Management Discussion and Analysis

This management discussion and analysis (MD&A) should be read in conjunction with the audited consolidated financial statements for the year end December 31st, 2016 and related notes. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are expressed in Bahamian dollars. This MD&A is dated, 18th April 2017.

The MD&A might from time to time contain forward-looking statements. Readers should be cautious in interpreting these statements. Forward-looking statements involve numerous assumptions. Changes in these assumptions could cause actual results to differ materially from the expectations in those statements.

Financial Performance

Results from operations

Revenue

Revenue for the year totaled $117.8 million representing a $5.6 million decrease year compared to the previous year. This decline of 4.9% is partially attributed to a 5.2% decline in sales volume compared to the previous year. Commonwealth Brewery Ltd. results were affected by the devastating storm that hit the northern Bahamas during the latter part of the year. The impact of the storm apart from property damage also impacted the Company's supply chain and route to market.

Gross profit

Gross profit slightly increased by 2% due to the effective cost management of raw and packaging materials used in the production of local products. Due to the decrease in fuel charges and effective cost saving initiatives throughout, the company was able to keep costs stable year over year.

Other income

As stated previously, Commonwealth Brewery Ltd. was impacted by the Hurricane suffering property and inventory damages primarily to the Nassau and Freeport locations. The financial impact for these losses where mitigated due to the Company's insurer which assessed the claim at December 2016 to total $1.9 million for stock loss and $2.8 million for business interruption. The impact of the stock loss had been settled by year end and the assessment of business interruption will continue into 2017.

Results from operating activities amounted to $17.1 million and is very close to net income. This is explained by the fact that the company has only minor finance costs. The change in the Company's personnel costs increase slightly by 1.7% ($18.5M vs. $18.3M) primarily due to management's efforts to reduce overtime however this savings was netted with the increase in employees and salary increases during the year.

Net income

Net income was 31% above the previous year and as previously mentioned was due to cost savings and increase in other income by $3.9 million. As stated, the growth in net income by 31% demonstrates Commonwealth Brewery Ltd. effort to increase the return on investment for its shareholders. There were challenges throughout the year as we continue to battle the parallel market while adapting to consumer demands. The country experienced an economic setback after Hurricane Matthew which further eroded any potential increase in net income however the Company was able to begin production relatively quickly in the aftermath.

Consolidated statement of financial position

Commonwealth Brewery Ltd. received a loan facility facilitated by a related party amounting to $6,000,000 with interest bearing at 1.7%. The facility was received to increase the Company's working capital while performing repairs to the various properties damaged during the storm.

Cash and cash equivalents amounted to $9.8 million at December 31st 2016 which represents a $8.5 million (86%) increase when compared to 2015. This facility discussed above contributed to the increase of cash and cash equivalents despite the increase in assets purchased during the year.

Commonwealth Brewery Ltd. has continued to show the commitment of increasing local investments which is demonstrated by the additions to property, plant and equipment of $3.8 million during the year. This investment is expected to increase in the future as a result of the restoration efforts currently ongoing at numerous locations. On top of this Commonwealth Brewery continued to invest in brands and people in 2016, in order to be well prepared for the future

Liquidity

Commonwealth Brewery's cash flow generation from operating activities in 2016 amounted to $ 21.3 million, of which $ 3.8 million was used for investments. The remaining cash flow was allocated to dividend payout and held in order to meet current working capital demands.

Under stable market conditions, the company does not experience major fluctuations in liquidity, due to working capital requirements or development activities. The company does not employ derivative financial instruments and is free of long term debt. The liquidity risk of the company is described in note 22(c) of the disclosures to the consolidated financial statements and relates mainly to accounts payable obligations and operating leases. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities and other commitments, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Contractual obligations 2016	Payment due by period				
	Total	< 1 year	1-2 years	2-5 years	➢ 5 years
Long term debt	5,999,993	-	5,999,993	-	-
Capital leases	-	-	-	-	-
Operating leases	5,897,592	245,085	1,007,331	3,668,426	976,426
Purchase obligations	-	-	-	-	-
Account payable and accrued expenses	17,383,230	17,383,230	-	-	-
Total contractual obligations	**29,280,815**	**17,628,315**	**7,007,324**	**3,668,426**	**976,426**

Capital resources

At December 31st, 2016, Commonwealth Brewery had no material commitment of capital resources in place. The company generates sufficient cash from operations for its needs.

The dividend policy of Commonwealth Brewery is to distribute 100% of net income. The frequency and payout ratio for any dividend remains the discretion of the Board of Directors and is subject to approval at the Annual General Meeting of shareholders.

Off balance sheet arrangements

As of December 31st, 2016 the company had no off balance sheet arrangements with any parties. Note 14 of the consolidated financial statements lists the commitments and contingent liabilities of the company. The majority of commitments relate to lease contracts for commercial real estate, most of which are short-term with duration of one to five years. The main contingent liabilities are related to customs bond guarantees and standby letters of credit.

Transactions with related parties

Commonwealth Brewery has a number of transactions and agreements with other entities of the Heineken Group in place. These transactions and agreements relate to the secondment of senior employees, purchasing of raw and packaging materials, supply chain consultancy, transport of products, bottling, trademark licensing, IT services and management fee. The amounts related to these transactions are specified in note 14 of the consolidated financial statements.

Critical accounting estimates and policies

Notes 2 and 3 of the consolidated financial statements detail the significant accounting policies and estimates of Commonwealth Brewery. Management considers none of these accounting policies and estimates to be critical, meaning that the policies and estimates require the company to make assumptions about matters that are highly uncertain and that different estimates are reasonably likely to occur from period to period, which could have a material impact on financial results.

Note 8 details the assumption used to test impairment on goodwill annually. The company carries net $4,487,242 in goodwill, resulting from the acquisition of 100% ownership interest in Butler & Sands Company Limited in the year 2000. Goodwill by nature is subject to the risk of impairment if key assumptions like the projected sales volume of acquired wine and spirits brands change. However, using reasonable expectations only a limited change in key assumptions would occur, and this would not cause a material impact on results.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these consolidated financial statements. The adoption of these Standards and Interpretations has not led to any changes in the Group’s accounting policies. The Group expects an impact for IFRS 9 Financial Instruments, which becomes mandatory for the Group’s 2018 consolidated financial statements and could change the classification and measurement of financial instruments. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.