ASCENDANT

Management's Discussion & Analysis of Results and Financial Condition

Management's Discussion & Analysis (the "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") during the full year of 2019 relative to 2018.

This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as at and for the year ended 31 December 2019.

Ascendant's 2019 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are expressed in Bermuda dollars, which trades at par with the United States dollar, except where noted.

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 the MD&A and may also include: 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 or cash flow from operating activities, as determined in accordance with IFRS, when assessing our financial performance or liquidity. 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, funds from operations ("FFO"), and free cash flow ("FCF") are non-IFRS measures. Core earnings exclude certain items which management considers outside normal operations and discontinued operations from net earnings. FFO is an important metric as it provides a proxy for cash generated from operating activities before changes in working capital and restructuring charges, and provides the ability to evaluate cash flow trends in comparison with results from prior periods. FCF is an important metric as it represents the amount of cash that is available to invest in growth initiatives, make debt payments, pay common share dividends or repurchase common shares.

Changes in working capital are excluded from FFO and FCF to eliminate distortions that we consider temporary in nature, reflecting, among other things, the impact of seasonal factors and timing of receipts and payments. FCF is calculated by deducting from FFO non-growth capital incurred during the year. FFO per share and FCF per share are calculated using the weighted average number of common shares outstanding during the period.

Changes to Prior Period Presentation

Certain prior year figures in the MD&A have been reclassified to conform to current year presentation.

Strategic Overview

Ascendant is a Bermuda-based, publicly traded provider of energy and energy-related services and infrastructure services. Its primary business is conducted through its wholly-owned, rate-regulated, fully-integrated utility, Bermuda Electric Light Company Limited ("BELCO"). At 31 December 2019, BELCO:

- Employed 219 staff or 65.2% of total staff employed by the Group;
- Held $460.3 million or 89.2% of total assets reported by the Group;
- Sold 554.1 million kilowatt hours to customers during 2019 resulting in total revenue of $220.6 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, and accordingly, the primary measures of performance are earnings per share, FFO per share and FCF per share.

The Company adopted a 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 , in Bermuda, including implementing new technologies such as battery storage, advanced metering and system improvements to support the addition of 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 in 2019 including:

- Continued construction of 56 MW of replacement generation scheduled to be commissioned in 2020 ("Replacement Generation");
- Completed construction of a 10 MW battery storage system ("Battery Storage");
- Submitted a rate application under the Regulatory Authority (Retail Tariff Methodology) General Determination 2018 that became operative on 19 October 2018 (the "Methodology") and further to the Retail Tariff Review – Allowed Revenue Decision & Order dated 25 November 2019 ("2020 Revenue Order")subsequently released new tariffs effective 1 January 2020.

- Following a process of consultation on 25 July 2019, the Regulatory Authority (the "Authority") provided clarity on Bermuda's energy future through publication of the Bermuda Integrated Resource Plan dated 30 June 2019 which approved a scenario that would result in a contribution of 85% of energy from renewable resources by 2035 ("IRP");
- Continued to grow the non-utility businesses, with 36% year-over-year core earnings growth; and
- Following a robust assessment process and invitation to selected interested parties to submit bids, the Company announced on 3 June 2019 that it had signed an agreement with Algonquin Power & Utilities Corp ("APUC") to sell the Company for $36 per share, subject to shareholder and regulatory approvals.

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.

Consolidated Financial Review

The following table presents an analysis of our net earnings for the years ended 31 December 2019 and 2018. Changes in the individual business units are presented in the Results of Operations section.

			VARIANCE	
In $000's	**2019**	2018	Change	Change
BELCO	**$19,004**	$ 17,651	$ 1,353	8%
AG Holdings	**6,018**	4,430	1,588	36%
ABIL	**912**	660	252	38%
Unallocated Group Expenses	**(10,614)**	(8,183)	(2,431)	-30%
Core Earnings	**15,320**	14,558	762	5%
Restructuring charges	**(2,880)**	(9,122)	6,242	68%
Net Earnings	**$12,440**	5,436	$7,004	129%

The Company's core earnings increased 5% to $15.3 million due to increased results at BELCO and continued growth in non-utility earnings at AG Holdings, partially offset by higher Group expenses. In addition to the stronger operating results, the Company's net income increased 129% from $5.4 million to $12.4 million due to lower non-recurring restructuring charges in 2019.

The following table presents an analysis of FFO, FCF and selected per share figures for the years ended 31 December, 2019 and 2018.

	2019		2018		Change	
	$000's	$ / Share (Basic)	$000's	$ / Share (Basic)	$000's	$ / Share (Basic)
Funds from operations	$41,391	$4.33	$43,078	$4.40	$(1,687)	$(0.07)
Free cash flow	$26,234	$2.75	$5,925	$0.61	$20,309	$2.14
Core earnings	$15,320	$1.60	$14,558	$1.49	$762	$0.11

The Company generated $41.4 million FFO and $26.2 million in FCF during the period, compared to $43.1 million and $5.9 million respectively in 2018. FFO, which excludes restructuring charges, has decreased due to slightly lower operating cash flow compared to 2018. The increase in FCF reflects the smaller restructuring charges and lower maintenance capital expense recorded in 2019.

The Company continued with its share repurchase programme until 1 April 2019, when it was discontinued in light of the proposed sale of the Company. Share repurchases during the year totaled 139,395 shares at an average price of $18.26 per share.

The Company's earnings and cash flow enabled its Board to maintain the annual dividend rate at $0.45 per share, thus continuing the Company's proud history of paying a regular dividend.

Primary Factors Affecting Ascendant's Business

The following is a summary of the primary factors we expect will continue to have the greatest impact on Ascendant's performance.

Bermuda's Economy – The general economic condition of Bermuda has a significant impact on the Group as changes in population, consumer income, employment and housing are all factors that can impact sales. Tourism continued to improve modestly in 2019, with total visitor arrivals increasing by 4.9% over 2018 and visitor spending up 1.6%. Employment relating to international business has declined in recent years, but there was no significant decrease in the number of international businesses registered in 2019. Retail Sales compared to 2018 declined in all months except April and July of 2019. Projected population decline, potential new taxes and international pressure on offshore jurisdictions all create uncertainty in the future of Bermuda's economy. The emergence of the COVID-19 in late 2019 is also an emerging threat to Bermuda's economy in 2020.

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. 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.

Regulatory Environment – BELCO is an electric utility that operates within a regulated environment. As such, it is subject to the inherent uncertainties associated with rate setting and the associated opportunity to recover its costs and realise a timely and fair return on its investments. The underlying framework for this regulation changed with the Electricity Act 2016 (the “Act”), which became operative on 28 October, 2016 and transferred independent regulatory oversight of the electricity sector from the Energy Commission (the “EC”) to the Authority. BELCO continued to follow the tariff and allowed return methodology established by the EC in its March 2016 directive through the 2019 fiscal year. New retail tariffs were implemented in January 2020 based on the Methodology.

Aging Infrastructure and Asset Operations – Approximately 50% of BELCO’s generation is near end-of-life and is the subject of a decommissioning and disposal notice to the Authority. Approximately 25% of BELCO’s transmission and distribution system is over 60 years old. The advanced age of BELCO’s infrastructure presents a variety of operational risks, including system reliability, safety, cost and availability of parts and overall cost to maintain and operate. This is being addressed through BELCO’s Capital Plan to ensure the continued supply of electricity to Bermuda on a reliable and cost-effective basis.

Fuel Supply – Fuel represented approximately 45% of BELCO’s total operating expenses in 2019 and as such, was an important input to BELCO’s operations. Both the availability and cost of fuel are important risks in BELCO’s operations. Fuel costs generally track movements in crude oil, which saw the average price decrease of approximately 12% in 2019 compared to 2018, starting low and rising in the first four months, before leveling out for the remainder of the year. In order to ensure a reliable and cost-competitive supply of fuel, BELCO regularly conducts competitive bids for fuel supply, whereby suppliers are selected based on their proven ability to reliably supply fuel to Bermuda, their financial stability and their supply cost.

Labour – People are essential to the Company’s operation, particularly in ensuring the reliable supply of electricity to Bermuda. Compensation and benefits represent the second largest category of expenses for the Company. Over the last several years, Ascendant has taken steps to mitigate increasing legacy benefit costs through proposed changes to its retirement benefit programmes. The Company regularly reviews its staffing levels and employment policies to ensure that the right level of skilled staff are in place to meet operational requirements, replace an aging workforce and remain efficient in an evolving regulatory environment. In November 2018 an Early Retirement Programme was announced, which offered benefits to eligible staff. The result was a reduction of staff levels through 2019. This reduction through attrition ensured staffing levels were maintained at a level which continued to ensure safety for staff and the community, and reliability of electricity supply.

Relationship with Company Unions – Staff in several of our operating companies belong to bargaining units, represented by either the Electricity Supply Trade Union (the “ESTU”) or the Bermuda Industrial Union (the “BIU” and collectively, the “Unions”). The Company strives to maintain productive relationships with the Unions to ensure that it maintains a motivated and well-trained staff to support operating activities. During the fall of 2018, BELCO experienced an industrial action, largely resulting from the restructuring activities described earlier. BELCO and the ESTU were able to come to agreement and return to work. The Collective Bargaining Agreement for the period 2019 to 2021 was finalised in 2019.

Access to Capital – The electricity business is capital intensive and as such, access to capital at a competitive cost is essential to the continued provision of reliable and cost-effective electricity. The Company’s approach to managing its capital resources is described more fully in the Liquidity and Capital Resources section.

Competition – Bermuda is a competitive marketplace for the Group’s non-utility businesses and, for BELCO, the Act has established a framework to allow competitive sources of power generation to enter the Bermuda market over time. It is anticipated that the utility-scale solar generation near the airport will be completed in 2020, and various alternative energy generation options will be considered by the Authority as part of the IRP. The Group endeavors to offer outstanding energy, energy-related and infrastructure services and products on a cost-competitive basis. In all of our operating subsidiaries, the objective is to be price-competitive, as well as efficient and effective at meeting customers’ requirements in order to compete successfully.

Weather Conditions – Weather stimulates buyers to consider purchasing air conditioning and other products and services from the Group. It also has a significant impact on the amount of heating or air conditioning related electric demand. Consequently, the operations of most Group operating subsidiaries are affected, positively or negatively, by climatic conditions. In some years, hurricanes and winter storms result in significant costs to replace damaged assets and restore electricity service, while also causing revenue to be lost through service outages. In order to mitigate some of this risk, the Company maintains commercial insurance coverage, which management believes is reasonable and consistent with other similar companies.

Environmental Matters – BELCO’s operations are subject to Bermuda environmental protection laws concerning air emissions, water discharge, noise, land use activities and the handling and disposal of materials and waste products. In order to manage its overall environmental risk and minimise the impact on the environment, BELCO implemented its Environmental Management System to the ISO 14001: 2004 standard. Under this standard, companies are required to establish, document, implement, maintain and continually improve their environmental performance with the aim of pollution minimisation. In 2018 BELCO successfully maintained its certification to the ISO 14001:2015 Standard for Environmental Management Systems. As part of its conversion to IFRS in 2015, BELCO recognised certain asset retirement obligations as liabilities on its balance sheet. As only a portion of the expense related to these obligations have been recovered in electricity tariffs, BELCO will be seeking cost recoveries as its plans for the decommissioning of these assets are developed.

Rates and Regulation

In 2019, BELCO's electricity rates continued to reflect those established by the EC in March 2016. The EC methodology allowed for target return on rate base with excess returns allocated to a tariff stabilisation fund that could be drawn upon for subsequent return deficiencies or to defer rate increases. In October 2018, the Authority released the Methodology which 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, 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. BELCO submitted a rate application under the Methodology and received the 2020 Revenue Order late in 2019 for tariffs effective as of 1 January, 2020.

BELCO submitted a draft integrated resource plan to the Authority in February 2018 providing details relating to electricity demand, existing generation and reliability, and environmental considerations. Following public consultation to obtain input from all stakeholders with respect to meeting Bermuda's future energy requirements, the IRP was released by the Authority on 25 July, 2019 and approved a scenario that would result in a contribution of 85% of energy from renewable resources by 2035.

In the first half of 2018, BELCO received an order to proceed from the Authority to begin construction of 56 MW of duel-fuel generating units to replace ageing generation units that are scheduled to be decommissioned in 2020. Construction commenced in the second quarter of 2018 and the generating units are expected to be commissioned in the first half of 2020.

In October 2018 the Regulatory Authority (Feed in Tariff Methodology) General Determination 2018 became effective and set the methodology by which the Authority will determine the feed-in tariff that BELCO will pay to distributed generators that have entered into Standard Contracts with BELCO as required under the Act. In October 2019, the Authority approved a new feed-in tariff for distributed generators.

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Results of Operations

BELCO

In $ millions	2019	2018	Variance	
Operating revenues net of discounts	$220.6	$223.5	$(2.9)	-1%
Operating & administrative expense	78.8	82.1	3.3	4%
Purchased power/energy	3.9	3.9	-	0%
Fuel	93.1	93.7	0.6	1%
Depreciation, amortisation, accretion	25.3	24.7	(0.6)	-2%
Inventory obsolescence & provision for engine decommission	0.8	1.1	0.3	27%
Regulatory fees	3.0	3.1	0.1	3%
Finance expenses	1.4	0.7	(0.7)	-100%
Total expenses	206.3	209.3	3.0	1%
Earnings before net movement in regulatory account balances	14.3	14.2	0.1	1%
Net movement in regulatory account balances	4.7	1.0	3.7	NM
Net earnings	19.0	15.2	3.8	25%
Add back restructuring costs	-	2.5	(2.5)	-100%
Core earnings	$19.0	$17.7	$1.3	7%

BELCO's core earnings increased 7%, or $1.3 million, to $19.0 million for the year, as compared to 2018 results of $17.7 million.

BELCO's operating revenues net of discounts are comprised of base tariff net electricity sales, fuel adjustment revenue, regulatory fee revenue and other income. Base tariff net electricity sales for 2019 totaled $144.8 million, as compared to $149.7 million in 2018, a decrease of $4.9 million, or 3.3%, primarily due to lower sales volumes. BELCO's sales decreased 13.7 million kWh, or 1.9%, from 567.8 million kWh sold in 2018 to 554.1 million kWh sold in 2019. The deployment of rooftop solar continues to impact sales across all customer classes, with an uplift in the number of systems deployed as well as expansions to existing systems seen in 2019.

Revenues from the regulatory fee passed on to the consumer during the current year totaled $2.6 million (2018: $2.7 million).These fees are calculated based on kWh sales and reflect the decrease in kWh sales.

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BELCO Sales Statistics: 2015 – 2019

	2019	2018	2017	2016	2015
Maximum Demand (KILOWATTS)	**107,700**	103,800	110,700	110,600	108,000
Kilowatt Hours Generated (in 000s kWh)	**598,138**	629,371	662,228	653,376	662,307
Electricity Sales (in 000's kWh):					
Residential	**237,710**	240,302	245,124	245,105	245,498
Commercial	**263,793**	274,770	284,866	286,588	290,552
Other	**52,597**	52,755	54,528	54,081	54,377
Total	**554,100**	567,827	584,518	585,774	590,427
Total Metered Connections	**38,151**	38,013	37,908	37,841	37,786

BELCO's total expenses decreased $3.0 million or 1.4% in 2019 to $206.3 million, compared to $209.3 million in 2018.

Operating and administration expense decreased $3.3 million or 4.6% from $78.5 million in 2017 to $82.1 million in 2018. The decrease in the current year is largely due to the following:

- $5.5 million reduction in staff compensation and benefits expense from $45.9 million in 2018 to $40.4 million in 2019. This decrease was largely due to lower staff levels resulting from the early retirement programme. Shared service charges from the parent company decreased by $0.9 million to $9.2 million in 2019 based on BELCO's use of these services.
- These cost decreases were partially offset by:
  - An increase in bad debt expense of $1.5 million from $(0.3 million) in 2018 to $1.2 million in 2019 due to slower collections and the fact that the 2018 expense was positively impacted by a change in calculation methodology associated with the adoption of IFRS standards;
  - An expense of $0.6 million was incurred related to recovery works following Hurricane Humberto;
  - An increase in lube oil expense of $0.5 million over 2018 due to higher usage; and
  - Insurance expense, consulting fees and annual fees increased $0.8 million over 2018.

Purchased power/energy expenses was $3.9 million in 2019, the same expense as in 2018.

Fuel expenses remained stable at $93.1 million in 2019 compared to $93.7 million in 2018.

Depreciation, amortisation and accretion expense increased to $25.3 million in 2019 from $24.7 million in 2018. The increase in depreciation expense reflects the completion of certain capital additions associated with the Capital Plan, such as the 10 MW battery energy storage system, that were brought into use and subject to amortisation during the year.

The Company recognised an additional $0.8 million **inventory obsolescence** expense for inventory related solely to the engine generation units set to be decommissioned. The 2019 year-end provision of $6.7 million for these parts was increased based on the likelihood that these parts will not be used prior to the decommissioning.

Total **regulatory fee expenses** associated with BELCO's TD&R licence and its Bulk Generation ("BG") licence recognised in 2019 totaled $3.0 million (2018: $3.1 million). The small decrease is due to reduced kWh sales as compared to 2018.

Regulatory fees associated with the TD&R licence are recovered as a dedicated charge on consumer bills as provided for under the Electricity (Regulatory Authority Fees) Regulations 2017, while BG licence regulatory fees are recoverable through the retail tariff.

Finance expenses increased $0.7 million in 2019 to $1.4 million. This expense represents interest on the CIBC facility that has not been allocated to capital projects. Interest associated with the HSBC facilities were capitalised to the Replacement Generation project. Interest will continue to be capitalised until the project is completed, and will be expensed thereafter.

Net movement in regulatory account balances increased in 2019 by $3.7 million, to $4.7 million. The increase was due to the recognition of regulatory assets associated primarily with the future recovery of restructuring costs allowed as part of the 2020 Revenue Order.

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AG Holdings

Core earnings from AG Holdings for 2019 of $6.0 million represents an increase of $1.6 million when compared to 2018 core earnings of $4.4 million. AG Holdings manages the Group's non-utility, non-regulated business operations through AG Holdings and its subsidiaries AIRCARE, IFM, IEPC and Ascendant Properties.

The strategic focus for AG Holdings continues to be on growth, which has driven an increase of net profit by 75% over the last three years.

AIRCARE's profit margin increased 8% in 2019 with net income increasing from $3.9 million in 2018 to $4.2 million in 2019. IFM's net profit increased $0.7 million from $0.8 million in 2018 to $1.5 million in 2019. IEPC's net income was $0.3 million.

AIRCARE continues to maintain a solid core customer base through exceptional customer service. Maintenance revenue improved from $6.5 million in 2018 to $6.7 million in 2019. Project revenue is comprised of large HVAC, energy efficiency improvement, fire alarm and fire suppression installation projects. Fire-related services continue to be a key area of growth.

IFM's principal facilities management and operations contract with a major client was extended in 2016 for 6 years. Concurrent with that extension, IFM entered into an energy performance (EPC) contract whereby IFM is responsible for the design, implementation, measurement and verification of energy efficiency improvements to facilities owned by the client in Bermuda. The construction phase of this contract was completed in 2017. IFM continued to maintain a strong relationship with this customer through facilities management, the EPC contract and significant project work.

IEPC has a full complement of engineers providing engineering and project management support to internal and external customers. Projects such as the Replacement Generation, the Campus Master Plan, and Works & Engineering Structural Engineering Support continue to be the main activities

ABIL

Ascendant Bermuda Insurance Limited ("ABIL") is a Class 1 insurance company licensed under the Insurance Act 1978 and was established to provide coverage for group companies. ABIL recognised income of $0.9 million in 2019, an increase of $0.3 million over 2018. The increase is the result of ABIL assuming additional motor vehicle fleet coverage within the Ascendant Group, and deductible coverage related to the Replacement Generation project. In 2019 ABIL settled BELCO's $89,000 claim associated with damage from Hurricane Humberto.

Unallocated Group Expenditures

Net corporate expenditures increased $2.4 million to $10.6 million from $8.2 million in 2018. This increase is primarily the result of lower cost allocations to affiliates based on lower usage of corporate services ($1.0 million) as well as higher compensation costs due to the Company's retention share programme ($1.0 million).

Post-retirement benefit plans

	DB Pension Plan		Medical Benefit Plan		Life Insurance Plan	
In $000's	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Accrued benefit obligation	184,694	159,335	32,846	28,314	5,614	4,822
Plan assets at fair value	173,794	153,430	-	-	-	-
Net accrued liability	(10,900)	(5,905)	(32,846)	(28,314)	(5,614)	(4,822)
Total net benefit expense	587	555	1,344	1,323	234	228

The Company maintains a pension plan together with post-retirement medical and life benefit plans, as more fully described in Note 17 to the Consolidated Financial Statements. Over the last several years, management has restructured these plans with the goal of providing employees with a competitive benefit package within a manageable cost and risk profile. The Company transitioned from a defined benefit to a defined contribution pension plan in 2012.

The Company's approach in managing its residual defined benefit pension obligations is to choose an asset mix that balances risk and return with the goal of ensuring adequate funding for its residual obligations. Pension assets are managed by an external investment manager per the pension plan's investment policy statement. The asset allocation is a well-diversified portfolio of global equity and bond investments. The Company reviews its investment manager performance and fees on a regular basis.

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 (2018: $192.5 million). No new facilities were entered into in 2019. The $50.0 million facility with CIBC First Caribbean was used to fund further capital projects, and as it comes due in 2020 the Company plans to review appropriate funding options.

Cash balances at 31 December, 2019 included approximately $9 million set aside for decommissioning of BELCO's generation assets and for insurance reserves in ABIL which are held in high quality money market investments. The remainder of the funds are held in the various subsidiaries to meet short term liquidity needs. The Company is in the process of evaluating a more efficient method to manage its cash balances.

The following table outlines the summary of cash flow for 2019 compared to 2018:

Cash Flows

In $000's	**2019**	2018	Change	Change
Cash and cash equivalents – beginning of year	**$19,468**	$26,565	$(7,097)	(27)%
Cash provided by / (used in):				
Operating Activities	**32,242**	33,224	(982)	(3)%
Investing Activities	**(95,934)**	(74,607)	(21,327)	(29)%
Financing Activities	**77,037**	34,286	42,751	NM
Cash and cash equivalents – end of year	**$32,813**	$19,468	$13,345	69%

Cash Flows from Operating Activities – Cash flow provided by operations, after working capital adjustments, was $32.2 million for 2019, a decrease of $1.0 million from $33.2 million in 2018. Net earnings for the year were higher by $7.0 million over 2018. Offsetting this increase, cash flows were negatively impacted by the working capital impact of regulatory deferral accounts by $4.7 million which relates to net expenses that will be recoverable in future periods.

Inventory increased in 2019, resulting in a net cash flow decrease of $3.9 million. Decreased accounts receivables, including receivables associated with AGH energy performance contracts, resulted in a cash flow increase of $0.9 million over 2018.
Cash Flows from Investing Activities – Cash used in investing activities totaled $95.9 million in 2019, a $21.3 million increase compared to $74.6 million in 2018, most of which related to BELCO's Capital Plan.

BELCO's capital expenditure represents approximately 92.3% or $88.9 million of the Company's total capital expenditure in 2018. A total of $69.1 million was spent addressing power generation requirements, with $60.1 million spent on the Replacement Generation and $4.2 million spent on the Battery Storage project, both undertaken to ensure efficient and reliable electricity generation. A total of $10.9 million was spent refurbishing, upgrading and modernising the transmission and distribution system which included $1.6 million associated with Hurricane Humberto restoration work. Approximately $2.9 million was spent to progress the advanced metering programme which will replace all meters in Bermuda over a three year period.

BELCO invested a further $1.1 million in its fleet of electric bucket trucks and other vehicles, to replace its aged fleet. The investment in electric vehicles is expected to significantly reduce operating (maintenance and fuel) costs over the life of these vehicles as compared to the gas and diesel powered vehicles they replaced.

BELCO also spent approximately $4.3 million to address various aspects of the campus infrastructure.

Cash Flows from Financing Activities – Total cash generated from financing activities of $77.0 million increased by $42.8 million from the $34.3 million generated in 2018. In 2019 $4.2 million was paid to shareholders in dividends (2018 - $4.7 million), $83.4 million was generated from net bank borrowings (2018 - $49.3 million), $2.5 million was paid in share repurchases (2018 - $10.7 million), and by $0.4 million in proceeds from issuance of capital stock (2018: $0.4 million).

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 Plan are expected to be financed from a combination of operating cash flow together with new and existing sources of long-term debt and equity.