corp. Shareholders</b>							
	<b>Common shares</b>	<b>Preferred shares</b>	<b>Additional paid-in capital</b>	<b>Deficit</b>	<b>AOCI</b>	<b>Non-controlling interests</b>	<b>Total</b>
Balance, June 30, 2020	\$ 4,181,365	\$ 184,299	\$ 51,834	\$ (323,404)	\$ (54,026)	\$ 483,261	\$ 4,523,329
Net earnings (loss)	—	—	—	55,851	—	(8,529)	47,322
Redeemable non-controlling interests not included in equity (note 14)	—	—	—	—	—	(1,049)	(1,049)
OCI	—	—	—	—	4,773	1,474	6,247
Dividends declared and distributions to non-controlling interests	—	—	—	(74,885)	—	(4,667)	(79,552)
Dividends and issuance of shares under dividend reinvestment plan	20,047	—	—	(20,047)	—	—	—
Common shares issued upon public offering, net of tax effected cost	705,437	—	—	—	—	—	705,437
Issuance of common shares under employee share purchase plan	1,048	—	—	—	—	—	1,048
Common shares issued upon conversion of convertible debentures	36	—	—	—	—	—	36
Common shares issued pursuant to share-based awards	—	—	—	(55)	—	—	(55)
Share-based compensation	—	—	6,792	—	—	—	6,792
Acquisition of redeemable non-controlling interest	—	—	(1,070)	—	—	—	(1,070)
Balance, September 30, 2020	\$ 4,907,933	\$ 184,299	\$ 57,556	\$ (362,540)	\$ (49,253)	\$ 470,490	\$ 5,208,485

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, 2021

**Algonquin Power & Utilities Corp. Shareholders**

	<b>Common shares</b>	<b>Preferred shares</b>	<b>Additional paid-in capital</b>	<b>Retained earnings (deficit)</b>	<b>AOCI</b>	<b>Non-controlling interests</b>	<b>Total</b>
Balance, December 31, 2020	\$ 4,935,304	\$ 184,299	\$ 60,729	\$ 45,753	\$ (22,507)	\$ 458,612	\$ 5,662,190
Net earnings (loss)	—	—	—	89,247	—	(47,103)	42,144
Effect of redeemable non-controlling interests not included in equity (note 14)	—	—	—	—	—	(2,747)	(2,747)
OCI	—	—	—	—	(86,059)	627	(85,432)
Dividends declared and distributions to non-controlling interests	—	—	—	(244,812)	—	(19,613)	(264,425)
Dividends and issuance of shares under dividend reinvestment plan	69,496	—	—	(69,496)	—	—	—
Contributions received from non-controlling interests (note 3), net of cost	—	—	6,919	—	(6,371)	1,035,923	1,036,471
Common shares issued upon conversion of convertible debentures	16	—	—	—	—	—	16
Common shares issued upon public offering, net of tax effected cost	365,554	—	—	—	—	—	365,554
Contract adjustment payments (note 7(a))	—	—	(62,240)	(160,138)	—	—	(222,378)
Common shares issued under employee share purchase plan	3,839	—	—	—	—	—	3,839
Share-based compensation	—	—	8,749	—	—	—	8,749
Common shares issued pursuant to share-based awards	8,109	—	(12,198)	(4,528)	—	—	(8,617)
Non-controlling interest assumed on asset acquisition (note 3(b))	—	—	—	—	—	29,141	29,141
Balance, September 30, 2021	\$ 5,382,318	\$ 184,299	\$ 1,959	\$ (343,974)	\$ (114,937)	\$ 1,454,840	\$ 6,564,505

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, 2020

Algonquin Power & Utilities Corp. Shareholders							
	Common shares	Preferred shares	Additional paid-in capital	Deficit	AOCI	Non-controlling interests	Total
Balance, December 31, 2019	\$ 4,017,044	\$ 184,299	\$ 50,579	\$ (367,107)	\$ (9,761)	\$ 531,541	\$ 4,406,595
Net earnings (loss)	—	—	—	278,273	—	(37,346)	240,927
Redeemable non-controlling interests not included in equity (note 14)	—	—	—	—	—	(4,733)	(4,733)
OCI	—	—	—	—	(39,492)	(2,640)	(42,132)
Dividends declared and distributions to non-controlling interests	—	—	—	(211,696)	—	(19,703)	(231,399)
Dividends and issuance of shares under dividend reinvestment plan	45,869	—	—	(45,869)	—	—	—
Contributions received from non-controlling interests, net of cost	—	—	—	—	—	3,371	3,371
Common shares issued upon conversion of convertible debentures	48	—	—	—	—	—	48
Common shares issued upon public offering, net of tax effected cost	823,737	—	—	—	—	—	823,737
Issuance of common shares under employee share purchase plan	3,006	—	—	—	—	—	3,006
Share-based compensation	—	—	19,301	—	—	—	19,301
Common shares issued pursuant to share-based awards	18,229	—	(11,254)	(16,141)	—	—	(9,166)
Acquisition of redeemable non-controlling interest	—	—	(1,070)	—	—	—	(1,070)
Balance, September 30, 2020	\$ 4,907,933	\$ 184,299	\$ 57,556	\$ (362,540)	\$ (49,253)	\$ 470,490	\$ 5,208,485

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 months ended September 30	
	2021	2020	2021	2020
<b>Cash provided by (used in):</b>				
<b>Operating Activities</b>				
Net earnings (loss)	\$ (39,421)	\$ 47,322	\$ 42,144	\$ 240,927
Adjustments and items not affecting cash:				
Depreciation and amortization	96,553	71,528	292,153	226,075
Deferred taxes	(23,143)	(19,179)	(56,215)	7,927
Unrealized gain on derivative financial instruments	(11,884)	(2,015)	(11,686)	(4,194)
Share-based compensation expense	3,414	6,588	7,800	18,228
Cost of equity funds used for construction purposes	(275)	134	(406)	(1,903)
Change in value of investments carried at fair value	139,050	23,394	183,452	(95,690)
Pension and post-employment expense in excess of (lower than) contributions	(1,477)	(214)	(7,525)	2,570
Distributions received from equity investments, net of income	6,676	1,494	13,587	3,566
Others	(1,000)	16,075	5,300	14,051
Net change in non-cash operating items (note 20)	6,221	(23,695)	(437,648)	(80,324)
	174,714	121,432	30,956	331,233
<b>Financing Activities</b>				
Increase in long-term debt	1,824,449	1,450,979	9,175,714	2,787,634
Repayments of long-term debt	(1,535,152)	(1,639,150)	(8,392,109)	(2,712,318)
Issuance of common shares, net of costs	105,229	699,888	367,991	820,145
Cash dividends on common shares	(82,151)	(63,847)	(222,928)	(186,415)
Dividends on preferred shares	(2,267)	(2,102)	(6,757)	(6,259)
Contributions from non-controlling interests and redeemable non-controlling interests (note 3(b), (d) and (e))	—	—	1,032,204	2,649
Production-based cash contributions from non-controlling interest	—	—	4,832	3,371
Distributions to non-controlling interests, related party (note 13(b) and (c))	(5,233)	(4,710)	(19,191)	(20,622)
Distributions to non-controlling interests	(3,449)	(2,462)	(7,447)	(9,687)
Payments upon settlement of derivatives	—	—	(33,782)	—
Shares surrendered to fund withholding taxes on exercised share options	(1,120)	—	(2,984)	(4,644)
Repurchase of non-controlling interest	—	(1,935)	—	(1,935)
Increase in other long-term liabilities	4,986	3,581	61,202	10,782
Decrease in other long-term liabilities	(21,742)	(1,266)	(25,046)	(6,292)
	283,550	438,976	1,931,699	676,409
<b>Investing Activities</b>				
Additions to property, plant and equipment and intangible assets	(348,050)	(182,662)	(1,051,182)	(524,971)
Increase in long-term investments	(118,764)	(118,031)	(787,149)	(223,198)
Acquisitions of operating entities	—	354	—	(2,697)
Increase in other assets	(9,728)	(7,651)	(37,580)	(15,415)
Receipt of principal on development loans receivable	834	2,789	834	13,743
Proceeds from sale of long-lived assets	1,616	—	5,960	415
	(474,092)	(305,201)	(1,869,117)	(752,123)
Effect of exchange rate differences on cash and restricted cash	(1,276)	3,923	(749)	2,173
Increase (decrease) in cash, cash equivalents and restricted cash	(17,104)	259,130	92,789	257,692
Cash, cash equivalents and restricted cash, beginning of period	239,911	85,834	130,018	87,272
Cash, cash equivalents and restricted cash, end of period	\$ 222,807	\$ 344,964	\$ 222,807	\$ 344,964

**Algonquin Power & Utilities Corp.**  
**Unaudited Interim Consolidated Statements of Cash Flows (continued)**

(thousands of U.S. dollars)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid during the period for interest expense	\$ 50,349	\$ 43,666	\$ 162,674	\$ 143,254
Cash paid during the period for income taxes	\$ 1,687	\$ 2,367	\$ 3,362	\$ 4,291
Cash received during the period for distributions from equity investments	\$ 28,139	\$ 22,200	\$ 90,779	\$ 72,541
<b>Non-cash financing and investing activities:</b>				
Property, plant and equipment acquisitions in accruals	\$ 120,640	\$ 73,117	\$ 120,640	\$ 73,117
Issuance of common shares under dividend reinvestment plan and share-based compensation plans	\$ 26,184	\$ 21,093	\$ 81,444	\$ 67,104
Property, plant and equipment, intangible assets and accrued liabilities in exchange of note receivable	\$ 3,089	\$ —	\$ 90,821	\$ —

See accompanying notes to unaudited interim consolidated financial statements

## Algonquin Power & Utilities Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2021 and 2020

(in thousands of U.S. dollars, except as noted and per share amounts)

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Algonquin Power & Utilities Corp. ("AQN" or the "Company") is an incorporated entity under the *Canada Business Corporations Act*. AQN's operations are organized across two primary business units consisting of the Regulated Services Group and the Renewable Energy Group. The Regulated Services 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, Bermuda, Chile and Canada; the Renewable Energy Group owns and operates a diversified portfolio of non-regulated renewable and thermal electric generation 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 follow disclosure required under Regulation S-X provided by the U.S. Securities and Exchange Commission. 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 AQN are consistent with those disclosed in the consolidated financial statements of AQN as at and for the year ended December 31, 2020.

#### (b) Seasonality

AQN'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 applicable regulatory authority and is not affected by usage. AQN'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. AQN'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. AQN'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 AQN's wind energy assets, wind resources are typically stronger in spring, fall and winter, and weaker in summer. AQN's solar energy assets experience greater insolation in summer, weaker in winter.

#### (c) Foreign currency translation

AQN's reporting currency is the U.S. dollar. Within these unaudited interim consolidated financial statements, the Company denotes any amounts denominated in Canadian dollars with "C\$", in Chilean pesos with "CLP", in Chilean Unidad de Fomento with "CLF", and in Bermudian dollars with "BMD" immediately prior to the stated amount.

### 2. Recently issued accounting pronouncements

#### (a) Recently adopted accounting pronouncements

The Financial Accounting Standards Board ("FASB") issued ASU 2020-01, *Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815* to address the diversity in practice associated with accounting for certain equity securities upon the application or discontinuation of the equity method of accounting and certain scope considerations for forward contracts and purchased options. The adoption of this update did not have an impact on the unaudited interim consolidated financial statements.

The FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* to reduce complexity in the accounting standards generally. The update removed certain exceptions to the general principles of Topic 740, *Income Taxes* and made certain amendments to improve consistent application of other areas of Topic 740. The adoption of this update did not have an impact on the unaudited interim consolidated financial statements.

**2. Recently issued accounting pronouncements (continued)**

(b) Recently issued accounting guidance not yet adopted

The FASB issued ASU 2021-05, *Leases (Topic 842): Lessors — Certain Leases with Variable Lease Payments* to address concerns relating to day-one losses for sales-type or direct financing leases with variable payments that do not depend on a reference index or rate. The update amends the lease classification requirements for lessors to align them with past practice under Topic 840, *Leases*. The amendments in this update are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Company is currently assessing the impact of this update.

The FASB issued ASU 2020-06, *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* to address the complexity associated with accounting for certain financial instruments with characteristics of liabilities and equity. The number of accounting models for convertible debt instruments and convertible preferred stock is being reduced and the guidance has been amended for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. The amendments in this update are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Company is currently assessing the impact of this update.

The FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions to ease the potential burden in accounting for reference rate reform. The amendments apply to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of the reference rate reform. The amendments in this update are effective for all entities as at March 12, 2020 through December 31, 2022. The FASB issued an update to Topic 848 in ASU 2021-01 to clarify that the scope of Topic 848 includes derivatives affected by the discounting transition. The Company is currently assessing the impact of the reference rate reform and this update.

**3. Business and assets acquisitions**

(a) Agreement to Acquire Kentucky Power Company and AEP Kentucky Transmission Company

On October 26, 2021, Liberty Utilities Co., an indirect subsidiary of AQN, entered into an agreement with American Electric Power Company, Inc. ("AEP") and AEP Transmission Company, LLC to acquire Kentucky Power Company ("Kentucky Power") and AEP Kentucky Transmission Company, Inc. ("Kentucky TransCo") for a total purchase price of approximately \$2,846,000, including the assumption of approximately \$1,221,000 in debt (the "Kentucky Power Transaction").

Kentucky Power is a state rate-regulated electricity generation, distribution and transmission utility operating within the Commonwealth of Kentucky and operating under a cost of service framework. Kentucky TransCo is an electricity transmission business operating in the Kentucky portion of the transmission infrastructure that is part of the Pennsylvania – New Jersey – Maryland regional transmission organization. Kentucky Power and Kentucky TransCo are both regulated by the U.S. Federal Energy Regulatory Commission ("FERC").

Closing of the Kentucky Power Transaction is subject to receipt of certain regulatory and governmental approvals, including the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, clearance of the Kentucky Power Transaction by the Committee on Foreign Investment in the United States, the approval by each of the Kentucky Public Service Commission and FERC, and the approval of the Public Service Commission of West Virginia with respect to the termination and replacement of the existing operating agreement for the Mitchell coal generating facility (in which Kentucky Power owns a 50% interest, representing 780 MW), and the satisfaction of other customary closing conditions. If the acquisition agreement is terminated in certain circumstances, including due to a failure to receive required regulatory approvals (other than the approval of the Kentucky Public Service Commission, FERC or the Public Service Commission of West Virginia for the termination and replacement of the existing operating agreement for the Mitchell Plant), the Corporation may be required to pay a termination fee of \$65,000. The Kentucky Power Transaction is expected to close in mid-2022.

**Algonquin Power & Utilities Corp.**

Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of U.S. dollars, except as noted and per share amounts)***3. Business and assets acquisitions (continued)****(b) Acquisition of Mid-West Wind Facilities**

In 2019, The Empire District Electric Company ("Empire Electric System"), a wholly owned subsidiary of the Company, entered into purchase agreements to acquire, once completed, three wind farms generating up to 600 MW of wind energy located in Barton, Dade, Lawrence, and Jasper Counties in Missouri, and in Neosho County, Kansas (collectively, the "Mid-West Wind Facilities").

In November 2019, Liberty Utilities Co., a wholly owned subsidiary of the Company, acquired an interest in the entities that own North Fork Ridge and Kings Point, the two Missouri wind projects and, in partnership with a third-party developer, continued development and construction of such projects until acquisition by the Empire Electric System following completion. The Company accounted for its interest in these two projects using the equity method (note 6(b)).

In November 2019, a tax equity agreement was executed for Neosho Ridge, the Kansas wind project and in December 2020, tax equity agreements were executed for North Fork Ridge and Kings Point. These agreements provide that the Class A partnership units will be owned by third-party tax equity investors who will receive the majority of the tax attributes associated with the Mid-West Wind Facilities. Concurrent with the execution of the tax equity agreements in December 2020, the North Fork Ridge Wind Facility reached commercial operation and the tax equity investors provided initial funding of \$29,446. The Kings Point Wind and Neosho Ridge Wind Facilities reached commercial operation in 2021.

The Empire Electric System acquired each of the Mid-West Wind Facilities in 2021 for total consideration to third-party developers of \$98,011 and obtained control of the facilities. Subsequent to acquisition, the tax equity investors provided additional funding of \$530,880 and third-party construction loans of \$789,923 were repaid. The Company accounted for these transactions as asset acquisitions since substantially all of the fair value of gross assets acquired is concentrated in a group of similar identifiable assets.

The following table summarizes the allocation of the aggregate assets acquired and liabilities assumed at the acquisition dates.

	<b>Mid-West Wind</b>
Working capital	\$ (28,630)
Property, plant and equipment	1,137,713
Long-term debt	(789,804)
Asset retirement obligation	(27,053)
Deferred tax liability	(3,284)
Other liabilities	(104,129)
Non-controlling interest (tax equity investors)	(29,141)
Total net assets acquired	155,672
Cash and cash equivalents	15,860
<b>Net assets acquired, net of cash and cash equivalents</b>	<b>\$ 139,812</b>

**(c) Altavista Solar Facility**

Up to April 2021, the Company held a 50% interest in Altavista Solar SponsorCo, LLC, an entity that indirectly owns an 80 MW solar power facility located in Campbell County, Virginia. In April 2021, the Company acquired the remaining 50% interest in Altavista for \$6,735 and as a result, obtained control of the facility. Subsequent to acquisition, the third-party construction loan of \$122,024 was repaid. The Company accounted for the transaction as an asset acquisition since substantially all of the fair value of gross assets acquired is concentrated in a group of similar identifiable assets.

**Algonquin Power & Utilities Corp.**

Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of U.S. dollars, except as noted and per share amounts)***3. Business and assets acquisitions (continued)**

## (c) Altavista Solar Facility

The following table summarizes the allocation of the assets acquired and liabilities assumed at the acquisition date of the solar facility.

	<b>Altavista Solar</b>
Working capital	\$ 870
Property, plant and equipment	138,598
Long-term debt	(122,024)
Deferred tax liability	(676)
Asset retirement obligation	(3,332)
Total net assets acquired	13,436
Cash and cash equivalents	33
<b>Net assets acquired, net of cash and cash equivalents</b>	<b>\$ 13,403</b>

## (d) Maverick Creek Wind Facility and Sugar Creek Wind Facility

Up to January 2021, the Company held 50% equity interests in Maverick Creek Wind SponsorCo, LLC and AAGES Sugar Creek Wind, LLC (note 6). The two entities indirectly own 492 MW and 202 MW wind development projects in the state of Texas and Illinois ("Maverick Creek Wind Facility" and "Sugar Creek Wind Facility"), respectively. In January 2021, the Company acquired the remaining 50% interests in Maverick Creek Wind SponsorCo, LLC and AAGES Sugar Creek Wind, LLC for \$43,797 and obtained control of the facilities. A portion of the consideration in an amount of \$18,641 was withheld and remains payable as at September 30, 2021. The Company accounted for the transactions as asset acquisitions since substantially all of the fair value of gross assets acquired is concentrated in a group of similar identifiable assets.

The following table summarizes the allocation of the assets acquired and liabilities assumed at the acquisition date of the two wind facilities. The existing loans between the Company and the partnerships of \$87,035 were treated as additional consideration incurred to acquire the partnerships.

	<b>Maverick Creek and Sugar Creek</b>
Working capital	\$ (15,557)
Property, plant and equipment	1,062,818
Long-term debt	(855,409)
Asset retirement obligation	(23,402)
Deferred tax liability	(542)
Derivative instruments	7,575
Total net assets acquired	175,483
Cash and cash equivalents	4,241
<b>Net assets acquired, net of cash and cash equivalents</b>	<b>\$ 171,242</b>

Tax equity investors provided funding of \$73,957 and \$380,829 to the Sugar Creek Wind Facility and Maverick Creek Wind Facility, respectively, during the nine months ended September 30, 2021 and third-party construction loans of \$284,829 and \$570,579, respectively, were repaid subsequent to the acquisition of the remaining 50% interests in the facilities. Subsequent to quarter-end, in November 2021, tax equity investors provided additional funding of \$73,957 to the Sugar Creek Wind Facility.

**Algonquin Power & Utilities Corp.**

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2021 and 2020

*(in thousands of U.S. dollars, except as noted and per share amounts)*

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**3. Business and assets acquisitions (continued)**

(e) Acquisition of Empresa de Servicios Sanitarios de Los Lagos S.A.

The Company completed the acquisition of 94% of the outstanding shares of Empresa de Servicios Sanitarios de Los Lagos S.A. ("ESSAL") in October 2020 for a total purchase price of \$162,086. During the nine months ended September 30, 2021, adjustments were made to the fair value of other assets, accruals and long-term debt, resulting in a net increase of \$5,284 (CLP 4,206,510), net of tax, and increase in goodwill by the same amount. The change in foreign exchange during the nine months ended September 30, 2021 reduced goodwill by \$9,103.

In January 2021, the Company sold a 32% interest in Eco Acquisitionco SpA, the holding company through which AQN's interest in ESSAL is held, to a third party for consideration of \$51,750. This represents an interest of 30% in the aggregate interest in ESSAL, which was reflected by a corresponding increase in non-controlling interest. This transaction resulted in no gain or loss. Following this transaction, AQN owns approximately 64% of the outstanding shares of ESSAL and continues to consolidate ESSAL's operations.

**4. Accounts receivable**

Accounts receivable as at September 30, 2021 include unbilled revenue of \$65,886 (December 31, 2020 - \$91,538) from the Company's regulated utilities. Accounts receivable as at September 30, 2021 are presented net of allowance for doubtful accounts of \$16,330 (December 31, 2020 - \$19,628).

**Algonquin Power & Utilities Corp.**

Notes to the Unaudited Interim Consolidated Financial Statements

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

The operating companies within the Regulated Services Group are subject to regulation by the respective authorities of the jurisdictions 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. Except for ESSAL, these utilities operate under cost-of-service regulation as administered by these authorities. The Company's regulated utility operating companies are accounted for under the principles of ASC 980, *Regulated Operations*. 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.

<b>Utility</b>	<b>State, province or country</b>	<b>Regulatory proceeding type</b>	<b>Details</b>
BELCO	Bermuda	General rate review	On May 7, 2021, the regulator issued a final decision, approving a weighted average cost of capital ("WACC") of 7.5% and authorizing \$211,432 in revenue with \$13,426 in deferred revenue to be collected over 5 years at a minimum WACC of 7.5%. The new rates were effective June 1, 2021.
EnergyNorth Gas System	New Hampshire	General rate review	<p>On July 30, 2021, EnergyNorth Gas System received an order approving an increase of \$1,300 in distribution revenues effective August 1, 2021 in excess of the previously authorized temporary increase (total increase of \$7,600), a step increase of \$3,200 effective August 1, 2022, and a property tax reconciliation mechanism. Additional information requested by the regulator regarding a \$4,000 step adjustment for 2021 was filed on August 31, 2021 and will be the subject of an upcoming supplemental hearing.</p> <p>Recovery of Granite Bridge feasibility costs, which were included in a supplemental filing in November 2020, were separately litigated in hearings in June 2021. An order denying recovery of litigated Granite Bridge costs was received in October 2021. In that order, the New Hampshire Public Utilities Commission denied recovery of the costs related to the Granite Bridge Project based on a legal interpretation of a New Hampshire statute that prohibits recovery of construction work in progress. The Company intends to request rehearing of the matter.</p>
Various	Various	General rate review	Approval of approximately \$800 in rate increases for a natural gas and wastewater utility.

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Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2021 and 2020

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

Regulatory assets and liabilities consist of the following:

	September 30, 2021	December 31, 2020
<b>Regulatory assets</b>		
Fuel and commodity cost adjustments (a)	306,127	18,094
Retired generating plant	187,871	194,192
Pension and post-employment benefits	169,646	178,403
Rate adjustment mechanism	118,649	99,853
Environmental remediation	83,398	87,308
Income taxes	81,184	77,730
Deferred capitalized costs	51,681	34,398
Wildfire mitigation and vegetation management	34,942	22,736
Debt premium	32,701	35,688
Asset retirement obligation	26,498	26,546
Clean energy and other customer programs	26,208	26,400
Long-term maintenance contract	10,577	14,405
Rate review costs	8,192	8,054
Other	27,674	21,664
Total regulatory assets	\$ 1,165,348	\$ 845,471
Less: current regulatory assets	(140,661)	(63,042)
Non-current regulatory assets	\$ 1,024,687	\$ 782,429
<b>Regulatory liabilities</b>		
Income taxes	\$ 304,239	\$ 322,317
Cost of removal	196,564	200,739
Pension and post-employment benefits	34,903	26,311
Clean energy and other customer programs	15,129	10,440
Fuel and commodity costs adjustments	12,783	20,136
Rate adjustment mechanism	3,758	5,214
Rate base offset	5,518	6,874
Other	10,306	9,487
Total regulatory liabilities	\$ 583,200	\$ 601,518
Less: current regulatory liabilities	(44,349)	(38,483)
Non-current regulatory liabilities	\$ 538,851	\$ 563,035

## (a) Fuel and commodity cost adjustments

In February 2021, the Company's operations were impacted by extreme winter storm conditions experienced in the central U.S. ("Midwest Extreme Weather Event"). As a result of the Midwest Extreme Weather Event, the Company incurred incremental commodity costs during the period of record high pricing and elevated consumption. The Company has commodity cost mechanisms that allow for the recovery of prudently incurred expenses. The Company has made a filing with the Missouri regulator requesting approval to treat the incremental fuel costs incurred in the same manner as normal pass-through fuel costs and proposing to extend the recovery period to mitigate the impact on customer bills.

**Algonquin Power & Utilities Corp.**

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2021 and 2020

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

Long-term investments consist of the following:

	September 30, 2021	December 31, 2020
<b>Long-term investments carried at fair value</b>		
Atlantica (a)	\$ 1,689,711	\$ 1,706,900
Atlantica share subscription agreement (a)	—	20,015
Atlantica Yield Energy Solutions Canada Inc.	94,962	110,514
Other	2,622	1,783
	<b>\$ 1,787,295</b>	<b>\$ 1,839,212</b>
<b>Other long-term investments</b>		
Equity-method investees (b)	\$ 378,267	\$ 186,452
Development loans receivable from equity-method investees (b)	10,908	22,912
Other (c)	30,684	5,219
	<b>\$ 419,859</b>	<b>\$ 214,583</b>

Income (loss) from long-term investments from the three and nine months ended September 30 is as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
<b>Fair value gain (loss) on investments carried at fair value</b>				
Atlantica	\$ (132,690)	\$ (22,022)	\$ (168,234)	\$ 98,190
Atlantica Yield Energy Solutions Canada Inc.	(6,468)	(1,372)	(15,728)	(2,617)
Other	108	—	510	117
	<b>\$ (139,050)</b>	<b>\$ (23,394)</b>	<b>\$ (183,452)</b>	<b>\$ 95,690</b>
<b>Dividend and interest income from investments carried at fair value</b>				
Atlantica	\$ 21,054	\$ 18,876	\$ 62,673	\$ 55,728
Atlantica Yield Energy Solutions Canada Inc.	2,433	1,877	11,153	10,594
Other	15	—	329	2,113
	<b>\$ 23,502</b>	<b>\$ 20,753</b>	<b>\$ 74,155</b>	<b>\$ 68,435</b>
<b>Other long-term investments</b>				
Equity method loss	(3,669)	(1,764)	(12,039)	(3,888)
Interest and other income	4,975	1,338	17,093	8,128
	<b>\$ (114,242)</b>	<b>\$ (3,067)</b>	<b>\$ (104,243)</b>	<b>\$ 168,365</b>

## (a) Investment in Atlantica

AAGES (AY Holdings) B.V. ("AY Holdings"), an entity controlled and consolidated by AQN, has a share ownership in Atlantica Sustainable Infrastructure PLC ("Atlantica") of approximately 44% (December 31, 2020 - 44%). AQN has the flexibility, subject to certain conditions, to increase its ownership of Atlantica up to 48.5%. On December 9, 2020, the Company entered into a subscription agreement to purchase additional ordinary shares of Atlantica at \$33.00 per share. The contract was accounted for as a derivative under ASC 815, *Derivatives and Hedging*. On January 7, 2021, the subscription closed and the Company paid \$132,688 for the additional 4,020,860 shares of Atlantica. The shares were purchased at a total cost of \$1,167,444. The Company accounts for its investment in Atlantica at fair value, with changes in fair value reflected in the unaudited interim consolidated statements of operations.

**Algonquin Power & Utilities Corp.**

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2021 and 2020

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

## (b) Equity-method investees and development loans receivable from equity investees

The Company has non-controlling interests in various corporations, partnerships and joint ventures with a total carrying value of \$378,267 (December 31, 2020 - \$186,452) including investments in variable interest entities ("VIEs") of \$21,654 (December 31, 2020 - \$174,685).

During the first quarter of 2021, the Company acquired a 51% interest in three wind facilities from a portfolio of four wind facilities located in Texas ("Texas Coastal Wind Facilities") for \$234,274. On August 12, 2021, the Company acquired a 51% interest in the fourth wind facility for \$110,609, subject to working capital adjustments. All facilities have achieved commercial operations. The Company does not control the entities and therefore accounts for its 51% interest using the equity method.

During the first quarter of 2021, the Company acquired the remaining 50% equity interest in the Sugar Creek Wind Facility and Maverick Creek Wind Facility for \$43,797 and as a result, obtained control of the facilities (note 3(d)).

During the first half of 2021, the Empire Electric System acquired the North Fork Ridge and Kings Point Facilities for total consideration paid to third parties of \$31,297 and as a result, obtained control of the facilities (note 3(b)).

During the second quarter of 2021, the Company acquired the remaining 50% equity interest in Altavista, a 80 MW solar power project located in Campbell County, Virginia, for \$6,735 and as a result, obtained control of the facility (note 3(c)).

Summarized combined information for AQN's investments in significant partnerships and joint ventures is as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Total assets	<b>\$ 1,807,456</b>	\$ 3,201,967
Total liabilities	<b>727,017</b>	2,913,188
Net assets	<b>\$ 1,080,439</b>	\$ 288,779
AQN's ownership interest in the entities	<b>272,589</b>	141,666
Difference between investment carrying amount and underlying equity in net assets <sup>(a)</sup>	<b>105,678</b>	44,786
AQN's investment carrying amount for the entities	<b>\$ 378,267</b>	\$ 186,452

<sup>(a)</sup> The difference between the investment carrying amount and the underlying equity in net assets relates primarily to the value of tax attributes not reflected in the Texas Coastal Wind Facilities net assets, development fees, interest capitalized while the projects are under construction, the fair value of guarantees provided by the Company in regards to the investments and transaction costs.

Except for Abengoa-Algonquin Global Energy Solutions ("AAGES B.V."), the development projects are considered VIEs due to the level of equity at risk and the disproportionate voting and economic interests of the shareholders. The Company has committed loan and credit support facilities with some of its equity investees. During construction, the Company has agreed to provide cash advances and credit support for the continued development and construction of the equity investees' projects. As at September 30, 2021, the Company had issued letters of credit and guarantees of performance obligations: under a security of performance for a development opportunity; wind turbine supply agreements; engineering, procurement and construction agreements; energy purchase agreements; and construction loan agreements. The fair value of the support provided recorded as at September 30, 2021 amounts to \$2,481 (December 31, 2020 - \$12,273).

**Algonquin Power & Utilities Corp.**

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

- (b) Equity-method investees and development loans receivable from equity investees (continued)

Summarized combined information for AQN's VIEs is as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
AQN's maximum exposure in regards to VIEs		
Carrying amount	<b>\$ 21,654</b>	\$ 174,685
Development loans receivable	<b>10,794</b>	21,804
Performance guarantees and other commitments on behalf of VIEs	<b>164,256</b>	965,291
	<b>\$ 196,704</b>	\$ 1,161,780

The commitments are presented on a gross basis assuming no recoverable value in the assets of the VIEs.

- (c) Other

The Company no longer has significant influence over its 20% interest in the San Antonio Water System ("SAWS"), and therefore has discontinued the equity method of accounting. The investment is accounted for using the cost method prospectively.

**Algonquin Power & Utilities Corp.**

Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of U.S. dollars, except as noted and per share amounts)***7. Long-term debt**

Long-term debt consists of the following:

<b>Borrowing type</b>	<b>Weighted average coupon</b>	<b>Maturity</b>	<b>Par value</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Senior unsecured revolving credit facilities	—	2021-2024	N/A	\$ 858,814	\$ 223,507
Senior unsecured bank credit facilities (a)	—	2022-2031	N/A	149,735	152,338
Commercial paper	—	2021	N/A	499,000	122,000
<b>U.S. dollar borrowings</b>					
Senior unsecured notes (Green Equity Units) (b)	1.18 %	2026	\$ 1,150,000	1,140,281	—
Senior unsecured notes	3.46 %	2022-2047	\$ 1,700,000	1,689,427	1,688,390
Senior unsecured utility notes	6.34 %	2023-2035	\$ 142,000	155,982	157,212
Senior secured utility bonds	4.71 %	2026-2044	\$ 556,222	559,007	561,494
<b>Canadian dollar borrowings</b>					
Senior unsecured notes (c)	3.81 %	2022-2050	C\$1,400,669	1,093,778	899,710
Senior secured project notes	10.21 %	2027	C\$ 23,936	18,787	20,315
<b>Chilean Unidad de Fomento borrowings</b>					
Senior unsecured utility bonds	4.24 %	2028-2040	CLF 1,811	83,434	92,183
				<b>\$ 6,248,245</b>	<b>\$ 3,917,149</b>
<b>Subordinated U.S. dollar borrowings</b>					
Subordinated unsecured notes	6.50 %	2078-2079	\$ 637,500	621,802	621,321
				<b>\$ 6,870,047</b>	<b>\$ 4,538,470</b>
Less: current portion				<b>(516,712)</b>	<b>(139,874)</b>
				<b>\$ 6,353,335</b>	<b>\$ 4,398,596</b>

Short-term obligations of \$473,273 that are expected to be refinanced using the long-term credit facilities are presented as long-term debt.

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 has 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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*(in thousands of U.S. dollars, except as noted and per share amounts)*

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**7. Long-term debt (continued)**

Recent financing activities:

(a) Senior unsecured credit facilities

In connection with the Kentucky Power Transaction (note 3(a)), the Company obtained a commitment from lenders to provide syndicated unsecured credit facilities in an aggregate amount of up to \$2,725,000. This acquisition financing commitment is subject to customary terms and conditions, including certain commitment reductions upon closing of permanent financing.

(b) U.S. dollar senior unsecured notes (Green Equity Units)

In June 2021, the Company sold 23,000,000 equity units (the "Green Equity Units") for total gross proceeds of \$1,150,000. Each Green Equity Unit has a stated amount of \$50 and consists of a contract to purchase AQN common shares (the "share purchase contract") and, initially, a 5% undivided beneficial ownership interest in a remarketable senior note due June 15, 2026, issued in the principal amount of \$1,000 by AQN.

Total annual distributions on the Green Equity Units are at a rate of 7.75%, consisting of interest on the notes (1.18% per year) and payments under the share purchase contract (6.57% per year). The interest rate on the notes will be reset following a successful marketing, which would occur in 2024. The present value of the contract adjustment payments was estimated at \$222,378 and is recorded against additional paid-in capital ("APIC") to the extent of the APIC balance and against retained earnings (deficit) for the remainder. The corresponding amount of \$222,378 was recorded in other liabilities and is accreted over the three-year period (note 9).

Each share purchase contract requires the holder to purchase by no later than June 15, 2024 for a price of \$50 in cash, a number of AQN common shares ("common shares") based on the applicable market value to be determined using the volume-weighted average price of the common shares over a 20-day trading period ending June 14, 2024. The minimum settlement rate under the purchase contracts is 2.7778 common shares, which is approximately equal to the \$50 stated amount per Green Equity Unit, divided by the threshold appreciation price of \$18 per common share. The maximum settlement rate under the purchase contracts is 3.3333 common shares, which is approximately equal to the \$50 stated amount per Green Equity Unit, divided by \$15 per common share.

The common share purchase obligation of holders of Green Equity Units will be satisfied by the proceeds raised from a successful remarketing of the notes, unless a holder has elected to settle with separate cash. Holders' beneficial ownership interest in each note has been pledged to AQN to secure the holders' obligation to purchase common shares under the related share purchase contract.

Prior to the issuance of common shares, the share purchase contracts, if dilutive, will be reflected in the Company's diluted earnings per share calculations using the treasury stock method.

(c) Canadian dollar senior unsecured notes

On February 15, 2021, the Renewable Energy Group repaid a C\$150,000 unsecured note upon its maturity. Concurrent with the repayment, the Renewable Energy Group unwound and settled the related cross-currency fixed-for-fixed interest rate swap (note 21(b)(iii)).

On April 9, 2021, the Renewable Energy Group issued C\$400,000 senior unsecured debentures bearing interest at 2.85% with a maturity date of July 15, 2031. The notes were sold at a price of C\$999.92 per C\$1,000.00 principal amount. Concurrent with the offering, the Renewable Energy Group entered into a fixed-for-fixed cross-currency interest rate swap to convert the Canadian-dollar-denominated coupon and principal payments from the offering into U.S. dollars (note 21(b)(iii)).

**Algonquin Power & Utilities Corp.**

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*(in thousands of U.S. 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 plans and other post-employment benefits (“OPEB”) in the unaudited interim consolidated statements of operations for the three and nine months ended September 30:

	<b>Pension benefits</b>			
	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Service cost	\$ 3,987	\$ 3,607	\$ 12,323	\$ 11,310
Non-service costs				
Interest cost	4,909	3,808	15,126	12,711
Expected return on plan assets	(8,890)	(6,279)	(26,670)	(18,789)
Amortization of net actuarial loss	2,431	1,782	7,243	4,072
Amortization of prior service credits	(407)	(403)	(1,220)	(1,207)
Impact of regulatory accounts	5,653	3,169	16,662	11,476
	\$ 3,696	\$ 2,077	\$ 11,141	\$ 8,263
Net benefit cost	\$ 7,683	\$ 5,684	\$ 23,464	\$ 19,573

	<b>OPEB</b>			
	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Service cost	\$ 1,942	\$ 1,626	\$ 5,486	\$ 4,559
Non-service costs				
Interest cost	2,097	2,307	6,149	5,881
Expected return on plan assets	(2,518)	(2,176)	(7,539)	(6,561)
Amortization of net actuarial loss (gain)	643	409	1,516	382
Amortization of prior service credits	18	—	18	—
Impact of regulatory accounts	(61)	(248)	135	1,377
	\$ 179	\$ 292	\$ 279	\$ 1,079
Net benefit cost	\$ 2,121	\$ 1,918	\$ 5,765	\$ 5,638

The service cost components of pension plans and 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 cost are considered non-service costs and have been included outside of operating income in the unaudited interim consolidated statements of operations.

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

Other long-term liabilities consist of the following:

	September 30, 2021	December 31, 2020
Contract adjustment payments (note 7(a))	\$ 205,871	\$ —
Asset retirement obligations	142,547	79,968
Advances in aid of construction	83,182	79,864
Environmental remediation obligation	60,449	69,383
Customer deposits	32,263	31,939
Unamortized investment tax credits	17,592	17,893
Deferred credits	16,961	21,399
Preferred shares, Series C	13,387	13,698
Hook-up fees	21,195	17,704
Lease liabilities	22,142	14,288
Contingent development support obligations	2,481	12,273
Hedge settlement obligation	31,341	—
Note payable to related party	—	30,493
Other	37,112	23,027
	<b>\$ 686,523</b>	<b>\$ 411,929</b>
Less: current portion	<b>(160,515)</b>	<b>(72,748)</b>
	<b>\$ 526,008</b>	<b>\$ 339,181</b>

**10. Shareholders' capital**

(a) Common shares

Number of common shares

	Nine months ended September 30	
	2021	2020
Common shares, beginning of period	597,142,219	524,223,323
Public offering	23,531,465	66,130,063
Dividend reinvestment plan	4,560,456	3,532,823
Exercise of share-based awards (b)	909,762	1,421,766
Conversion of convertible debentures	1,886	6,225
Common shares, end of period	<b>626,145,788</b>	<b>595,314,200</b>

In conjunction with the announcement of the Kentucky Power Transaction (note 3(a)), the Company announced a C\$800,000 bought deal offering of 44,080,000 common shares at an offering price of C\$18.15 per share to fund a portion of the purchase price. The offering closed on November 8, 2021. The underwriters for the offering were also granted a 15% over allotment option, which if exercised in full would bring the total gross proceeds to C\$920 million.

AQN's at-the-market equity program ("ATM program") allows the Company to issue up to \$500,000 of common shares from treasury to the public from time to time, at the Company's discretion, at the prevailing market price when issued on the TSX, the NYSE, or any other existing trading market for the common shares of the Company in Canada or the United States. During the nine months ended September 30, 2021, the Company issued 23,531,465 common shares under the ATM program at an average price of \$15.70 per common share for gross proceeds of \$369,495 (\$364,876 net of commissions). Other related costs were \$740.

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*(in thousands of U.S. dollars, except as noted and per share amounts)***10. Shareholders' capital (continued)**

## (a) Common shares (continued)

As at November 11, 2021, the Company has issued since the inception of the ATM program in 2019 a cumulative total of 33,952,827 common shares at an average price of \$15.08 per share for gross proceeds of \$512,163 (\$505,761 net of commissions). Other related costs, primarily related to the establishment and subsequent re-establishments of the ATM program, were \$4,153.

## (b) Share-based compensation

For the three and nine months ended September 30, 2021, AQN recorded \$3,414 and \$7,800, respectively (2020 - \$6,588 and \$18,228, respectively) in total share-based compensation expense. The compensation expense is recorded with payroll expenses in the unaudited interim consolidated statements of operations. The portion of share-based compensation costs capitalized as cost of construction is insignificant.

As at September 30, 2021, total unrecognized compensation costs related to non-vested share-based awards was \$16,052 and is expected to be recognized over a period of 1.77 years.

*Share option plan*

During the nine months ended September 30, 2021, the Board of Directors of the Company (the "Board") approved the grant of 437,006 options to executives of the Company. The options allow for the purchase of common shares at a weighted average price of C\$19.64, the market price of the underlying common share at the date of grant. One-third of the options vest on each of December 31, 2021, 2022 and 2023. The 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:

	<b>2021</b>
Risk-free interest rate	1.1 %
Expected volatility	23 %
Expected dividend yield	4.1 %
Expected life	5.50 years
Weighted average grant date fair value per option	\$ 2.46

During the nine months ended September 30, 2021, 61,225 share options were exercised at a weighted average price of C\$14.75 in exchange for 12,021 common shares issued from treasury, and 49,204 options settled at their cash value as payment for the exercise price and tax withholdings related to the exercise of the options.

*Performance and restricted share units*

During the nine months ended September 30, 2021, a total of 734,690 performance share units ("PSUs") and restricted share units ("RSUs") were granted to employees of the Company. The awards vest based on the terms of each agreement ranging from February 2022 to January 2024. During the nine months ended September 30, 2021, the Company settled 815,729 PSUs and RSUs in exchange for 422,514 common shares issued from treasury, and 393,215 PSUs and RSUs were settled at their cash value as payment for tax withholding related to the settlement of the awards.

During the nine months ended September 30, 2021, the Company settled 148,459 bonus deferral RSUs in exchange for 68,841 common shares issued from treasury, and 79,618 RSUs were settled at their cash value as payment for tax withholding related to the settlement of the awards. During the quarter, on April 15, 2021, 44,528 bonus deferral RSUs were granted to employees of the Company. The RSUs are 100% vested.

*Director's deferred share units*

During the nine months ended September 30, 2021, 54,447 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. In addition, the Company settled 87,306 DSUs in exchange for 40,887 common shares issued from treasury, and 46,418 DSUs were settled at their cash value as payment for tax withholding related to the settlement of the awards.

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

AOCI consists of the following balances, net of tax:

	Foreign currency cumulative translation	Unrealized gain on cash flow hedges	Pension and post- employment actuarial changes	Total
Balance, January 1, 2020	\$ (68,822)	\$ 75,099	\$ (16,038)	\$ (9,761)
OCI	25,643	(13,418)	(20,964)	(8,739)
Amounts reclassified from AOCI to the unaudited interim consolidated statements of operations	2,763	(10,864)	3,403	(4,698)
Net current period OCI	\$ 28,406	\$ (24,282)	\$ (17,561)	\$ (13,437)
OCI attributable to the non-controlling interests	691	—	—	691
Net current period OCI attributable to shareholders of AQN	\$ 29,097	\$ (24,282)	\$ (17,561)	\$ (12,746)
Balance, December 31, 2020	\$ (39,725)	\$ 50,817	\$ (33,599)	\$ (22,507)
OCI	<b>(34,186)</b>	<b>(94,490)</b>	—	<b>(128,676)</b>
Amounts reclassified from AOCI to the unaudited interim consolidated statements of operations	<b>2,014</b>	<b>38,744</b>	<b>2,486</b>	<b>43,244</b>
Net current period OCI	\$ <b>(32,172)</b>	\$ <b>(55,746)</b>	\$ <b>2,486</b>	\$ <b>(85,432)</b>
OCI attributable to the non-controlling interests	<b>(6,998)</b>	—	—	<b>(6,998)</b>
Net current period OCI attributable to shareholders of AQN	\$ <b>(39,170)</b>	\$ <b>(55,746)</b>	\$ <b>2,486</b>	\$ <b>(92,430)</b>
Balance, September 30, 2021	<b>\$ (78,895)</b>	<b>\$ (4,929)</b>	<b>\$ (31,113)</b>	<b>\$ (114,937)</b>

Amounts reclassified from AOCI for foreign currency cumulative translation affected interest expense and derivative gain (loss); those for unrealized gain (loss) on cash flow hedges affected revenue from non-regulated energy sales, interest expense and derivative gain (loss), while those for pension and other post-employment actuarial changes affected pension and other 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 dividends on its common shares in U.S. dollars. Dividends declared were as follows:

	Three months ended September 30			
	2021		2020	
	Dividend	Dividend per share	Dividend	Dividend per share
Common shares	\$ 107,229	\$ 0.1706	\$ 92,830	\$ 0.1551
Series A preferred shares	C\$ 1,549	C\$ 0.3226	C\$ 1,549	C\$ 0.3226
Series D preferred shares	C\$ 1,273	C\$ 0.3182	C\$ 1,273	C\$ 0.3182

**Algonquin Power & Utilities Corp.**

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*(in thousands of U.S. dollars, except as noted and per share amounts)***12. Dividends (continued)**

	<b>Nine months ended September 30</b>			
	<b>2021</b>		<b>2020</b>	
	<b>Dividend</b>	<b>Dividend per share</b>	<b>Dividend</b>	<b>Dividend per share</b>
Common shares	<b>\$ 307,551</b>	<b>\$ 0.4963</b>	\$ 251,282	\$ 0.4512
Series A preferred shares	<b>C\$ 4,646</b>	<b>C\$ 0.9679</b>	C\$ 4,646	C\$ 0.9679
Series D preferred shares	<b>C\$ 3,818</b>	<b>C\$ 0.9546</b>	C\$ 3,818	C\$ 0.9546

**13. Related party transactions****(a) Equity-method investments**

The Company provides administrative and development services to its equity-method investees and is reimbursed for incurred costs. To that effect, during the three and nine months ended September 30, 2021, the Company charged its equity-method investees \$6,879 and \$19,199, respectively (2020 - \$6,315 and \$16,539, respectively). Additionally, one of the equity-method investees provides development services to the Company on specified projects, for which it earns a development fee upon reaching certain milestones. During the three and nine months ended September 30, 2021, the development fees charged to the Company were \$nil and \$738 (2020 - \$34 and \$495).

In 2020, the Company issued a promissory note of \$30,493 payable to Altavista, an equity investee of the Company at the time. The note was repaid in full during the second quarter of 2021.

During the third quarter of 2021, the Company paid \$1,500 to Abengoa S.A. ("Abengoa") to purchase all of Abengoa's interests in the AAGES, AAGES Development Canada Inc., and AAGES Development Spain, S.A. joint ventures. The assets acquired for AAGES Development Spain S.A. included project development assets for \$2,662 and working capital of \$1,507. The existing loan between the Company and AAGES Development Spain S.A. of \$3,089 was treated as additional consideration incurred to acquire the partnership. Pursuant to an agreement between AQN and funds managed by the Infrastructure and Power strategy of Ares Management, LLC ("Ares"), in November 2021, Ares became AQN's new partner in its non-regulated development platform for renewable energy, water and other sections through an investment in the AAGES and AAGES Development Canada Inc. joint ventures.

**(b) Redeemable non-controlling interest held by related party**

On November 28, 2018, AAGES B.V., an equity investee of the Company, obtained a three-year secured credit facility in the amount of \$306,500 and subscribed to a \$305,000 preference share ownership interest in AY Holdings. The AAGES B.V. secured credit facility is collateralized through a pledge of Atlantica shares held by AY Holdings. A collateral shortfall would occur if the net obligation as defined in the agreement would equal or exceed 50% of the market value of such Atlantica shares, in which case the lenders would have the right to sell Atlantica stock to eliminate the collateral shortfall. The AAGES B.V. secured credit facility is repayable on demand if Atlantica ceases to be a public company. AQN reflects the preference share ownership issued by AY Holdings as redeemable non-controlling interest held by related party. Redemption is not considered probable as at September 30, 2021. During the three and nine months ended September 30, 2021, the Company incurred non-controlling interest attributable to AAGES B.V. of \$2,588 and \$7,886, respectively (2020 - \$2,765 and \$9,924, respectively) and recorded distributions of \$2,663 and \$7,709, respectively (2020 - \$2,680 and \$9,552, respectively) (note 14).

**(c) Non-controlling interest held by related party**

Non-controlling interest held by related party represents an interest in a consolidated subsidiary of the Company, acquired by Atlantica Yield Energy Solutions Canada Inc. ("AYES Canada") in May 2019 for \$96,752 (C\$130,103). During the three and nine months ended September 30, 2021, the Company recorded distributions to AYES of \$2,570 and \$11,482, respectively (2020 - \$2,030 and \$11,069, respectively).

**Algonquin Power & Utilities Corp.**

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*(in thousands of U.S. dollars, except as noted and per share amounts)***13. Related party transactions (continued)**

## (d) Transactions with Atlantica

During the nine months ended September 30, 2021, the Company sold Colombian solar assets to Atlantica for consideration of \$1,265, representing the cost of the assets, and contingent consideration of \$2,600, if certain milestones are met. As at September 30, 2021 no contingent consideration or gain on the sale has been recognized.

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

**14. Non-controlling interests and redeemable non-controlling interests**

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

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
HLBV and other adjustments attributable to:				
Non-controlling interests - tax equity partnership units	\$ 14,264	\$ 10,135	\$ 55,785	\$ 43,870
Non-controlling interests - redeemable tax equity partnership units	1,696	1,716	5,121	5,191
Other net earnings attributable to:				
Non-controlling interests	(1,873)	(557)	(5,917)	(1,791)
	\$ 14,087	\$ 11,294	\$ 54,989	\$ 47,270
Redeemable non-controlling interest, held by related party	(2,588)	(2,765)	(7,886)	(9,924)
Net effect of non-controlling interests	\$ 11,499	\$ 8,529	\$ 47,103	\$ 37,346

The non-controlling tax equity investors ("tax equity partnership units") in the Company's U.S. wind power and solar power generating facilities are entitled to allocations of earnings, tax attributes and cash flows in accordance with contractual agreements. The share of earnings attributable to the non-controlling interest holders in these subsidiaries is calculated using the Hypothetical Liquidation at Book Value ("HLBV") method of accounting.

The Company obtained control of the three Mid-West Wind Facilities, and the Sugar Creek Wind Facility and Maverick Creek Wind Facility during the nine months ended September 30, 2021 (notes 3(a) and 3(c)). During the nine months ended September 30, 2021, third-party tax equity investors funded \$530,880, \$73,957 and \$380,829 to the Mid-West Wind Facilities, the Sugar Creek Wind Facility and the Maverick Creek Wind Facility, respectively, in exchange for Class A partnership units in the entities.

**15. Income taxes**

For the three months ended September 30, 2021, the Company's tax rate varied from the statutory rate of 26.5% partially due to the tax benefits from tax credits accrued of \$8,800. The Company's tax rate also varied during this period due to the beneficial impact of differences in effective tax rates on transactions in foreign jurisdictions, partially offset by the tax impact on the income associated with its investment in Atlantica, and deferred tax expense associated with the non-controlling interest share of income.

For the nine months ended September 30, 2021, the Company's tax rate varied from the statutory rate of 26.5% partially due to the tax benefits from tax credits accrued of \$35,320. The Company's tax rate also varied during this period due to the beneficial impact of differences in effective tax rates on transactions in foreign jurisdictions, partially offset by the tax impact on the income associated with its investment in Atlantica, and deferred tax expense associated with the non-controlling interest share of income.

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

For the three months ended September 30, 2020, the Company's tax rate varied from the statutory rate of 26.5% primarily due to the tax benefits from tax credits accrued of \$14,618. The Company's tax rate also varied during this period due to favorable impact of differences in effective tax rates on transactions in foreign jurisdictions, and amortization and settlement of excess deferred income tax. These adjustments are partially offset by deferred tax expense associated with the non-controlling interest share of income.

For the nine months ended September 30, 2020, the Company's tax rate varied from the statutory rate of 26.5% due primarily to the tax benefit from tax credits accrued of \$24,522. The Company's tax rate also varied during this period due to the beneficial impact of differences in effective tax rates on transactions in foreign jurisdictions, and the favorable tax impact on the income associated with its investment in Atlantica. These adjustments are partially offset by deferred tax expense associated with the non-controlling interest share of income, and the impact of the finalization of certain regulations related to U.S. Tax Reform.

On April 8, 2020, the IRS issued final regulations with respect to rules regarding certain hybrid arrangements as a result of U.S. Tax Reform. As a result of the final regulations, the Company recorded a one-time income tax expense of \$9,300 to reverse the benefit of deductions taken in the prior year.

**16. Other net losses**

Other net losses consist of the following:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Acquisition and transition-related costs	\$ 1,725	\$ 2,908	\$ 4,709	\$ 6,050
Tax reform	—	—	—	11,728
Management succession and executive retirement	—	3,169	—	10,121
Other	(836)	10,851	6,377	16,859
	\$ 889	\$ 16,928	\$ 11,086	\$ 44,758

Other losses primarily consist of an adjustment to a regulatory liability pertaining to the true-up of prior period tracking accounts, costs pertaining to condemnation proceeding, and other miscellaneous asset write-downs.

On July 26, 2021 the Company paid \$2,250 to Abengoa as settlement for contingent consideration on its purchase of a 20% interest in SAWS (note 6(c)). This settlement resulted in a gain of \$2,750.

**17. Basic and diluted net earnings per share**

Basic and diluted 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 bonus deferral restricted share units outstanding. Diluted net earnings per share is computed using the weighted-average number of common shares, additional shares issued subsequent to quarter-end under the dividend reinvestment plan, PSUs, RSUs and DSUs outstanding during the period and, if dilutive, potential incremental common shares related to the convertible debentures or resulting from the application of the treasury stock method to outstanding share options and Green Equity Units (note 7(a)).

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*(in thousands of U.S. dollars, except as noted and per share amounts)***17. Basic and diluted net earnings per share (continued)**

The reconciliation of the net earnings and the weighted average shares used in the computation of basic and diluted earnings per share are as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Net earnings (loss) attributable to shareholders of AQN	\$ (27,922)	\$ 55,851	\$ 89,247	\$ 278,273
Series A preferred shares dividend	1,244	1,154	3,709	3,435
Series D preferred shares dividend	1,022	948	3,048	2,823
Net earnings (loss) attributable to common shareholders of AQN – basic and diluted	\$ (30,188)	\$ 53,749	\$ 82,490	\$ 272,015
Weighted average number of shares				
Basic	621,405,414	585,403,736	611,772,460	547,031,170
Effect of dilutive securities	—	5,291,986	6,300,009	5,096,871
Diluted	621,405,414	590,695,722	618,072,469	552,128,041

This calculation of diluted shares for the three and nine months ended September 30, 2021 excludes potential incremental shares related to 9,360,556 and 437,006 securities, respectively (2020 - 51,615 and 51,615, respectively) as they are anti-dilutive.

**18. Segmented information**

The Company is managed under two primary business units consisting of the Regulated Services Group and the Renewable Energy Group. The two business units are the two segments of the Company.

The Regulated Services Group, the Company's regulated operating unit, owns and operates a portfolio of electric, natural gas, water distribution and wastewater collection utility systems and transmission operations in the United States, Canada, Chile and Bermuda; the Renewable Energy Group, the Company's non-regulated operating unit, owns and operates a diversified portfolio of renewable and thermal electric generation assets in North America and internationally.

For purposes of evaluating the performance of the business units, the Company allocates the realized portion of any gains or losses on financial instruments to the specific business units. Dividend income from Atlantica and AYES Canada is included in the operations of the Renewable Energy Group, while interest income from San Antonio Water System is included in the operations of the Regulated Services Group. Equity method gains and losses are included in the operations of the Regulated Services Group or Renewable Energy Group based on the nature of the activities of the investees. The change in value of investments carried at fair value, unrealized portion of any gains or losses on derivative instruments not designated in a hedging relationship and foreign exchange gains and losses are not considered in management's evaluation of divisional performance and are therefore, allocated and reported under corporate.

Beginning in the first quarter of 2021, the Company reported income and losses associated with development activities under corporate, as these are no longer considered in management's evaluation of the Renewable Energy Group where it was reported previously. Comparative figures have been reclassified to conform to presentation adopted in the current period.

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*(in thousands of U.S. dollars, except as noted and per share amounts)***18. Segmented information (continued)****Three months ended September 30, 2021**

	<b>Regulated Services Group</b>	<b>Renewable Energy Group</b>	<b>Corporate</b>	<b>Total</b>
Revenue <sup>(1)(2)</sup>	\$ 449,198	\$ 78,989	\$ 388	\$ 528,575
Fuel, power and water purchased	112,820	11,898	—	124,718
Net revenue	336,378	67,091	388	403,857
Operating expenses	150,934	26,270	—	177,204
Administrative expenses	7,547	6,026	1,592	15,165
Depreciation and amortization	71,430	24,858	265	96,553
Loss on foreign exchange	—	—	1,267	1,267
Operating income (loss)	106,467	9,937	(2,736)	113,668
Interest expense	(22,300)	(17,461)	(11,893)	(51,654)
Income (loss) from long-term investments	4,470	22,126	(140,838)	(114,242)
Other expenses (recovery)	(3,462)	(4,770)	1,651	(6,581)
Earnings (loss) before income taxes	\$ 85,175	\$ 9,832	\$ (153,816)	\$ (58,809)
Capital expenditures	\$ 263,711	\$ 84,339	\$ —	\$ 348,050

<sup>(1)</sup> Renewable Energy Group revenue includes \$1,160 related to net hedging loss from energy derivative contracts and availability credits for the three-months period ended September 30, 2021 that do not represent revenue recognized from contracts with customers.

<sup>(2)</sup> Regulated Services Group revenue includes \$5,324 related to alternative revenue programs for the three-months period ended September 30, 2021 that do not represent revenue recognized from contracts with customers.

**Three months ended September 30, 2020**

	<b>Regulated Services Group</b>	<b>Renewable Energy Group</b>	<b>Corporate</b>	<b>Total</b>
Revenue <sup>(1)(2)</sup>	\$ 316,696	\$ 59,419	\$ 366	\$ 376,481
Fuel, power and water purchased	75,107	4,969	—	80,076
Net revenue	241,589	54,450	366	296,405
Operating expenses	97,524	18,513	—	116,037
Administrative expenses (recovery)	9,922	7,085	(2,473)	14,534
Depreciation and amortization	51,520	18,885	1,123	71,528
Gain on foreign exchange	—	—	(936)	(936)
Operating income	82,623	9,967	2,652	95,242
Interest expense	(25,224)	(12,077)	(8,259)	(45,560)
Income (loss) from long-term investments	300	21,324	(24,691)	(3,067)
Other expenses	(11,209)	(2,291)	(5,496)	(18,996)
Earnings (loss) before income taxes	\$ 46,490	\$ 16,923	\$ (35,794)	\$ 27,619
Capital expenditures	\$ 161,285	\$ 10,636	\$ 10,741	\$ 182,662

<sup>(1)</sup> Renewable Energy Group revenue includes \$3,661 related to net hedging gain from energy derivative contracts for the three-months period ended September 30, 2020 that do not represent revenue recognized from contracts with customers.

<sup>(2)</sup> Regulated Services Group revenue includes \$12,673 related to alternative revenue programs for the three-months period ended September 30, 2020 that do not represent revenue recognized from contracts with customers.

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*(in thousands of U.S. dollars, except as noted and per share amounts)***18. Segmented information (continued)**

	Nine months ended September 30, 2021			
	Regulated Services Group	Renewable Energy Group	Corporate	Total
Revenue <sup>(1)(2)</sup>	\$ 1,492,665	\$ 196,804	\$ 1,171	\$ 1,690,640
Fuel, power and water purchased	506,745	25,887	—	532,632
Net revenue	985,920	170,917	1,171	1,158,008
Operating expenses	448,844	79,499	—	528,343
Administrative expenses	26,648	19,512	2,770	48,930
Depreciation and amortization	206,517	84,805	831	292,153
Loss on foreign exchange	—	—	3,412	3,412
Operating income (loss)	303,911	(12,899)	(5,842)	285,170
Interest expense	(73,715)	(54,206)	(31,495)	(159,416)
Income (loss) from long-term investments	14,937	70,531	(189,711)	(104,243)
Other expenses	(16,108)	(8,424)	(56)	(24,588)
Earnings (loss) before income taxes	\$ 229,025	\$ (4,998)	\$ (227,104)	\$ (3,077)
Property, plant and equipment	\$ 7,238,320	\$ 3,829,641	\$ 30,419	\$ 11,098,380
Investments carried at fair value	2,622	1,784,673	—	1,787,295
Equity-method investees	11,156	366,846	265	378,267
Total assets	10,349,178	6,218,144	131,630	16,698,952
Capital expenditures	\$ 817,661	\$ 225,968	\$ 7,553	\$ 1,051,182

<sup>(1)</sup> Renewable Energy Group revenue includes \$45,748 related to net hedging loss from energy derivative contracts and availability credits for the nine-months period ended September 30, 2021 that do not represent revenue recognized from contracts with customers.

<sup>(2)</sup> Regulated Services Group revenue includes \$12,803 related to alternative revenue programs for the nine-months period ended September 30, 2021 that do not represent revenue recognized from contracts with customers.

**Algonquin Power & Utilities Corp.**

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**18. Segmented information (continued)**

	<b>Nine months ended September 30, 2020</b>			
	<b>Regulated Services Group</b>	<b>Renewable Energy Group</b>	<b>Corporate</b>	<b>Total</b>
Revenue <sup>(1)(2)</sup>	\$ 992,214	\$ 192,440	\$ 1,082	\$ 1,185,736
Fuel, power and water purchased	263,562	11,714	—	275,276
Net revenue	728,652	180,726	1,082	910,460
Operating expenses	309,774	54,631	—	364,405
Administrative expenses (recovery)	29,791	21,149	(383)	50,557
Depreciation and amortization	157,159	67,316	1,600	226,075
Gain on foreign exchange	—	—	(5,630)	(5,630)
Operating income	231,928	37,630	5,495	275,053
Interest expense	(74,161)	(40,174)	(22,291)	(136,626)
Income from long-term investments	5,910	68,928	93,527	168,365
Other expenses	(35,901)	(2,340)	(14,112)	(52,353)
Earnings before income taxes	\$ 127,776	\$ 64,044	\$ 62,619	\$ 254,439
Capital expenditures	\$ 458,558	\$ 55,672	\$ 10,741	\$ 524,971
	<b>December 31, 2020</b>			
Property, plant and equipment	\$ 5,757,532	\$ 2,451,706	\$ 32,600	\$ 8,241,838
Investments carried at fair value	—	1,839,212	—	1,839,212
Equity-method investees	74,673	110,414	1,365	186,452
Total assets	8,528,415	4,586,878	108,856	13,224,149

<sup>(1)</sup> Renewable Energy Group revenue includes \$20,400 related to net hedging gain from energy derivative contracts for the nine-months period ended September 30, 2020 that do not represent revenue recognized from contracts with customers.

<sup>(2)</sup> Regulated Services Group revenue includes \$20,403 related to alternative revenue programs for the nine-months period ended September 30, 2020 that do not represent revenue recognized from contracts with customers.

The majority of non-regulated energy sales are earned from contracts with large public utilities. The Company has sought to mitigate its credit risk by selling energy to large utilities in various North American locations. None of the utilities contribute more than 10% of total revenue.

AQN operates in the independent power and utility industries in the United States, Canada and other regions. Information on operations by geographic area is as follows:

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Revenue				
United States	\$ 408,419	\$ 348,703	\$ 1,335,677	\$ 1,075,574
Canada	28,845	27,778	112,648	110,162
Other regions	91,311	—	242,315	—
	\$ 528,575	\$ 376,481	\$ 1,690,640	\$ 1,185,736

Revenue is attributed to the regions based on the location of the underlying generating and utility facilities.

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**19. Commitments and contingencies**

(a) Contingencies

AQN 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 AQN's exposure to such litigation to be material to these unaudited interim consolidated financial statements. Accruals for any contingencies related to these items are recorded in the consolidated financial statements at the time it is concluded that their 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 AQN and certain of its subsidiaries, claiming damages and punitive damages. The action arose from Gaia's 2010 sale, to a subsidiary of AQN, 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.

The parties agreed to arbitrate the dispute, and concluded hearings on March 17, 2021. The arbitrator released his decision on August 6, 2021, dismissing Gaia's damages claims for oppression and conspiracy, and also dismissing Gaia's punitive damages claim. The arbitrator confirmed that development fees and royalties, calculated as a sliding percentage of the facility's EBITDA (as argued for by the Company), are payable to Gaia in connection with the Company's 74 MW Amherst Island Wind Facility in Ontario. The arbitrator also found that development fees and royalties, calculated on substantially the same basis as the royalties for Amherst Island, are payable to Gaia in connection with the Company's 175 MW Blue Hill Wind Project in Saskatchewan.

*Condemnation expropriation proceedings*

Liberty Utilities (Apple Valley Ranchos Water) Corp. ("Liberty Apple Valley") was the subject of a condemnation lawsuit filed by the Town of Apple Valley (the "Town"). On May 7, 2021, the Court issued a tentative statement of decision denying the Town's attempt to take the Apple Valley water system by eminent domain. The ruling confirmed that Liberty Apple Valley's continued ownership and operation of the water system is in the best interest of the community. On October 14 2021, the Court denied the Town's objections and issued the Final Statement of Decision. A final judgment is expected to be entered in November 2021 and, upon entry of final judgment, the Town's lawsuit will be dismissed, and the Town will be required to compensate Liberty Apple Valley for litigation expenses following filing of motions. The Court's ruling is subject to appeal by the Town.

*Mountain View fire*

On November 17, 2020, a wildfire now known as the Mountain View fire occurred in the territory of Liberty Utilities (CalPeco Electric) LLC. The cause of the fire is undetermined at this time, and CAL FIRE has not yet issued a report. There are currently active lawsuits that name the Company and/or certain of its subsidiaries as defendants in connection with the Mountain View fire. The likelihood of success in these lawsuits cannot be reasonably predicted. Liberty Utilities (CalPeco Electric) LLC intends to vigorously defend them. The Company has wildfire liability insurance that is expected to apply up to applicable policy limits.

(b) Commitments

In addition to the commitments related to the development projects disclosed in note 6, the following significant commitments exist as at September 30, 2021.

AQN has outstanding purchase commitments for power purchases, gas supply and service agreements, service agreements, capital project commitments and land easements.

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## Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of U.S. dollars, except as noted and per share amounts)***19. Commitments and contingencies (continued)**

(b) Commitments (continued)

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)	\$ 44,508	\$ 30,079	\$ 29,794	\$ 30,028	\$ 17,675	\$ 158,216	\$ 310,300
Gas supply and service agreements (ii)	80,472	69,493	46,502	43,917	25,532	139,043	404,959
Service agreements	61,959	58,754	57,728	55,126	51,823	356,231	641,621
Capital projects	86,865	—	—	—	—	—	86,865
Land easements and others	12,913	12,995	13,164	13,343	13,511	474,918	540,844
<b>Total</b>	<b>\$286,717</b>	<b>\$171,321</b>	<b>\$147,188</b>	<b>\$142,414</b>	<b>\$108,541</b>	<b>\$1,128,408</b>	<b>\$1,984,589</b>

(i) Power purchase: AQN'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 at September 30, 2021. However, the effects of purchased power unit cost adjustments are mitigated through a purchased power rate-adjustment mechanism.

(ii) Gas supply and service agreements: AQN'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.

**20. 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	
	2021	2020	2021	2020
Accounts receivable	\$ (7,006)	\$ (13,024)	\$ 26,969	\$ 43,922
Fuel and natural gas in storage	(43,158)	(5,295)	(37,229)	(2,236)
Supplies and consumables inventory	8,363	(377)	3,977	(21,335)
Income taxes recoverable	1,547	(1,464)	380	(3,353)
Prepaid expenses	(6,083)	(4,680)	(15,126)	(12,024)
Accounts payable	25,731	68,585	(22,123)	5,248
Accrued liabilities	90,745	(36,400)	(676)	(76,439)
Current income tax liability	1,499	3,264	7,124	4,980
Asset retirements and environmental obligations	(957)	(1,475)	(1,488)	(2,174)
Net regulatory assets and liabilities	(64,460)	(32,829)	(399,456)	(16,913)
	\$ 6,221	\$ (23,695)	\$ (437,648)	\$ (80,324)

**Algonquin Power & Utilities Corp.**

Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of U.S. dollars, except as noted and per share amounts)***21. Financial instruments**

(a) Fair value of financial instruments

September 30, 2021	Carrying amount	Fair value	Level 1	Level 2	Level 3
Long-term investments carried at fair value	\$ 1,787,295	\$ 1,787,295	\$ 1,692,333	\$ —	\$ 94,962
Development loans and other receivables	10,908	12,112	—	12,112	—
Derivative instruments:					
Energy contracts designated as a cash flow hedge	15,487	15,487	—	—	15,487
Energy contracts not designated as cash flow hedge	202	202	—	—	202
Interest rate swap designated as a hedge	2,981	2,981	—	2,981	—
Commodity contracts for regulated operations	7,305	7,305	—	7,305	—
Total derivative instruments	25,975	25,975	—	10,286	15,689
Total financial assets	\$ 1,824,178	\$ 1,825,382	\$ 1,692,333	\$ 22,398	\$ 110,651
Long-term debt	\$ 6,870,047	\$ 7,255,724	\$ 2,437,402	\$ 4,818,322	\$ —
Convertible debentures	277	412	412	—	—
Preferred shares, Series C	13,386	14,653	—	14,653	—
Derivative instruments:					
Energy contracts designated as a cash flow hedge	52,333	52,333	—	—	52,333
Energy contracts not designated as a cash flow hedge	4,129	4,129	—	—	4,129
Cross-currency swap designated as a net investment hedge	60,540	60,540	—	60,540	—
Interest rate swaps designated as a hedge	8,134	8,134	—	8,134	—
Total derivative instruments	125,136	125,136	—	68,674	56,462
Total financial liabilities	\$ 7,008,846	\$ 7,395,925	\$ 2,437,814	\$ 4,901,649	\$ 56,462

**Algonquin Power & Utilities Corp.**

Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2021 and 2020

*(in thousands of U.S. dollars, except as noted and per share amounts)***21. Financial instruments (continued)**

(a) Fair value of financial instruments (continued)

December 31, 2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
Long-term investment carried at fair value	\$ 1,839,212	\$ 1,839,212	\$ 1,708,683	\$ 20,015	\$ 110,514
Development loans and other receivables	23,804	31,088	—	31,088	—
Derivative instruments:					
Energy contracts designated as a cash flow hedge	51,525	51,525	—	—	51,525
Energy contracts not designated as a cash flow hedge	388	388	—	—	388
Commodity contracts for regulatory operations	194	194	—	194	—
Total derivative instruments	52,107	52,107	—	194	51,913
Total financial assets	\$ 1,915,123	\$ 1,922,407	\$ 1,708,683	\$ 51,297	\$ 162,427
Long-term debt	\$ 4,538,470	\$ 5,140,059	\$ 2,316,586	\$ 2,823,473	—
Notes payable to related party	30,493	30,493	—	30,493	—
Convertible debentures	295	623	623	—	—
Preferred shares, Series C	13,698	15,565	—	15,565	—
Derivative instruments:					
Energy contracts designated as a cash flow hedge	5,597	5,597	—	—	5,597
Energy contracts not designated as a cash flow hedge	332	332	—	—	332
Cross-currency swap designated as a net investment hedge	84,218	84,218	—	84,218	—
Interest rate swaps designated as a hedge	19,649	19,649	—	19,649	—
Commodity contracts for regulated operations	614	614	—	614	—
Total derivative instruments	110,410	110,410	—	104,481	5,929
Total financial liabilities	\$ 4,693,366	\$ 5,297,150	\$ 2,317,209	\$ 2,974,012	\$ 5,929

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value as at September 30, 2021 and December 31, 2020 due to the short-term maturity of these instruments.

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Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of U.S. dollars, except as noted and per share amounts)***21. Financial instruments (continued)**

## (a) Fair value of financial instruments (continued)

The fair value of development loans and other receivables (level 2) is 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 closing price on the NYSE and the 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 of convertible debentures has been determined as the greater of their face value and the quoted value of AQN's common shares on a converted basis.

The Company's level 2 fair value derivative instruments primarily consist of swaps, options, rights, subscription agreements and forward physical derivatives 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 and the fair value of the Company's investment in AYES Canada. The significant unobservable inputs used in the fair value measurement of energy contracts are the internally developed forward market prices ranging from \$16.15 to \$185.08 with a weighted average of \$29.92 as at September 30, 2021. The weighted average forward market prices are developed based on the quantity of energy expected to be sold monthly and the expected forward price during that month. The change in the fair value of the energy contracts is detailed in notes 21(b)(ii) and 21(b)(iv). The significant unobservable inputs used in the fair value measurement of the Company's AYES Canada investment are the expected cash flows, the discount rates applied to these cash flows ranging from 9.03% to 9.53% with a weighted average of 9.44%, and the expected volatility of Atlantica's share price ranging from 22% to 46% as at September 30, 2021. Significant increases (decreases) in expected cash flows or increases (decreases) in discount rate in isolation would have resulted in a significantly lower (higher) fair value measurement. The increase in value and volatility of the Atlantica shares during the year resulted in a significant increase in the fair value measurement.

## (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:

	<b>September 30, 2021</b>
Financial contracts: Swaps	<b>2,956,308</b>
Options	<b>193,619</b>
	<b>3,149,927</b>

The accounting for these derivative instruments is subject to guidance for rate regulated enterprises. Most of the gains or losses on the settlement of these contracts are included in the calculation of the fuel and commodity costs adjustments (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.

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*(in thousands of U.S. dollars, except as noted and per share amounts)***21. Financial instruments (continued)**

(b) Derivative instruments (continued)

(i) Commodity derivatives – regulated accounting (continued)

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

	September 30, 2021	December 31, 2020
Regulatory assets:		
Swap contracts	\$ —	\$ 228
Option contracts	\$ —	\$ 50
Forward contracts	\$ —	\$ 693
Regulatory liabilities:		
Swap contracts	\$ 7,087	\$ 271
Option contracts	\$ 279	\$ 76
Forward contracts	\$ —	\$ —

(ii) Cash flow hedges

The Company has sought to reduce the price risk on the expected future sale of power generation at the Sandy Ridge, Senate, Minonk, and Shady Oaks II 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)
2,479,234	December 2031	\$23.50	NI HUB
4,729,287	September 2030	\$24.54	Illinois Hub
560,010	December 2028	\$32.72	PJM Western HUB
2,611,114	December 2027	\$24.04	NI HUB
2,097,657	December 2027	\$36.46	ERCORT North HUB

Upon the acquisition of the Sugar Creek Wind Facility (note 3(d)), the Company redesignated a long-term energy derivative contract to mitigate the price risk on the expected future sale of power generation. The fair value of the derivative on the redesignation date will be amortized into earnings over the remaining life of the contract.

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, AQN anticipates having to purchase a portion of its energy requirements at the ISO NE spot rates to supplement self-generated energy. The Company designated a contract with a notional quantity of 29,000 MW-hours, a price of \$38.95 per MW-hr and expiring in February 2022 as a hedge to the price of energy purchases. The Company also mitigates the risk by using short-term financial forward energy purchase contracts. These short-term derivatives are not accounted for as hedges and changes in fair value are recorded in earnings as they occur (note 21(b)(iv)).

In November 2020, upon the acquisition of Liberty Group Limited (formerly Ascendant Group Limited, "Ascendant"), the Company redesignated two interest rate swap contracts as cash flow hedges to mitigate the risk that LIBOR-based interest rates will increase over the life of Ascendant's term loan facilities. Under the terms of the interest rate swap contracts, the Company has fixed its LIBOR interest rate expense on \$87,627 and \$8,875 to 3.28% and 3.02%, respectively, on its two term loan facilities. The fair value of the derivative on the redesignation date will be amortized into earnings over the remaining life of the contract.

**Algonquin Power & Utilities Corp.**

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*(in thousands of U.S. dollars, except as noted and per share amounts)***21. Financial instruments (continued)**

(b) Derivative instruments (continued)

(ii) Cash flow hedges (continued)

The Company is party to a forward-starting interest rate swap in order to reduce the interest rate risk related to the quarterly interest payments between July 1, 2024 and July 1, 2029 on the \$350,000 subordinated unsecured notes. The Company designated the entire notional amount of the pay-variable and receive-fixed interest rate swaps as a hedge of the future quarterly variable-rate interest payments associated with the subordinated unsecured notes.

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	
	2021	2020	2021	2020
Effective portion of cash flow hedge	\$ (31,323)	\$ (3,042)	\$ (94,490)	\$ (15,932)
Amortization of cash flow hedge	(545)	(555)	(1,657)	(1,663)
Amounts reclassified from AOCI	269	(1,164)	40,401	(7,467)
OCI attributable to shareholders of AQN	\$ (31,599)	\$ (4,761)	\$ (55,746)	\$ (25,062)

The Company expects \$12,767, \$1,855 and \$1,206 of unrealized gains and losses currently in AOCI to be reclassified, net of taxes into non-regulated energy sales, interest expense and derivative gains, respectively, within the next 12 months, as the underlying hedged transactions settle.

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

The functional currency of most of AQN's operations is the U.S. dollar. The Company designates obligations denominated in Canadian dollars as a hedge of the foreign currency exposure of its net investment in its Canadian 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 \$338 and loss of \$108 for the three and nine months ended September 30, 2021, respectively (2020 - loss of \$278 and \$83, respectively) was recorded in OCI.

On May 23, 2019, the Company entered into a cross-currency swap, coterminous with the subordinated unsecured notes, to effectively convert the \$350,000 U.S.-dollar-denominated offering into Canadian dollars. The change in the carrying amount of the notes due to changes in spot exchange rates is recognized each period in the unaudited interim consolidated statements of operations as loss (gain) on foreign exchange. The Company designated the entire notional amount of the cross-currency fixed-for-fixed interest rate swap as a hedge of the foreign currency exposure related to cash flows for the interest and principal repayments on the notes. Upon the change in functional currency of AQN to the U.S. dollar on January 1, 2020, this hedge was dedesignated. The OCI related to this hedge will be amortized into earnings in the period that future interest payments affect earnings over the remaining life of the original hedge. The Company redesignated this swap as a hedge of AQN's net investment in its Canadian subsidiaries. The related foreign currency transaction gain or loss designated 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. The fair value of the derivative on the redesignation date will be amortized over the remaining life of the original hedge. A foreign currency gain of \$12,284 and \$817 for the three and nine months ended September 30, 2021, respectively (2020 - loss of \$10,080 and gain of \$9,503, respectively) was recorded in OCI.

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Notes to the Unaudited Interim Consolidated Financial Statements

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*(in thousands of U.S. dollars, except as noted and per share amounts)*

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**21. Financial instruments (continued)**

(b) Derivative instruments (continued)

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

*Canadian operations*

The Company is exposed to currency fluctuations from its Canadian-based operations. AQN 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.

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 obligations 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 loss of \$744 and gain of \$1,247 for the three and nine months ended September 30, 2021 (2020 - \$Nil and loss of \$3,581) was recorded in OCI.

The Company was party to C\$650,000 cross-currency swaps to effectively convert Canadian dollar debentures 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 Renewable Energy 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. A loss of \$11,644 and gain of \$1,630 for the three and nine months ended September 30, 2021, respectively (2020 - gain of \$15,472 and loss of \$11,719, respectively) was recorded in OCI. On February 15, 2021, the Renewable Energy Group settled the related cross-currency swap related to its C\$150,000 debenture that was repaid (note 7(b)).

On April 9, 2021, the Renewable Energy Group entered into a fixed-for-fixed cross-currency interest rate swap, coterminous with the senior unsecured debentures (note 7(b)), to effectively convert the C\$400,000 Canadian-dollar-denominated offering into U.S. dollars. The Renewable Energy Group designated the entire notional amount of the fixed-for-fixed cross-currency interest rate swap as a hedge of the foreign currency exposure of its net investment in its U.S. operations. The gain or loss related to the fair value changes of the swap are reported in the same manner as the translation adjustment (in OCI) related to the net investment. A loss of \$10,135 and \$12,788 for the three and nine months ended September 30, 2021 was recorded in OCI.

*Chilean operations*

The Company is exposed to currency fluctuations from its Chilean-based operations. The Company's Chilean operations are determined to have the Chilean peso as their functional currency. Chilean long-term debt used to finance the operations is denominated in Chilean Unidad de Fomento.

(iv) Other derivatives

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.

In 2020, the Company executed on currency forward contracts to purchase in total \$682,500 for approximately C\$923,243 in order to manage the currency exposure to the Canadian dollar shares issuance.

For derivatives that are not designated as hedges, the changes in the fair value are immediately recognized in earnings.

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*(in thousands of U.S. dollars, except as noted and per share amounts)***21. 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	
	2021	2020	2021	2020
Change in unrealized gain (loss) on derivative financial instruments:				
Energy derivative contracts	\$ (2,176)	\$ (165)	\$ (4,803)	\$ 462
Total change in unrealized gain (loss) on derivative financial instruments	\$ (2,176)	\$ (165)	\$ (4,803)	\$ 462
Realized loss on derivative financial instruments:				
Energy derivative contracts	(485)	(289)	(126)	(970)
Total realized loss on derivative financial instruments	\$ (485)	\$ (289)	\$ (126)	\$ (970)
Loss on derivative financial instruments not accounted for as hedges	(2,661)	(454)	(4,929)	(508)
Amortization of AOCI gains frozen as a result of hedge dedesignation	844	755	2,847	2,255
	\$ (1,817)	\$ 301	\$ (2,082)	\$ 1,747
Amounts recognized in the consolidated statements of operations consist of:				
Gain (loss) on derivative financial instruments	\$ (1,817)	\$ 301	\$ (2,082)	\$ 1,747

(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.

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk and liquidity risk, and how the Company manages those risks.

**22. Comparative figures**

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