Ascendant Group Limited
Management's Discussion & Analysis of Results and Financial Condition (the "MD&A")

For the three and nine month periods ended 30 September, 2019

The following Management's Discussion & Analysis ("MD&A") provides a review of the results of operations and financial condition of Ascendant Group Limited and its subsidiaries ("Ascendant" the "Company" or the "Group") and should be read in conjunction with the Company's MD&A and audited consolidated financial statements for the year ended 31 December, 2018 included in the Company's 2018 Annual Report and available at ascendant.bm.

Financial information contained in this MD&A and the unaudited condensed consolidated interim financial statements for the three and nine months ended 30 September, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Except where noted, figures are expressed in Bermuda dollars, which trades at par with the United States dollar.

This MD&A contains forward-looking statements that reflect management's current beliefs with respect to the Company's future growth, results of operations, performance, business prospects and opportunities and the potential sale of the Company. Statements that are not historical facts, including statements about management's beliefs and expectations, are forward-looking statements. These statements are based on information currently available to Ascendant's management and should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether, or the time at which, such events, performance or results will be achieved.

The forward-looking information is based on reasonable assumptions and is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors that could cause results or events to differ from current expectations are discussed in the "Primary Factors Affecting Ascendant's Business" section of Ascendant's 31 December, 2018 MD&A and may also include changes in Bermuda's economy and regulatory environment, aging infrastructure and asset operations, fuel supply, labour and management's relationship with Company unions, competition, weather conditions, environmental matters as well as capital market and liquidity risk; estimated energy consumption rates; maintenance of adequate insurance coverage; changes in customer energy usage patterns; developments in technology that could reduce demand for electricity; interest rate risk; credit risk; foreign exchange risk; risks associated with pension plan performance and funding requirements; loss of service area; risk of failure of information technology infrastructure and cybersecurity risks; and availability of labour and management resources.

Readers are cautioned not to place undue reliance on forward-looking information as actual results could differ materially from the plans, expectations, estimates or intentions and statements expressed in the forward-looking information.

Non-IFRS Financial Measures

Certain financial measures discussed in this MD&A are not defined under IFRS and, therefore, should not be considered in isolation or as an alternative to or to be more meaningful than net earnings attributable to common shareholders, as determined in accordance with IFRS, when assessing our financial performance. These measures may not be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

Core earnings is a non-IFRS measure. Core earnings excludes certain non-recurring items and discontinued operations from net earnings.

Strategic Overview

Ascendant is a Bermuda-based, publicly-traded provider of energy and energy-related services and infrastructure. Its primary business is conducted through its wholly-owned, rate-regulated, fully-integrated utility, Bermuda Electric Light Company Limited ("BELCO").

At 30 September, 2019, BELCO:

- Employed 237 staff or 68% of total staff employed by the Group;
- Held $457 million or 88% of total assets reported by the Group;
- Sold 420 million kilowatt hours to customers during the first nine months of 2019 resulting in total electric energy revenue of $167 million net of discount.

Ascendant also has a growing non-utility energy services and infrastructure business through its wholly-owned subsidiary AG Holdings Limited ("AG Holdings") and its subsidiaries and affiliates. AG Holdings is the sole owner of the following operating companies:

- AIRCARE LTD. ("AIRCARE"), offering heating, ventilation and air conditioning ("HVAC"), air quality monitoring, building automation and energy management, commercial plumbing, fire protection, and commercial refrigeration services;
- IFM Limited ("IFM"), offering property and facilities management services;
- iEPC Limited ("iEPC"), offering engineering procurement, contracting and consulting services; and
- Ascendant Properties Limited ("Ascendant Properties"), the Group's property management company.

Ascendant's vision is to be the most respected, sustainable and progressive energy and services organisation in the Atlantic by 2021. It seeks to provide the people of Bermuda with energy and services to enhance their lives in a safe, reliable and cost competitive manner. For investors, Ascendant seeks to deliver consistent earnings, cash flow and long-term growth.

The Company adopted a new strategic plan in 2016 with the following key objectives:

- Transition by BELCO to a productive and stable regulatory environment that supports the investment required to deliver reliable power to its customers;
- Execute on BELCO's $250 million capital plan that includes the investment required to modernise BELCO's power generation and transmission and distribution systems in Bermuda, including implementing new technologies such as battery storage, advanced metering and system improvements to support the addition of natural gas and renewable energy (the "Capital Plan");
- Achieve a more competitive capital structure by using appropriate amounts of low-cost, long-term debt and accessing equity at the lowest possible cost;
- Reduce its cost structure by investing wisely and by increasing the efficiency of its operations; and
- Grow its non-utility businesses such as AIRCARE as well as invest in electrifying transportation in Bermuda.

The Company's strategy is designed to increase shareholder value, reduce customer electricity rates over time, and provide a strong future for its employees.

The Company continued to execute this strategic plan during the first three quarters of 2019, including:

- Continuing construction of 56 megawatts (MW) of replacement generation ("Replacement Generation")
- Completed the construction of the 10 MW battery storage system ("Battery Storage");
- Submitted a rate case in April, 2019 to the Regulatory Authority (the "Authority") in respect of the retail tariff methodology released by the Authority in October 2018 which provided clarity on future rate setting methods and timing;
- Proceeding with the early retirement programme announced in 2018 to reduce future staffing costs. The combination of the early retirement programme, a hiring freeze and a functional realignment allowing for the more efficient delivery of work will reduce the Company's workforce with minimal disruption over time.

With these accomplishments, the Company has laid the groundwork for Bermuda's energy future. The infrastructure improvements contemplated in the Capital Plan allow Bermuda to pursue any future energy mix it chooses and also ensures a cost effective, reliable supply of energy for the foreseeable future.

The Board of Directors announced in January, 2019 that it was beginning a process of evaluating strategic alternatives for the Company, including the potential sale of Ascendant Group Limited. Following a robust assessment process and invitation to selected interested parties to submit bids, on 3 June, 2019 the Board of Directors announced that the Company had signed an agreement with Algonquin Power & Utilities Corp ("APUC") to sell the Company for $36 per share, subject to shareholder and regulatory approvals.

APUC is an established renewable energy and utility group with North American assets in excess of $10 billion. They currently own and operate 54 energy facilities, of which 90% are renewable. As part of their proposal APUC has committed to continue to run all Ascendant companies locally with current Bermudian management, to support BELCO in its collaboration with the Authority in implementing the Integrated Resource Plan for Bermuda and introducing modern energy technologies to accelerate the introduction of renewables, conservation and battery storage for the island.

The Board of Directors takes the view that APUC can provide the resources and experience required to build on the foundation it has established and for Ascendant to realise its strategy of providing a strong future for its staff and customers. Required submissions have been made, and the Company awaits approval for the completion of the sale.

Consolidated Financial Review

The following table presents an analysis of the Company's net earnings for the three and nine months ended 30 September, 2019 and 2018. Changes in the individual business units are presented in the Results of Operations section.

	Three months ended 30 September			Nine months ended 30 September		
($ thousands)	**2019**	2018	Variance	**2019**	2018	Variance
BELCO	**$10,360**	$10,576	$(216)	**$14,765**	$19,236	$(4,471)
AG Holdings	**1,593**	1,093	500	**4,248**	3,282	966
ABIL	**27**	189	(162)	**502**	430	72
Core earnings from operations	**11,980**	11,858	122	**19,515**	22,948	(3,433)
Corporate expenses	**(3,859)**	(1,168)	(2,691)	**(8,720)**	(8,207)	(513)
Core Earnings	**8,121**	10,690	(2,569)	**10,795**	14,741	(3,946)
Restructuring costs	**1,785**	(591)	2,376	**(2,835)**	(1,503)	(1,332)
Net Earnings	**$9,906**	$10,099	$(193)	**$7,960**	$13,238	$(5,278)
Net Earnings Per Share (Basic)	**$1.05**	$1.02	$0.03	**$0.84**	$1.34	$(0.59)

Earnings

Year to date core earnings were $8.1 million and $10.8 million for the three and nine month periods ended 30 September, 2019 respectively, a decrease of $2.6 million and $3.9 million, respectively, from the same periods in 2018. The year over year changes for the first nine months of 2019 include the following:

- Bermuda Electric Light Company Limited's ("BELCO") core earnings for the nine months ended 30 September, 2019 were $4.5 million lower than the same period in 2018. This decrease is primarily due to lower electric tariff sales, increased depreciation and finance expenses and a $1.0 million provision for restoration costs associated with Hurricane Humberto, partially offset by cost saving measures.
- Ascendant's non-utility businesses continued to provide core earnings growth in 2019, increasing by $1.0 million or 29% over the same period in 2018. Operating results from AG Holdings operating entities are provided below.

Net earnings for the three and nine months ended 30 September, 2019 declined by $0.2 million and $5.3 million from 2018 to earnings of $9.9 million and $8.0 million respectively. The year to date decrease is due to changes in core earnings and increased costs associated with the restructuring of the Company, primarily financial advisory and legal fees.

Rates and Regulation

In the first three quarters of 2019, BELCO's electricity rates continued to reflect those implemented by the Energy Commission ("EC") in 2016 prior to the transfer of regulatory oversight to the Authority. The EC methodology allows for target return on rate base with excess returns allocated to a tariff stabilisation fund that can be drawn upon for subsequent return deficiencies or to defer rate increases. In October, 2018 the Authority released its Retail Tariff Methodology and BELCO filed, on 18 April, 2019, its rate case covering the 2020 and 2021 rate periods. BELCO will implement the new rate methodology based on the Authority's response to its rate case.

ASCENDANT

Results of Operations

BELCO

($ millions)	Three months ended 30 September **2019**	2018	Variance	Nine months ended 30 September **2019**	2018	Variance
Basic electric tariff sales	**$46.5**	$46.0	$0.5	**$116.5**	$120.0	$(3.5)
Fuel adjustment tariff sales	**23.3**	22.4	0.9	**56.4**	50.5	5.9
Gross electric revenues	**69.8**	68.4	1.4	**172.9**	170.5	2.4
Less: Electric sales discounts	**2.2**	2.2	-	**5.6**	5.7	0.1
Net electric sales revenues	**67.6**	66.2	1.4	**167.3**	164.8	2.5
Regulatory fee revenues	**0.8**	0.8	-	**2.0**	2.0	-
Other revenues	**0.3**	0.4	(0.1)	**1.4**	1.3	0.1
Net operating revenues	**68.7**	67.4	1.3	**170.7**	168.1	2.6
Operating & administrative expense	**18.6**	19.1	0.5	**57.2**	57.4	0.2
Purchased power / energy	**1.1**	1.0	(0.1)	**3.0**	3.1	0.1
Fuel	**29.5**	29.7	0.2	**72.8**	69.7	(3.1)
Depreciation, amortisation, accretion and impairment	**6.4**	6.3	(0.1)	**18.7**	18.0	(0.7)
Inventory obsolescence & provision for engine decommission	**-**	-	-	**-**	-	-
Regulatory fees	**0.9**	0.8	(0.1)	**2.3**	2.2	(0.1)
Finance expenses	**0.9**	-	(0.9)	**1.1**	0.1	(1.0)
Total expenses	**57.4**	56.9	(0.5)	**155.1**	150.5	(4.8)
Earnings before movement in regulatory account balances	**11.3**	10.5	0.8	**15.6**	17.6	(2.0)
Net movement in regulatory account balances	**(0.9)**	0.1	(1.0)	**0.9**	1.6	(2.5)
Net earnings	**10.4**	10.6	(0.2)	**14.7**	19.2	(4.5)
Add back restructuring charges	**-**	-	-	**0.1**	-	0.1
Core earnings	**$10.4**	$10.6	$(0.2)	**$14.8**	$19.2	$(4.4)

BELCO's core earnings for the three and nine months ended 30 September, 2019 are less than the comparative 2018 period by $0.2 million and $4.4 million, respectively, due to lower electric tariff sales, increased depreciation and finance expenses and a $1.0 million provision for restoration costs associated with Hurricane Humberto.

As noted above, BELCO's net operating revenues are comprised of base tariff and fuel adjustment tariff electricity sales net of discounts, regulatory fee revenue and other income. Gross base tariff electricity sales for the three months ended 30 September, 2019 increased by $0.5 million and decreased by $3.5 million for the nine months ended 30 September, 2019. The variance in the third quarter of 2019 was due to increased demand resulting from higher temperatures as compared to July and August of the previous year, partially offset by the negative impact of Hurricane Humberto on September sales. The decrease in year to date sales is primarily due to lower demand in the first two quarters of 2019 as compared to the same period in 2018.

BELCO's total expenses increased $0.5 million (0.9%) and $4.6 million (3.2%) for the three and nine months ended 30 September, 2019 as compared to the same periods in 2018. Fuel costs were higher than the first two quarters of the prior year, but lower in the third quarter as the market price declined. The majority of the year to date increase is passed on to customers through the fuel adjustment tariff and offset by the net movement in regulatory account balances.

Operating and administration expense decreased approximately $0.5 million and $0.2 million respectively, for the three and nine month periods ended 30 September, 2019 compared to the same periods in 2018, despite a charge of $1.0 million associated with Hurricane Humberto restoration efforts.

Salary expenses which were $0.3 million higher in the three months ended 30 September, 2019 and $0.6 million lower in the nine months ended 30 September, 2019 than the same periods in 2018, and include a $0.4 million charge relating to hurricane restoration. Outside contractor expenses were $0.8 million and $0.7 million higher in the three and nine month periods ended 30 September, 2019 respectively, with $0.5 million of that increase due to hurricane related expenses. Lube oil expenses, shared service fees and insurance increased over the same period in the prior year, while savings were realised in legal and consulting fees and in increase in the deferral of costs associated with engine overhauls.

Purchased power/energy expenses decreased $0.1 million and increased $0.1 million to $1.1 million and $3.0 million, respectively, for the three and nine month periods ended 30 September, 2019. There was decrease in power purchased from the Bermuda Government Tynes Bay waste to energy incinerator plant which dropped from 15.1 million kWh purchased for the nine months ended 30 September, 2018 to 14.5 million kWh in the same period in 2019. Partially offsetting this was a small increase in Photo Voltaic energy provided by customers from 1.5 million kWh in the first nine months of 2018 to 1.6 million kWh in 2019.

Fuel expenses decreased $0.2 million and increased $3.1 million to $29.5 million and $72.8 million, respectively, for the three and nine month periods ended 30 September, 2019. In the three months ended 30 September 2019 the average cost per barrel was roughly equivalent to the 2018 average over the same period, with increased efficiencies in 2019 resulting in lower fuel costs. Year to date, the average price of fuel increased from $105.9 per barrel in the first nine months of 2018 to $112.89 per barrel in 2019. In addition, shifting maintenance schedules in the first two quarters required increased usage of the older diesel engines which are less efficient. Fuel costs above $30.00 per barrel are passed onto the consumer through fuel adjustment sales rates, accordingly the fuel costs are largely offset by higher fuel adjustment revenues and regulatory account balances.

Depreciation, amortization, accretion and impairment expense increased by $0.1 million and $0.7 million, respectively, for the three and nine months ended 30 September, 2019 compared to the prior year. This increased expense is associated with new assets including electric vehicles that have begun to replace a largely depreciated fleet, continuing rollout of the advanced metering infrastructure and the Battery Storage.

Regulatory fees for the nine months ended 30 September, 2019 were much the same as 2018 as the impact of the decrease in kilowatt hours sold was nominal.

AG Holdings

Core earnings from AG Holdings increased by $0.5 million and $1.0 million to $1.6 million and $4.2 million, respectively, for the three and nine months ended 30 September, 2019.

AIRCARE's results increased $0.2 million and $0.2 million to $1.2 million and $2.9 million for the three and nine month periods ended 30 September, 2019, respectively.

iEPC recorded net income of $- million and $0.3 million for the three and nine months ended 30 September, 2019, respectively, as compared to a net income of $- million and $0.1 million for the comparable periods in 2018. External revenue growth is the prime driver of the net income increase. The business model for iEPC was changed in 2018 to offer engineering services to the external marketplace.

IFM recognized earnings of $0.4 million and $1.1 million for the first three and nine months of 2019, respectively, as compared to earnings of $0.2 million and $0.6 million for the same periods in 2018. Net profit increased in 2019 due to increased project work, a one-time adjustment related to energy performance contracts and decreased expenses.

Ascendant Properties net earnings were stable at $- million and $0.1 million, respectively, for the first three and nine month periods of 2019 and 2018.

Ascendant Bermuda Insurance Limited ("ABIL")

ABIL is a Class 1 insurance company licensed under the Insurance Act 1978 and was established to provide coverage for group companies. For the three and nine months ended 30 September, 2019, ABIL recognised income of $- million and $0.5 million, respectively, compared to $0.2 million and $0.4 million during the same periods in 2018. This increase is the result of ABIL assuming additional motor vehicle fleet coverage within the Ascendant Group, and coverage of a portion of the Replacement Generation project, offset by increases in the outstanding loss reserves. There were no major claims made during these periods.

Corporate Expenses

Net corporate expenses increased $2.7 million and $0.5 million for the three and nine month periods ended 30 September, 2019 respectively, when compared to the same periods in 2018. In the nine months ended 30 September, 2019 personnel costs were higher by $1.3 million primarily due to the effect of the Company share price on compensation-related expenses, offset by savings in salaries. Charge-outs to affiliates increased by $1.0 million in the same period.

Post-retirement benefit plans

	DB Pension Plan		OPEB Plans	
($ thousands)	**30 September, 2019**	31 December, 2018	**30 September, 2019**	31 December, 2018
Net accrued benefit liability	**$(14,305)**	$(5,905)	**$(36,834)**	$(33,136)

	Three months ended			
	DB Pension Plan		**OPEB Plans**	
($ thousands)	**30 September, 2019**	30 September, 2019	**30 September, 2019**	30 September, 2018
Net benefit cost	**108**	166	**396**	388

	Nine months ended			
	DB Pension Plan		**OPEB Plans**	
($ thousands)	**30 September, 2019**	30 September, 2019	**30 September, 2019**	30 September, 2018
Net benefit cost	**215**	331	**790**	775

The Company maintains a defined benefit pension plan ("DB Pension Plan") together with post-retirement medical and life benefit plans ("OPEB Plans"). The DB Pension Plan accrued benefit liability position increased $8.4 million during the nine month period ended 30 September, 2019 due to the impact of the early retirement programme, lower bond yields and the application of IFRIC 14. Please see Note 6 to the Condensed Consolidated Interim Financial Statements for further details.

Liquidity and Capital Resources

The Company's primary sources of liquidity and capital resources are net funds generated from operations and $192.5 million bank credit facilities. These sources are used to fund capital expenditures, to service and repay debt, to fund share repurchases and to pay dividends.

The following table outlines the summary of cash flow for the three and nine months ended 30 September, 2019 compared to the same periods in 2018:

Cash Flows

	Three months ended 30 September			Nine months ended 30 September		
($ thousands)	**2019**	2018	Variance	**2019**	2018	Variance
Cash and cash equivalents: Beginning of period	**$23,370**	$18,209	$5,161	**$19,468**	$26,565	$(7,097)
Cash provided by / (used in):						
Operating Activities	**21,151**	20,423	728	**25,575**	31,608	(6,033)
Investing Activities	**(9,235)**	(18,295)	9,060	**(82,295)**	(54,816)	(27,479)
Financing Activities	**1,977**	1,959	18	**74,515**	18,939	55,576
Cash and cash equivalents: End of period	**$37,263**	$22,296	$14,967	**$37,263**	$22,296	$14,967

Cash Flows from Operating Activities – Cash flow provided by operations, after non-cash working capital adjustments, increased $21.2 million to $25.6 million for the three month period ended 30 September, 2019 and increased $20.4 million to $31.6 million for the nine month period ended 30 September, 2019. The increase in the three month period ended 30 September, 2019 was primarily driven by differences in accounts payable balances due to timing of fuel shipments. The decrease in the nine month period ended 30 September, 2019 as compared to the same period in 2018 was primarily due to lower net earnings.

Cash Flows from Investing Activities – Cash used in investing activities for the three month period ending 30 September, 2019 decreased $9.1 million and increased $27.5 million for the nine month period ending 30 September 2019.

The significant increase in investing activity year to date is largely associated with continued construction of BELCO's $120 million Replacement Generation project, expected to be completed in 2020. The Replacement Generation project consists of four 14 MW duel fuel engines to replace approximately 50% of its total generation capacity set to be decommissioned. During the nine months ended 30 September, 2019 approximately $56.0 million was spent on this project. In the three months ended 30 September 2019 spending on this project totalled approximately $2.0 million as no significant equipment purchases were made in this period.

Approximately $4.4 million was spent on the 10 MW Battery Storage project which was commissioned in the second quarter of 2019 and is now in service. It is anticipated that efficiency will be improved as there will be less reliance on the aging diesel engines for spinning reserve.

BELCO has begun its 5-year, $124 million transmission and distribution modernisation project (the "T&D Modernization") following approval by the Company's Board of Directors of the first $55 million of capital spending thereunder. The T&D Modernisation will modernise Bermuda's power grid over 5 years by replacing the underground transmission cabling network to reduce outages, enable easier maintenance to reduce costs and provide the system improvements necessary to support the addition of renewable energy and the demands of new developments in Bermuda. It will also replace all meters with advanced meters enabling customers to understand and manage their electricity consumption, reduce the need for manual meter reading, and reduce outage restoration time through automatic notifications to BELCO. Approximately $2.3 million was spent during the nine-month period ended 30 September, 2019 on this project, with $0.6 million spent in the three months ended 30 September, 2019 as significant resources were deployed for Hurricane Humberto restoration work in September.

The campus master plan will improve efficiencies and provide a better environment for employees by replacing and upgrading aged air conditioning systems, plumbing, and electrical wiring. Approximately $2.1 million was spent in the first three quarters of 2019 on building upgrades and improvements.

Cash Flows from Financing Activities – Net cash generated from financing activities for the three-month period ended 30 September, 2019 was flat compared to prior year, but there was a $55.6 million increase in the nine-month period ended 30 September, 2019 over prior year to $74.5 million. During the nine months ended 30 September, 2019 the Company received $78.5 million in net proceeds from debt financing to support BELCO's capital programme. In comparison, during the nine-month period in 2018, the Company saw net cash proceeds of $28.6 million following the initial drawing on the HSBC facility. Offsetting cash received from new debt financing was $3.1 million in dividends paid to shareholders in the first three quarters and $1.2 million paid to repurchase shares under the Company's share repurchase programme less $0.4 million in proceeds from the issuance of capital stock as part of the employee share purchase programme.

Cash Flow Requirements – The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures, debt repayment, and dividend payments. Capital expenditures required to complete BELCO's capital programme are expected to be financed from a combination of operating cash flow together with new long-term debt financing as described above.