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

For the three-month period ended 31 March 2020

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 2019 available at www.ascendant.bm.

Financial information contained in this MD&A and the unaudited condensed consolidated interim financial statements for the three months ended 31 March, 2020 has 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. 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 2019 MD&A and may also include changes in Bermuda's economy and regulatory environment, impacts of the COVID-19 pandemic, 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 31 March 2020, BELCO:

- Employed 217 staff or 65% of total staff employed by the Group;
- Held $463 million or 87% of total assets reported by the Group;
- Sold 121 million kilowatt hours to customers during the first three months of 20 resulting in total electric energy revenue of $46.7 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;

- 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-regulated 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 in the first quarter of 2020 including:

- Successfully commissioned the 56 MW of replacement generation ("Replacement Generation");

- Released new tariffs effective 1 January 2020 based on the Retail Tariff Review – Allowed Revenue Decision & Order dated 25 November 2019 ("2020 Revenue Order"). The 2020 Revenue Order resulted from BELCO's rate case submission under the Regulatory Authority (Retail Tariff Methodology) General Determination 2018 that became operative on 19 October 2018 (the "Methodology"); and

- Continued to provide information as requested to support the review by the Regulatory Authority (the "Authority") of the Company's agreement with Algonquin Power & Utilities Corp ("APUC") to sell the Company for $36 per share that was announced on 3 June 2019.

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 energy mix it chooses and ensures a cost effective, reliable supply of energy for the foreseeable future. The sale of the Company to APUC will provide the resources and experience required to build on the foundation the Company has established and to provide a strong future for its staff and customers as well as providing tangible benefits to customers and Bermuda.

APUC is an established renewable energy and utility group with North American assets in excess of $10 billion. It currently owns and operates 54 energy facilities, of which 90% are renewable. 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 IRP for Bermuda and introducing modern energy technologies to accelerate the introduction of renewables, conservation and battery storage for the island.

COVID-19 Pandemic

The recent outbreak of a strain of the coronavirus referred to as COVID-19, which has spread to Bermuda and impacted local businesses as well as transportation in and out of the country, may have a negative impact on our near term financial results as a result of reduced sales, uncollectable accounts, and disrupted supply chain and operations. As a consequence of the pandemic, the Authority has issued an emergency general determination precluding BELCO from disconnecting customers or changing rates without approval for the duration of the pandemic and BELCO has introduced a bill deferral programme for customers who have been approved for the Bermuda Government unemployment benefit. To ensure the Company has adequate liquidity to manage through the COVID-19 pandemic, management is negotiating with its lenders for additional short-term revolving credit facilities and anticipates finalising these arrangements in the second quarter of 2020.

The longer-term impact is difficult to assess or predict at this time and depending on the scope of the spread and intensity of this coronavirus outbreak, it could have a significant adverse effect on other aspects of our operations or the operations of our significant suppliers and customers. The Company has enacted its business continuity plan to monitor and address the impacts of the COVID-19 pandemic as they emerge, including, among other things, safety of employees, workforce coverage, customer relationship management, continuity of operations, continuity of critical supplies, and financial liquidity.

Consolidated Financial Review

The following table presents an analysis of the Company's net earnings for the three months ended 31 March 2020 and 2019. Changes in the individual business units are presented in the Results of Operations section.

	Three months ended 31 March		
($000's)	**2020**	**2019**	**Variance**
BELCO	**$4,916**	$2,320	$2,596
AG Holdings	**918**	1,048	(130)
ABIL	**249**	218	31
Core earnings from operations	**6,093**	3,586	2,497
Corporate expenses	**(1,959)**	(2,550)	591
Core Earnings	**4,124**	1,036	3,088
Restructuring costs	**-**	(1,569)	1,569
Net Earnings	**$4,124**	**$(533)**	**$4,657**
Net Earnings Per Share (Basic)	**$0.42**	$(0.06)	$0.48

Earnings

First quarter core earnings were $4.1 million for the three months ended 31 March 2020 compared to $1.0 million for the same period in 2019. The year over year changes include the following:

- Bermuda Electric Light Company Limited's ("BELCO") core earnings from operations for the first quarter are $2.6 million or 112% higher than the first quarter of 2019. The improved results result from significant cost savings year over year, due in large part to impact of the early retirement programme completed in 2019, offset partially by the impact of declining demand for electricity in the first quarter of 2020 compared to the same period in 2019. This decline has been offset.
- Ascendant's non-utility businesses declined by $0.1 million compared to the same period in 2019. Operating results from AG Holdings operating entities are provided below,
- Corporate expenses decreased by $0.6 million from the comparable period in 2019 due to decreased compensation expenses and consulting fees, partially offset by decreased service charges to affiliates.

Net earnings increased by $4.7 million from a loss of $0.5 million for the three months ended 31 March 2019 to earnings of $4.1 million for the three months ended 31 March 2020.

Rates and Regulation

The Regulatory Authority (Retail Tariff Methodology) General Determination 2018 became operative on 19 October 2018 (the "Methodology"). The Methodology, which applies to tariffs in 2020, is a cost-of-service rate methodology with certain incentives designed to drive increased efficiency over time. The Methodology allows pass through of 100% of BELCO's fuel costs through the Fuel Adjustment Rate ("FAR"), recovery of certain regulatory costs as a dedicated charge on consumer bills pursuant to the Electricity (Regulatory Authority Fees) Regulations 2017, and recovery of purchased power costs, operating costs, capital costs and a return on rate base through facilities and energy charges.

In 2019, BELCO filed a rate application which applied the Methodology. On 25 November 2019 the Authority issued the Retail Tariff Review – Allowed Revenue Decision & Order ("2020 Revenue Order") and subsequently released the new tariffs which became effective as of 1 January 2020. These tariffs allow recovery of BELCO's filed operating and capital cost estimates, with certain variations, plus an allowed return on rate base of 8%.

For the 2020 rate period, rate base is calculated as the opening net book value of property, plant and equipment plus certain working capital adjustments, plus allowed capital cost additions, less applicable depreciation and amortization. Allowed capital cost additions include approved spending under BELCO's capital plan once assets are placed into service plus an allowance for funds used during construction at BELCO's allowed 8% return.

In 2020, the FAR will be trued up on a quarterly basis, instead of the monthly adjustment mechanism applied previously. Capital and operating cost allowances are subject to an incentive mechanism whereby 20% of any savings will be retained by BELCO with 80% passed on to customers, whereas cost overruns will be borne 100% by BELCO.

In comparative period, BELCO's base rate tariffs in effect until the end of 2019 were approved on 31 March 2016 pursuant to a directive issued by the Energy Commission (the "Directive") and implemented on 1 June 2016. Under the Directive BELCO's fuel costs in excess of $30.00 per barrel were recovered through the FAR. Given the relative volatility of fuel prices, FAR submissions were made to the Authority on a monthly basis in accordance with the minimum reporting requirements set by the Energy Commission.

Results of Operations

BELCO

	Three months ended 31 March		
($ millions)	**2020**	**2019**	**Variance**
Basic electric tariff sales	**$30.8**	$33.7	$(2.9)
Fuel adjustment tariff sales	**17.4**	16.9	0.5
Gross electric revenues	**48.2**	50.6	(2.4)
Less: Electric sales discounts	**1.5**	1.7	0.2
Net electric sales revenues	**46.7**	48.9	(2.2)
Regulatory fee revenues	**0.6**	0.6	-
Other revenues	**0.3**	0.5	(2.2)
Net operating revenues	**47.6**	50.0	(2.4)
Operating & administrative expense	**16.8**	18.1	1.3
Purchased power / energy	**0.8**	0.8	-
Fuel	**17.4**	21.9	4.5
Depreciation, amortisation, accretion and impairment	**6.0**	5.9	(0.1)
Inventory obsolescence & provision of engine decommission	**-**	0.3	0.3
Regulatory fees	**0.7**	0.7	-
Finance expenses	**0.7**	0.1	(0.6)
Total expenses	**42.4**	47.8	5.4
Earnings before movement in regulatory account balances	**5.2**	2.2	3.0
Net movement in regulatory account balances	**(0.3)**	-	(0.3)
Net earnings	**4.9**	2.2	2.7
Add back restructuring charges	**-**	0.1	(0.1)
Core earnings	**$4.9**	$2.3	$2.6

BELCO's net earnings for the three months ended 31 March 2020 are higher than the comparative 2019 period by $2.7 million primarily due to lower costs, due in large part to impact of the early retirement programme completed in 2019, offset partially by the impact of declining demand for electricity in the first quarter of 2020 compared to the same period in 2019.

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 31 March 2020 decreased $2.2 million to $46.7 million. This decrease is due to slightly lower demand in the three months ended 31 March 2020 as compared to the same period in 2019 together with the impact of new tariffs.

BELCO's total expenses decreased $5.4 million (11%) for the three months ended 31 March 2020 as compared to the same period in 2019, primarily due to lower fuel and operating and administration expenses

Operating and administration expense decreased approximately $1.3 million in the three months ended 31 March 2020 compared to the same period in 2019. Salary expenses were $1.2 million lower as savings associated with early retirements began to be realised, with lower salary and wages in addition to decreased overtime and higher capitalised labour. Lube oil expenses were $0.5 million lower due to a new supplier contract, and savings were also realised with respect to outside contractors ($0.2 million), consultants ($0.2 million) and shared service fees ($0.3 million). Deferred expenses associated with engine overhauls decreased and as a result expense increased by $0.6 million. Bad debt expense increased by $0.5 million to account for deteriorating collections expected from the COVID-19 pandemic.

Purchased power/energy expenses remained at $0.8 million, consistent with the same period in 2019. Total power of 4 million kWh was purchased for the three months ended 31 March 2020 from the Bermuda Government Tynes Bay waste to energy incinerator plant.

Fuel expenses decreased $4.5 million for the three month period ended 31 March 2020 to $17.4 million. The average price of fuel declined from $118.56 per barrel in 2019 to $97.72 per barrel in 2020, a decrease of 18%. In 2019, fuel costs above $30.00 per barrel were passed onto the consumer through fuel adjustment sales rates, whereas in 2020 all of the fuel cost was recovered through the FAR.

Total fuel consumed in the comparative three-month period decreased 6,098 barrels or 3% to 178,218 barrels, with a decrease of 1% in kwh sold. These decreased fuel volumes resulted from increased plant efficiency as the Replacement Generation began to produce electricity.

Depreciation, amortization, accretion and impairment expense and **Regulatory fees** for the three months ended 31 March 2020 remained stable.

AG Holdings

Net earnings from AG Holdings decreased by $0.1 million for the three months ended 31 March 2020 to $0.9 million, due to consistent results across all AG Holdings' activities..

Ascendant Bermuda Insurance Limited ("ABIL")

ABIL is a Class 1 insurance company licensed under the Insurance Act 1978 and provides coverage for any deductible related plant and property losses for BELCO, subject to a maximum aggregate recovery of $600,000. For the three months ended 31 March 2020, ABIL recognised income of $0.2 million compared to $0.2 million during the same three month period in 2019. There were no major claims made during these periods.

Corporate Expenses

Net corporate expenses decreased $0.6 million for the three month period ended 31 March 2020 when compared to the same period in 2019. Decreased salary expenses and consulting fees were partially offset by decreased charge-outs to affiliates.

Post-retirement benefit plans

	DB Pension Plan		OPEB Plans	
($000's)	**31 March 2020**	31 December 2019	**31 March 2020**	31 December 2019
Net accrued benefit liability: End of period	**$(10,127)**	$(10,900)	**$(38,259)**	$(38,460)
Total net benefit expenses for the 3 month period ended 31 March	**$93**	$94	**$343**	$395

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 decreased $0.8 million during the three month period ended 31 March 2020 due to Company contributions to the plan to support retiree benefit payments.

Liquidity and Capital Resources

The Company's primary sources of liquidity and capital resources are net funds generated from operations and its $192.5 million 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 months ended 31 March 2020 compared to the three months ended 31 March 2019:

Cash Flows

	Three months ended 31 March		
($ thousands)	**2020**	2019	Variance
Cash and cash equivalents: Beginning of period	**$32,813**	$19,468	$13,345
Cash provided by / (used in):			
Operating Activities	**6,199**	787	5,412
Investing Activities	**(13,749)**	(28,202)	14,453
Financing Activities	**10,015**	23,692	(13,677)
Cash and cash equivalents: End of period	**$35,278**	$15,745	$19,533

Cash Flows from Operating Activities – Cash flow provided by operations, after non-cash working capital adjustments, increased $5.4 million to $6.2 million for the three month period ended 31 March 2020. The increase was primarily driven by improved operating results and the timing of fuel shipment payments, vendor payments and customer collections.

Cash Flows from Investing Activities – Cash used in investing activities for the three month period ended 31 March 2020 decreased $14.5 million to $13.8 million.

The level of investing activity is largely driven by the completion of BELCO's $120 million Replacement Generation project at the end of the first quarter of 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 three months ended 31 March 2020 $8.0 million was spent on the Replacement Generation compared to $15.7 million during the same period in 2019.

Approximately $4.0 million was spent in the three months ended 31 March 2019 on the 10 MW Battery Storage project which was completed during 2019.

BELCO continues its 5-year, $124 million transmission and distribution modernisation project following approval in 2019 by the Company's Board of Directors of the first $55 million of capital spending thereunder. The T&D Modernisation will upgrade 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 $1.2 million was spent during the three-month period ended 31 March 2020 on this project, the same as the amount spent during the same period in 2019.

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 $0.7 million was spent in the first quarter of 2020 on building upgrades and improvements.

Cash Flows from Financing Activities – Net cash generated from financing activities for the three-month period ended 31 March 2020 decreased $13.7 million over the same period in the prior year, to $10.0 million. The Company received $11.9 million in net proceeds from debt financing to support BELCO's capital programme, compared to $27.1 million in the same period of 2019. Offsetting cash received from new debt financing was $1.1 million in dividends paid to shareholders in the first quarter (2019: $1.1 million). In 2019 $1.8 million was paid to repurchase shares under the Company's share repurchase programme offset by $0.2 million in proceeds from the issuance of capital stock as part of the employee share purchase programme. There were no share transaction in the first three months of 2020.

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, share repurchases 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 long-term debt financing as described above. Given the potential negative impact of the COVID-19 pandemic on the Company's business, management is negotiating with its lenders for additional short-term revolving credit facilities to ensure the Company has ample liquidity to manage through the pandemic. Management anticipates finalising these arrangements in the second quarter of 2020.