

Section 1: 10-Q (FORM 10-Q)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transaction period from _____ to _____

Commission File Number: 0-25248

CONSOLIDATED WATER CO. LTD.

(Exact name of Registrant as specified in its charter)

CAYMAN ISLANDS

(State or other jurisdiction of
incorporation or organization)

98-0619652

(I.R.S. Employer Identification No.)

Regatta Office Park
Windward Three, 4th Floor, West Bay Road
P.O. Box 1114
Grand Cayman KY1-1102
Cayman Islands

(Address of principal executive offices)

N/A

(Zip Code)

(345) 945-4277

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 4, 2016, 14,785,922 shares of the registrant's common stock, with US\$0.60 par value, were outstanding.

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NOTE REGARDING CURRENCY AND EXCHANGE RATES

Unless otherwise indicated, all references to “\$” or “US\$” are to United States dollars.

The exchange rate for conversion of Cayman Island dollars (CIS) into US\$, as determined by the Cayman Islands Monetary Authority, has been fixed since April 1974 at US\$1.20 per CI\$1.00.

The exchange rate for conversion of Belize dollars (BZE\$) into US\$, as determined by the Central Bank of Belize, has been fixed since 1976 at US \$0.50 per BZE\$1.00.

The exchange rate for conversion of Bahamas dollars (B\$) into US\$, as determined by the Central Bank of The Bahamas, has been fixed since 1973 at US\$1.00 per B\$1.00.

The official currency of the British Virgin Islands is the United States dollar.

Our Netherlands subsidiary conducts business in US\$ and euros, our Indonesian subsidiary conducts business in US\$ and Indonesian rupiahs, and our Mexico subsidiary conducts business in US\$ and Mexican pesos. The exchange rates for conversion of euros, rupiahs and Mexican pesos into US\$ vary based upon market conditions.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 35,550,623	\$ 44,792,734
Certificate of deposit	5,637,538	5,637,538
Restricted cash	-	428,203
Accounts receivable, net	13,799,199	9,529,016
Inventory	1,890,613	1,918,728
Prepaid expenses and other current assets	800,063	1,282,660
Current portion of loans receivable	1,871,925	1,841,851
Costs and estimated earnings in excess of billings	393,096	-
Total current assets	59,943,057	65,430,730
Property, plant and equipment, net	54,817,803	53,743,170
Construction in progress	2,769,970	1,928,610
Inventory, non-current	4,594,425	4,558,374
Loans receivable	3,289,604	3,769,016
Investment in OC-BVI	4,578,060	4,548,271
Intangible assets, net	6,452,727	771,811
Goodwill	11,534,248	3,499,037
Land held for development	20,558,424	20,558,424
Other assets	2,784,901	2,767,583
Total assets	\$ 171,323,219	\$ 161,575,026
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other current liabilities	\$ 3,904,296	\$ 4,829,535
Dividends payable	1,177,772	1,177,246
Note payable to related party	490,000	-
Demand loan payable	6,489,582	6,958,328
Billings in excess of costs and estimated earnings	153,525	189,985
Total current liabilities	12,215,175	13,155,094
Deferred tax liability	2,378,029	-
Other liabilities	607,827	224,827
Total liabilities	15,201,031	13,379,921
Commitments and contingencies		
Equity		
Consolidated Water Co. Ltd. stockholders' equity		
Redeemable preferred stock, \$0.60 par value. Authorized 200,000 shares; issued and outstanding 38,004 and 38,804 shares, respectively	22,802	23,282
Class A common stock, \$0.60 par value. Authorized 24,655,000 shares; issued and outstanding 14,785,922 and 14,781,201 shares, respectively	8,871,553	8,868,721
Class B common stock, \$0.60 par value. Authorized 145,000 shares; none issued	-	-
Additional paid-in capital	84,745,395	84,597,349
Retained earnings	53,027,621	52,084,175
Cumulative translation adjustment	(536,381)	(533,365)
Total Consolidated Water Co. Ltd. stockholders' equity	146,130,990	145,040,162
Non-controlling interests	9,991,198	3,154,943
Total equity	156,122,188	148,195,105
Total liabilities and equity	\$ 171,323,219	\$ 161,575,026

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended March 31,	
	2016	2015
Retail revenues	\$ 5,970,238	\$ 6,135,638
Bulk revenues	7,265,293	8,382,316
Services revenues	799,241	148,158
Total revenues	<u>14,034,772</u>	<u>14,666,112</u>
Cost of retail revenues	2,629,674	2,766,863
Cost of bulk revenues	4,610,324	5,466,060
Cost of services revenues	617,743	284,887
Total cost of revenues	<u>7,857,741</u>	<u>8,517,810</u>
Gross profit	6,177,031	6,148,302
General and administrative expenses	4,460,986	3,892,966
Income from operations	<u>1,716,045</u>	<u>2,255,336</u>
Other income (expense):		
Interest income	216,835	233,582
Interest expense	(64,046)	(69,532)
Profit sharing income from OC-BVI	34,425	26,325
Equity in earnings of OC-BVI	45,364	75,155
Impairment of investment in OC-BVI	(50,000)	(310,000)
Other	206,979	(175,087)
Other income (expense), net	<u>389,557</u>	<u>(219,557)</u>
Income before income taxes	2,105,602	2,035,779
Provision for (benefit from) income taxes	<u>(73,269)</u>	<u>-</u>
Net income	2,178,871	2,035,779
Income attributable to non-controlling interests	124,230	114,518
Net income attributable to Consolidated Water Co. Ltd. stockholders	<u>\$ 2,054,641</u>	<u>\$ 1,921,261</u>
Basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	<u>\$ 0.14</u>	<u>\$ 0.13</u>
Diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	<u>\$ 0.14</u>	<u>\$ 0.13</u>
Dividends declared per common share	<u>\$ 0.075</u>	<u>\$ 0.075</u>
Weighted average number of common shares used in the determination of:		
Basic earnings per share	<u>14,783,380</u>	<u>14,718,757</u>
Diluted earnings per share	<u>14,864,125</u>	<u>14,764,169</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended March 31,	
	2016	2015
Net income	\$ 2,178,871	\$ 2,035,779
Other comprehensive income (loss)		
Foreign currency translation adjustment	(3,175)	(35,549)
Total other comprehensive income (loss)	(3,175)	(35,549)
Comprehensive income	2,175,696	2,000,230
Comprehensive income attributable to non-controlling interests	124,071	112,741
Comprehensive income attributable to Consolidated Water Co. Ltd. stockholders	\$ 2,051,625	\$ 1,887,489

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2016	2015
Net cash provided by (used in) operating activities	\$ (356,645)	\$ 2,478,158
Cash flows from investing activities		
Additions to property, plant and equipment and construction in progress	(954,671)	(442,915)
Proceeds from sale of equipment	15,000	600
Acquisition of business, net of cash acquired	(7,742,853)	-
Collections on loans receivable	449,338	421,149
Release of restricted cash	423,405	-
Net cash used in investing activities	(7,809,781)	(21,166)
Cash flows from financing activities		
Dividends paid to CWCO common shareholders	(1,107,759)	(1,103,093)
Dividends paid to CWCO preferred shareholders	(2,910)	(2,763)
Repurchase of redeemable preferred stock	(6,083)	-
Proceeds received from exercise of stock options	50,420	145,147
Note payable to related party	490,000	-
Repayments of demand loan payable	(500,000)	(500,000)
Net cash used in financing activities	(1,076,332)	(1,460,709)
Effect of exchange rate changes on cash	647	44,956
Net increase (decrease) in cash and cash equivalents	(9,242,111)	1,041,239
Cash and cash equivalents at beginning of period	44,792,734	35,713,689
Cash and cash equivalents at end of period	\$ 35,550,623	\$ 36,754,928
Interest paid in cash	\$ 32,896	\$ 39,962
Non-cash investing and financing activities		
Dividends declared but not paid	\$ 1,111,795	\$ 1,107,834
Transfers from (to) inventory to (from) property, plant and equipment and construction in progress	\$ 69,920	\$ (647)
Transfers from construction in progress to property, plant and equipment	\$ 83,903	\$ 95,786

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED WATER CO. LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Principal activity

Consolidated Water Co. Ltd., and its subsidiaries (collectively, the “Company”) use reverse osmosis technology to produce potable water from seawater. The Company processes and supplies water, and provides water-related products and services, to its customers in the Cayman Islands, Belize, The Bahamas, the British Virgin Islands, Indonesia and the United States. The Company sells water to a variety of customers, including public utilities, commercial and tourist properties, residential properties and government facilities. The base price of water supplied by the Company, and adjustments thereto, are determined by the terms of a retail license and bulk water supply contracts which provide for adjustments based upon the movement in the government price indices specified in the license and contracts as well as monthly adjustments for changes in the cost of energy. The Company also manufactures and services a wide range of products and provides design, engineering, management, operating and other services applicable to commercial and municipal water production, supply and treatment, and industrial water and wastewater treatment.

2. Accounting policies

Basis of presentation: The accompanying condensed consolidated financial statements include the accounts of the Company’s (i) wholly-owned subsidiaries, Aquilex, Inc., Cayman Water Company Limited (“Cayman Water”), Consolidated Water (Belize) Limited (“CW-Belize”), Ocean Conversion (Cayman) Limited (“OC-Cayman”), DesalCo Limited (“DesalCo”), Consolidated Water Cooperatief, U.A. (“CW-Cooperatief”), Consolidated Water U.S. Holdings, Inc. (“CW-Holdings”); and (ii) majority-owned subsidiaries Consolidated Water (Bahamas) Ltd. (“CW-Bahamas”), Aerex Industries, Inc. (“Aerex”), Consolidated Water (Asia) Pte. Limited, PT Consolidated Water Bali (“CW-Bali”) and N.S.C. Agua, S.A. de C.V. (“NSC”). The Company’s investment in its affiliate, Ocean Conversion (BVI) Ltd. (“OC-BVI”), is accounted for using the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying interim condensed consolidated financial statements are unaudited. These condensed consolidated financial statements reflect all adjustments (which are of a normal recurring nature) that, in the opinion of management, are necessary to fairly present the Company’s financial position, results of operations and cash flows as of and for the periods presented. The results of operations for these interim periods are not necessarily indicative of the operating results for future periods, including the fiscal year ending December 31, 2016.

These condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”) relating to interim financial statements and in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted in these condensed financial statements pursuant to SEC rules and regulations, although the Company believes that the disclosures made herein are adequate to make the information not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Foreign currency: The Company’s reporting currency is the United States dollar (“US\$”). The functional currency of the Company and its foreign operating subsidiaries (other than NSC and CW-Cooperatief) is the currency for each respective country. The functional currency for NSC is the US\$. The exchange rates between the Cayman Islands dollar, the Belize dollar, the Bahamian dollar are fixed to the US\$. CW-Cooperatief conducts business in US\$ and euros, CW-Bali conducts business in US\$ and Indonesian rupiahs, and NSC conducts business in US\$ and Mexican pesos. The exchange rates for conversion of euros, rupiahs and Mexican pesos into US\$ vary based upon market conditions. Net foreign currency gains (losses) arising from transactions conducted in foreign currencies were \$154,409 and (\$175,095) for the three months ended March 31, 2016 and 2015, respectively, and are included in “Other income (expense)” in the accompanying condensed consolidated statements of income.

Comprehensive income: Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income (loss) is the total of net income and other comprehensive income (loss) which, for the Company, is comprised entirely of foreign currency translation adjustments related to CW-Bali.

Cash and cash equivalents: Cash and cash equivalents consist of demand deposits at banks and highly liquid deposits at banks with an original maturity of three months or less. Cash and cash equivalents as of March 31, 2016 and December 31, 2015 include \$9.5 million and \$13.6 million, respectively, of certificates of deposits with an original maturity of three months or less.

Transfers from the Company’s Bahamas and Belize bank accounts to Company bank accounts in other countries require the approval of the Central Bank of the Bahamas and Belize, respectively. As of March 31, 2016, the equivalent United States dollar cash balances for deposits held in the Bahamas and Belize were approximately \$17.4 million and \$4.6 million, respectively. The \$17.4 million Bahamas balance includes the Company’s certificate of deposit balance of approximately \$5.6 million.

Comparative amounts: Certain amounts reported in the financial statements issued in prior periods have been reclassified herein to conform to the current period's presentation. These reclassifications had no effect on consolidated net income.

3. Purchase of interest in Aerex Industries, Inc.

On February 11, 2016 (the "Closing Date"), the Company, through its wholly-owned subsidiary, CW-Holdings, entered into a stock purchase agreement (the "Purchase Agreement") with Aerex and Thomas Donnick, Jr. ("Donnick"), Aerex's sole shareholder prior to the Closing Date. Pursuant to the terms of the Purchase Agreement, CW-Holdings purchased a 51% ownership interest in Aerex for an aggregate purchase price of approximately \$7.7 million in cash. After giving effect to the transactions contemplated by the Purchase Agreement, CW-Holdings owns 51% of the outstanding capital stock of Aerex and Donnick owns 49% of the outstanding capital stock of Aerex. CW-Holdings also acquired from Donnick an option to compel Donnick to sell, and granted to Donnick an option to require CW-Holdings to purchase, Donnick's 49% ownership interest in Aerex at a price based upon the fair market value of Aerex at the time of the exercise of the option. The options are exercisable on or after the third anniversary of the Closing Date. In connection with the Purchase Agreement, the Company guaranteed the obligations of CW-Holdings with respect to the option granted to Donnick to require CW-Holdings to purchase Donnick's 49% ownership interest in Aerex.

Aerex is an original equipment manufacturer and service provider of a wide range of products and services applicable to municipal water treatment and industrial water and wastewater treatment. Its products include membrane separation equipment, filtration equipment, piping systems, vessels and custom fabricated components. Aerex also offers engineering, design, consulting, inspection, training and equipment maintenance services to its customers. Aerex is an American Society of Mechanical Engineers (ASME) code accredited manufacturer and maintains the ASME U and S and the National Board NB and R Certificates of Authorization. Its corporate offices and manufacturing facilities are located in Fort Pierce, Florida.

In connection with the Purchase Agreement, CW-Holdings, Aerex and Donnick entered into a shareholders agreement, pursuant to which CW-Holdings and Donnick agreed to certain rights and obligations with respect to the governance of Aerex. Immediately following the acquisition, Aerex's prior sole stockholder and the Company loaned \$490,000 and \$510,000, respectively, to Aerex. These loans have a maturity date of August 10, 2016 and bear interest at 1% per annum.

The purchase price for Aerex is summarized as follows:

	February 11, 2016
Cash consideration	
Purchase price (excluding working capital)	\$ 7,140,000
Working capital adjustment	605,179
Cash acquired	(2,326)
Total cash consideration	<u>\$ 7,742,853</u>

The following table summarizes the estimated fair values of the assets and liabilities assumed at the acquisition date:

	February 11, 2016
Financial assets	\$ 456,664
Inventory	70,487
Costs and estimated earnings in excess of billings	784,465
Property, plant and equipment	2,159,401
Identifiable intangible assets	5,900,000
Deferred tax liability	(2,451,298)
Accounts payable and accrued liabilities	(116,893)
Net liability arising from put/call options	(383,000)
Total identifiable net assets	<u>6,419,826</u>
Non-controlling interest in Aerex	(6,712,184)
Goodwill	<u>8,035,211</u>
	<u>\$ 7,742,853</u>

The identifiable intangible assets consist of the following items with amortization calculated using a straight line method over the useful life of the asset:

	February 11, 2016	Useful life
Non-compete agreement	\$ 400,000	5 years
Trade name	1,400,000	15 years
Certifications/programs	2,000,000	3 years
Customer backlog	100,000	1 year
Customer relationships	2,000,000	4 years
	<u>\$ 5,900,000</u>	

The results of operations of Aerex are included in our consolidated financial statements from the date of acquisition. The total revenue and net income generated by Aerex for the period February 11, 2016 to March 31, 2016, were approximately \$619,000 and \$22,000, respectively, and are included in the services segment. General and administrative expenses incurred by the Company for the Aerex acquisition were approximately \$83,500 for the three months ended March 31, 2016.

The following pro forma financial information presents the results of operations of the Company for the three months ended March 31, 2016 and 2015, as if the acquisition of Aerex had taken place on January 1, 2015. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which would have actually occurred had the transaction taken place on January 1, 2015, or of future results of operations:

	Three Months Ended March 31,	
	2016	2015
Revenues	\$ 14,566,024	\$ 20,573,746
Cost of revenues	8,236,741	12,793,952
Gross profit	6,329,283	7,779,794
General and administrative expenses	4,736,257	4,325,631
Income from operations	1,593,026	3,454,163
Other income (expense), net	391,061	(215,945)
Income before income taxes	1,984,087	3,238,218
Provision for (benefit from) income taxes	(136,432)	438,035
Net income	2,120,519	2,800,183
Income attributable to non-controlling interests	85,924	562,280
Net income attributable to Consolidated Water Co. Ltd. stockholders	<u>\$ 2,034,595</u>	<u>\$ 2,237,903</u>
Basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	<u>\$ 0.14</u>	<u>\$ 0.15</u>
Diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	<u>\$ 0.14</u>	<u>\$ 0.15</u>
Weighted average number of common shares used in the determination of:		
Basic earnings per share	<u>14,783,380</u>	<u>14,718,757</u>
Diluted earnings per share	<u>14,864,125</u>	<u>14,764,169</u>

4. Fair value measurements

As of March 31, 2016 and December 31, 2015, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, the demand loan and dividends payable approximate their fair values due to the short term maturities of these instruments. Management considers that the carrying amounts for loans receivable and long term debt as of March 31, 2016 and December 31, 2015 approximate their fair value as the stated interest rates approximate market rates.

Under US GAAP, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. US GAAP guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company reviews its fair value hierarchy classifications on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value as of March 31, 2016 and December 31, 2015:

	March 31, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Recurring				
Certificate of deposit	\$ -	\$ 5,637,538	\$ -	\$ 5,637,538
Nonrecurring				
Investment in OC-BVI	\$ -	\$ -	\$ 4,578,060	\$ 4,578,060
Liabilities				
Recurring				
Net liability arising from put/call options	\$ -	\$ -	\$ 383,000	\$ 383,000
December 31, 2015				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Recurring				
Restricted cash	\$ 428,203	\$ -	\$ -	\$ 428,203
Certificate of deposit	-	5,637,538	-	5,637,538
Total recurring	\$ 428,203	\$ 5,637,538	\$ -	\$ 6,065,741
Nonrecurring				
Investment in OC-BVI	\$ -	\$ -	\$ 4,548,271	\$ 4,548,271

The activity for Level 3 financial instruments for the three months ended March 31, 2016 was as follows:

Investment in OC-BVI

Balance as of December 31, 2015	\$ 4,548,271
Profit sharing and equity from earnings of OC-BVI	79,789
Distributions received from OC-BVI	-
Impairment of investment in OC-BVI (See Note 7)	(50,000)
Balance as of March 31, 2016	<u>\$ 4,578,060</u>

Net liability arising from put/call options⁽¹⁾

Balance as of December 31, 2015	\$ -
Net liability arising from put/call options	383,000
Balance as of March 31, 2016	<u>\$ 383,000</u>

(1) The net liability arising from put/call options is included in the accompanying condensed consolidated balance sheets within other liabilities as of March 31, 2016.

5. Segment information

The Company has three reportable segments: retail, bulk and services. The retail segment primarily operates the water utility for the Seven Mile Beach and West Bay areas of Grand Cayman Island pursuant to an exclusive license granted by the Cayman Islands government. The bulk segment supplies potable water to government utilities in Grand Cayman, The Bahamas and Belize under long-term contracts. The services segment manufactures and services a wide range of products and provides design, engineering, management, operating and other services applicable to commercial and municipal water production, supply and treatment, and industrial water and wastewater treatment. The services segment includes the operations of Aerex beginning February 11, 2016. Consistent with prior periods, the Company records all non-direct general and administrative expenses in its retail business segment and does not allocate any of these non-direct costs to its other two business segments.

The accounting policies of the segments are consistent with those described in Note 2. The Company evaluates each segment's performance based upon its income from operations. All intercompany transactions are eliminated for segment presentation purposes.

The Company's segments are strategic business units that are managed separately because, while all segments derive their revenues from water-related activities, each segment sells different products and/or services, serves customers with distinctly different needs and generates different gross profit margins.

	Three Months Ended March 31, 2016			
	Retail	Bulk	Services	Total
Revenues	\$ 5,970,238	\$ 7,265,293	\$ 799,241	\$ 14,034,772
Cost of revenues	2,629,674	4,610,324	617,743	7,857,741
Gross profit	3,340,564	2,654,969	181,498	6,177,031
General and administrative expenses	2,897,861	435,896	1,127,229	4,460,986
Income (loss) from operations	<u>\$ 442,703</u>	<u>\$ 2,219,073</u>	<u>\$ (945,731)</u>	1,716,045
Other income (expense), net				389,557
Income before income taxes				2,105,602
Provision for (benefit from) income taxes				(73,269)
Net income				2,178,871
Income attributable to non-controlling interests				124,230
Net income attributable to Consolidated Water Co. Ltd. stockholders				<u>\$ 2,054,641</u>

Depreciation and amortization expenses for the three months ended March 31, 2016 for the retail, bulk and services segments were \$587,726, \$827,389 and \$239,707, respectively.

	Three Months Ended March 31, 2015			
	Retail	Bulk	Services	Total
Revenues	\$ 6,135,638	\$ 8,382,316	\$ 148,158	\$ 14,666,112
Cost of revenues	2,766,863	5,466,060	284,887	8,517,810
Gross profit (loss)	3,368,775	2,916,256	(136,729)	6,148,302
General and administrative expenses	2,898,415	417,364	577,187	3,892,966
Income (loss) from operations	<u>\$ 470,360</u>	<u>\$ 2,498,892</u>	<u>\$ (713,916)</u>	2,255,336
Other income, net				(219,557)
Net income				2,035,779
Income attributable to non-controlling interests				114,518
Net income attributable to Consolidated Water Co. Ltd. stockholders				<u>\$ 1,921,261</u>

Depreciation and amortization expenses for the three months ended March 31, 2015 for the retail, bulk and services segments were \$590,040, \$794,725 and \$22,474, respectively.

	As of March 31, 2016			
	Retail	Bulk	Services	Total
Accounts receivable, net	\$ 2,684,520	\$ 9,567,044	\$ 1,547,635	\$ 13,799,199
Property plant and equipment, net	\$ 24,914,329	\$ 27,661,157	\$ 2,242,317	\$ 54,817,803
Construction in progress	\$ 2,668,571	\$ 101,399	\$ -	\$ 2,769,970
Intangibles, net	\$ -	\$ 649,604	\$ 5,803,123	\$ 6,452,727
Goodwill	\$ 1,170,511	\$ 2,328,526	\$ 8,035,211	\$ 11,534,248
Land held for development	\$ -	\$ -	\$ 20,558,424	\$ 20,558,424
Total assets	\$ 54,291,232	\$ 75,334,227	\$ 41,697,760	\$ 171,323,219

	As of December 31, 2015			
	Retail	Bulk	Services	Total
Accounts receivable, net	\$ 2,261,141	\$ 6,231,626	\$ 1,036,249	\$ 9,529,016
Property plant and equipment, net	\$ 25,204,226	\$ 28,421,906	\$ 117,038	\$ 53,743,170
Construction in progress	\$ 1,860,050	\$ 68,560	\$ -	\$ 1,928,610
Intangibles, net	\$ -	\$ 666,152	\$ 105,659	\$ 771,811
Goodwill	\$ 1,170,511	\$ 2,328,526	\$ -	\$ 3,499,037
Land held for development	\$ -	\$ -	\$ 20,558,424	\$ 20,558,424
Total assets	\$ 54,561,577	\$ 83,284,439	\$ 23,729,010	\$ 161,575,026

6. Earnings per share

Earnings per share (“EPS”) are computed on a basic and diluted basis. Basic EPS is computed by dividing net income (less preferred stock dividends) available to common stockholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS assumes the issuance of common shares for all potential common shares outstanding during the reporting period and, if dilutive, the effect of stock options as computed under the treasury stock method.

The following summarizes information related to the computation of basic and diluted EPS for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,	
	2016	2015
Net income attributable to Consolidated Water Co. Ltd. stockholders	\$ 2,054,641	\$ 1,921,261
Less: preferred stock dividends	(2,850)	(2,763)
Net income available to common shares in the determination of basic earnings per common share	<u>\$ 2,051,791</u>	<u>\$ 1,918,498</u>
Weighted average number of common shares in the determination of basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	14,783,380	14,718,757
Plus:		
Weighted average number of preferred shares outstanding during the period	38,584	36,840
Potential dilutive effect of unexercised options	42,161	8,572
Weighted average number of shares used for determining diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	<u>14,864,125</u>	<u>14,764,169</u>

7. Investment in OC-BVI

The Company owns 50% of the outstanding voting common shares and a 43.53% equity interest in the profits of Ocean Conversion (BVI) Ltd. (“OC-BVI”). The Company also owns certain profit sharing rights in OC-BVI that raise its effective interest in the profits of OC-BVI to approximately 45%. Pursuant to a management services agreement, OC-BVI pays the Company monthly fees for certain engineering and administrative services. OC-BVI’s sole customer is the Ministry of Communications and Works of the Government of the British Virgin Islands (the “Ministry”) to which it sells bulk water.

The Company’s equity investment in OC-BVI amounted to \$4,578,060 and \$4,548,271 as of March 31, 2016 and December 31, 2015, respectively.

Until 2009, substantially all of the water sold by OC-BVI to the Ministry was supplied by one desalination plant with a capacity of 1.7 million gallons per day located at Baughers Bay, Tortola (the “Baughers Bay plant”). As discussed later in this Note (see “*Baughers Bay litigation*”), the BVI government assumed the operating responsibilities for the Baughers Bay plant in March 2010. During 2007, OC-BVI completed the construction of a desalination plant with a capacity of 720,000 gallons per day located at Bar Bay, Tortola (the “Bar Bay plant”). OC-BVI began selling water to the Ministry from this plant in January 2009 and on March 4, 2010, OC-BVI and the BVI government executed a seven-year contract for the Bar Bay plant (the “Bar Bay agreement”). Under the terms of the Bar Bay agreement, OC-BVI delivers up to 600,000 gallons of water per day to the BVI government from the Bar Bay plant. The Bar Bay agreement includes a seven-year extension option exercisable by the BVI government and required OC-BVI to complete a storage reservoir on a BVI government site by no later than March 4, 2011. OC-BVI has not commenced construction of this storage reservoir due to the BVI government’s failure to pay (i) the full amount of invoices for the water provided by the Bar Bay plant on a timely basis; and (ii) the full amount ordered pursuant to a court ruling relating to the Baughers Bay litigation (see discussion that follows).

Summarized financial information of OC-BVI is presented as follows:

	March 31,	December 31,
	2016	2015
Current assets	\$ 4,759,727	\$ 4,323,792
Non-current assets	4,524,902	4,682,650
Total assets	<u>\$ 9,284,629</u>	<u>\$ 9,006,442</u>

	March 31, 2016	December 31, 2015
Current liabilities	\$ 717,052	\$ 584,116
Non-current liabilities	1,672,650	1,650,252
Total liabilities	\$ 2,389,702	\$ 2,234,368

	Three Months Ended March 31,	
	2016	2015
Revenues	\$ 936,884	\$ 1,068,901
Cost of revenues	484,639	581,644
Gross profit	452,245	487,257
General and administrative expenses	260,542	244,342
Income from operations	191,703	242,915
Other income (expense), net	(68,850)	(52,649)
Net income	122,853	190,266
Income attributable to non-controlling interests	18,641	17,614
Net income attributable to controlling interests	\$ 104,212	\$ 172,652

The Company recognized \$45,364 and \$75,155 in earnings from its equity investment in OC-BVI for the three months ended March 31, 2016 and 2015, respectively. The Company recognized \$34,425 and \$26,325 in profit sharing income from its profit sharing agreement with OC-BVI for the three months ended March 31, 2016 and 2015, respectively.

For the three months ended March 31, 2016 and 2015, the Company recognized \$138,756 and \$128,775, respectively, in revenues from its management services agreement with OC-BVI. Amounts payable by OC-BVI to the Company were \$40,784 and \$23,803 as of March 31, 2016 and December 31, 2015, respectively. The Company's recorded value of this management services agreement, which is reflected as an intangible asset on the Company's condensed consolidated balance sheets, was \$83,123 and \$105,659 as of March 31, 2016 and December 31, 2015, respectively.

Baughers Bay Litigation

Under the terms of a water supply agreement dated May 1990 (the "1990 Agreement") between OC-BVI and the Government of the British Islands (the "BVI government") for the Baughers Bay plant upon the expiration of its initial seven-year term in May 1999, the 1990 Agreement would automatically be extended for another seven-year term unless the BVI government provided notice, at least eight months prior to such expiration, of its decision to purchase the plant from OC-BVI at the agreed upon amount under the 1990 Agreement of approximately \$1.42 million. In correspondence between the parties from late 1998 through early 2000, the BVI government indicated that it intended to purchase the plant but would be amenable to negotiating a new water supply agreement, and that it considered the 1990 Agreement to be in force on a monthly basis until negotiations between the BVI government and OC-BVI were concluded. Occasional discussions were held between the parties after 2000 without resolution of the matter. OC-BVI continued to supply water from the plant and expended approximately \$4.7 million between 1995 and 2003 to significantly expand the production capacity of the plant beyond that contemplated in the 1990 Agreement.

In 2006, the BVI government took the position that the seven-year extension of the 1990 Agreement had been completed and that it was entitled to ownership of the Baughers Bay plant. In response, OC-BVI disputed the BVI government's contention that the original terms of the 1990 Agreement remained in effect.

During 2007, the BVI government significantly reduced its payments for the water being supplied by OC-BVI and filed a lawsuit with the Eastern Caribbean Supreme Court (the "Court") seeking ownership of the Baughers Bay plant. OC-BVI counterclaimed to the Court that it was entitled to continued possession and operation of the Baughers Bay plant until the BVI government paid OC-BVI approximately \$4.7 million, which OC-BVI believed represented the value of the Baughers Bay plant at its expanded production capacity. OC-BVI subsequently filed claims with the Court seeking payment for water sold and delivered to the BVI government through May 31, 2009 at the contract prices in effect before the BVI government asserted its purported right of ownership of the plant.

The Court ruled on this litigation in 2009, determining that (i) the BVI government was entitled to immediate ownership and possession of the Baughers Bay plant; (ii) OC-BVI was not entitled to compensation for the expenditures made to expand the production capacity of the plant; (iii) OC-BVI was entitled to full payment of water invoices issued up to December 20, 2007, which had been calculated under the terms of the original 1990 Agreement; and (iv) OC-BVI was entitled to the amount of \$10.4 million for water produced by OC-BVI from the Baughers Bay plant subsequent to December 20, 2007.

OC-BVI filed an appeal with the Eastern Caribbean Court of Appeals (the "Appellate Court") in October 2009 asking the Appellate Court to review the September 17, 2009 ruling by the Court as it related to OC-BVI's claim for compensation for expenditures made to expand the production capacity of the Baughers Bay plant. In October 2009, the BVI government also filed an appeal with the Appellate Court requesting the Appellate Court to reduce the \$10.4 million awarded by the Court to OC-BVI for water supplied subsequent to December 20, 2007 to an amount equal to the cost of producing such water.

In March 2010, OC-BVI vacated the Baughers Bay plant and the BVI government assumed direct responsibility for the plant's operations.

In June 2012, the Appellate Court issued the final ruling with respect to the Baughers Bay litigation. This ruling dismissed the BVI government's appeal against the previous judgment of the Court awarding \$10.4 million for the water supplied, and also awarded OC-BVI compensation for improvements made to the plant in the amount equal to the difference between (i) the value of the Baughers Bay plant at the date OC-BVI transferred possession of the plant to the BVI government and (ii) \$1.42 million (the purchase price for the Baughers Bay plant under the 1990 Agreement). OC-BVI was also awarded all of its court costs at the trial level and two-thirds of such costs incurred on appeal.

OC-BVI and the BVI government have not reached an agreement on the value of the plant at the date it was transferred to the BVI government but have engaged a mutually approved appraiser to complete a valuation of the Baughers Bay plant in accordance with the Appellate Court ruling. Such valuation is presently in process.

Valuation of Investment in OC-BVI

The Company accounts for its investment in OC-BVI under the equity method of accounting for investments in common stock. This method requires recognition of a loss on an equity investment that is other than temporary, and indicates that a current fair value of an equity investment that is less than its carrying amount may indicate a loss in the value of the investment.

As a quoted market price for OC-BVI's stock is not available, to test for possible impairment of its investment in OC-BVI, the Company estimates its fair value through the use of the discounted cash flow method, which relies upon projections of OC-BVI's operating results, working capital and capital expenditures. The use of this method requires the Company to estimate OC-BVI's cash flows from (i) the Bar Bay agreement and (ii) the pending amount awarded by the Appellate Court for the value of the Baughers Bay plant transferred by OC-BVI to the BVI government.

The Company estimates the cash flows OC-BVI will receive from its Bar Bay agreement by (i) identifying various possible future scenarios for this agreement, which include the cancellation of the agreement after its initial seven-year term and the exercise by the BVI government of the seven-year extension in the agreement; (ii) estimating the cash flows associated with each possible scenario; and (iii) assigning a probability to each scenario. The Company similarly estimates the cash flows OC-BVI will receive from the BVI government for the amount due under the ruling by the Appellate Court for the value of the Baughers Bay plant at the date it was transferred to the BVI government by assigning probabilities to different valuation scenarios. The resulting probability-weighted sum represents the expected cash flows, and the Company's best estimate of future cash flows, to be derived by OC-BVI from its Bar Bay agreement and the pending Appellate Court award.

The identification of the possible scenarios for the Bar Bay plant agreement and the Baughers Bay plant valuation, the projections of cash flows for each scenario, and the assignment of relative probabilities to each scenario all represent significant estimates made by the Company. While the Company uses its best judgment in identifying these possible scenarios, estimating the expected cash flows for these scenarios and assigning relative probabilities to each scenario, these estimates are by their nature highly subjective and are also subject to material change by the Company's management over time based upon new information or changes in circumstances.

As of March 31, 2016 and 2015, after updating its probability-weighted estimates of OC-BVI's future cash flows and its resulting estimate of the fair value of its investment in OC-BVI, the Company determined that the carrying value of its investment in OC-BVI exceeded its fair value and recorded impairment charges of \$50,000 and \$310,000 for the three months ended March 31, 2016 and 2015, respectively.

The remaining carrying value of the Company's investment in OC-BVI of approximately \$4.6 million as of March 31, 2016 assumes that the BVI government will honor its obligations under the Bar Bay agreement and also assumes (on a probability-weighted basis) that (i) the BVI government will exercise its option to extend the Bar Bay agreement for seven years beyond its initial term, which expires March 4, 2017, and (ii) OC-BVI will receive the pending amount (as estimated by the Company) awarded by the Eastern Caribbean Court of Appeals for the value of the Baughers Bay plant previously transferred by OC-BVI to the BVI government.

The \$4.6 million carrying value of the Company's investment in OC-BVI as of March 31, 2016 exceeds the Company's underlying equity in OC-BVI's net assets by approximately \$850,000. The Company accounts for this excess as goodwill. The BVI government is OC-BVI's sole customer and substantially all of OC-BVI's revenues are generated from its Bar Bay plant. As the Bar Bay agreement matures to its March 4, 2017 expiration date, and OC-BVI receives the pending court award amount assumed due for the value of the Baughers Bay plant, OC-BVI's expected future cash flows, and therefore its fair value computed under the discounted cash flow method, will decrease. Unless OC-BVI obtains an extension or modification of its Bar Bay agreement that results in a significant increase in the estimated future cash flows from its Bar Bay plant, the Company will be required to record additional impairment losses during 2016 to reduce the carrying value of its investment in OC-BVI to its then current fair value. These impairment losses will, in the aggregate, at least equal the underlying \$850,000 in goodwill reflected in the carrying value of the Company's investment in OC-BVI. The losses the Company records for its investment in OC-BVI in the future will exceed this \$850,000 if OC-BVI ultimately ceases operations at its Bar Bay plant, as OC-BVI will be required to record an impairment loss to reduce the carrying value of its Bar Bay plant to its then estimated fair value. OC-BVI's aggregate carrying value of the assets that comprise its Bar Bay plant was approximately \$4.3 million as of March 31, 2016. Future impairment losses for the Company's investment in OC-BVI and the Company's equity in any future operating losses incurred by OC-BVI could have a material adverse impact on the Company's results of operations.

8. N.S.C. Agua, S.A. de C.V.

In May 2010, the Company acquired, through its wholly-owned Netherlands subsidiary, CW-Cooperatief, a 50% interest in NSC, a development stage Mexican company. The Company has since purchased, through the conversion of a loan it made to NSC, sufficient shares to raise its ownership interest in NSC to 99.9%. NSC was formed to pursue a project (the "Project") that originally encompassed the construction, operation and minority ownership of a 100 million gallon per day seawater reverse osmosis desalination plant to be located in northern Baja California, Mexico and accompanying pipelines to deliver water to the Mexican potable water system. As discussed in paragraphs that follow, during 2015 the scope of the Project was defined by the State of Baja California (the "State") to consist of a first phase consisting of a 50 million gallons per day plant and a pipeline that connects to the Mexican potable water infrastructure and a second phase consisting of an additional 50 million gallons of production

capacity.

Since its inception, NSC has engaged engineering groups with extensive regional and/or technical experience to prepare preliminary designs and cost estimates for the desalination plant and the proposed pipeline and prepare the environmental impact studies for local, state and federal regulatory agencies, and has also acquired the land, performed pilot plant and feed water source testing, and evaluated financing alternatives for the Project.

Through a series of transactions completed in 2012-2014, NSC purchased 20.1 hectares of land on which the proposed Project's plant would be constructed for an aggregate price of \$20.6 million.

In 2012 and 2013, NSC conducted an equipment piloting plant and water data collection program at the proposed feed water source for the Project under a Memorandum of Understanding (the "EPC MOU") with a global engineering, procurement and construction contractor for large seawater desalination plants. Under the EPC MOU, the contractor installed and operated an equipment piloting plant and collected water quality data from the proposed feed water source site in Rosarito Beach, Baja California, Mexico. The EPC MOU required that NSC negotiate exclusively with the contractor for the construction of the 100 million gallon per day seawater reverse osmosis desalination plant, and further required payment by NSC to the contractor of up to \$500,000 as compensation for the operation and maintenance of the equipment piloting plant should NSC not award the engineering, procurement and construction contract for the Project to the contractor. This first phase of the pilot plant testing program was completed in October 2013. NSC decided not to extend the EPC MOU beyond its February 2014 expiration date and NSC paid the contractor \$350,000 during 2014 as compensation for the operation and maintenance of the pilot plant.

In November 2012, NSC entered into a lease with an effective term of 20-years from the date of full operation of the desalination plant, with the Comisión Federal de Electricidad for approximately 5,000 square meters of land on which it plans to construct the water intake and discharge works for the plant. The amounts due on this lease are payable in Mexican pesos at an amount that is currently equivalent to approximately \$20,000 per month. This lease is cancellable should NSC ultimately not proceed with the Project.

In August 2014, the State enacted new legislation to regulate Public-Private Association projects which involve the type of long-term contract between a public sector authority and a private party that NSC is seeking to complete the Project. Pursuant to this new legislation, on January 4, 2015, NSC submitted an expression of interest for its project to the Secretary of Infrastructure and Urban Development of the State of Baja California ("SIDUE"). In January 2015, SIDUE accepted NSC's expression of interest and requested that NSC submit a detailed proposal for the Project that complies with requirements of the new legislation. NSC submitted this detailed proposal (the "APP Proposal") to SIDUE in late March 2015. The new legislation required that such proposal be evaluated by SIDUE and submitted to the Public-Private Association Projects State Committee (the "APP Committee") for review and authorization. If the Project is authorized the State would be required to conduct a public tender for the Project.

In response to its unsolicited APP Proposal, in September 2015 NSC received a letter dated June 30, 2015 from the Director General of the Comisión Estatal de Agua de Baja California ("CEA"), the State agency with responsibility for the Project, stating that (i) the Project is in the public interest with high social benefits and is consistent with the objectives of the State development plan and (ii) that the Project should proceed and the required public tender should be conducted. In November 2015, the State officially commenced the tender for the Project, the scope of which the State defined as a first phase to be operational in 2019 consisting of a 50 million gallons per day plant and a pipeline that connects to the Mexican potable water infrastructure and a second phase to be operational in 2024 consisting of an additional 50 million gallons per day of production capacity. The State originally set March 23, 2016 as the deadline for tender submissions but subsequently extended such deadline to April 21, 2016.

NSC submitted its tender for the Project on April 21, 2016. The Company cannot presently determine when the tender evaluation process will be completed by the State or the outcome of such evaluation process.

The Company has acknowledged since the inception of the Project that, due to the amount of capital the Project requires, NSC will ultimately need an equity partner or partners for the Project. Consequently, NSC's tender to the State for the Project is based upon the following: (i) NSC will sell or otherwise transfer the land and other Project assets to a new company ("Newco") that would build and own the Project; (ii) NSC's potential partners would provide the majority of the equity for the Project and thereby would own the majority interest in Newco; (iii) NSC would maintain a minority ownership position in Newco; and (iv) Newco would enter into a long-term management and technical services contract for the Project with an entity partially owned by NSC or another Company subsidiary.

Included in the Company's consolidated results of operations are general and administrative expenses from NSC, consisting of organizational, legal, accounting, engineering, consulting and other costs relating to NSC's project development activities. Such expenses amounted to approximately \$767,000 and \$537,000 for the three months ended March 31, 2016 and 2015, respectively. The assets and liabilities of NSC included in the Company's consolidated balance sheets amounted to approximately \$22.0 million and \$502,000, respectively, as of March 31, 2016 and approximately \$22.0 million and \$488,000, respectively, as of December 31, 2015.

The Company expects to incur additional project development costs on behalf of NSC during the remainder of 2016.

Despite the expenditures the Company has made and the activities it has completed to date, upon completion of the tender process the State may award the Project to a party other than NSC, or the State may cancel the tender process. If NSC is not awarded the Project, the land NSC has purchased may lose its strategic importance as the site for the Project and consequently may decline in value. If NSC is not awarded the Project, NSC may ultimately be unable to sell this land for an amount equal to or in excess of its current carrying value of \$20.6 million, and any loss on sale of the land, or impairment charge the Company may be required to record as a result of a decrease in the fair value of the land, could have a material adverse impact on the Company's results of operations.

NSC Litigation

Immediately following CW-Cooperatief's acquisition of its initial 50% ownership in NSC, the remaining 50% ownership interest in NSC was held by an unrelated company, Norte Sur Agua, S. de R.L. de C.V. ("NSA"). NSA subsequently transferred ownership of half of its shares in NSC to EWG Water LLC and the other half of its shares in NSC to Alejandro de la Vega (the "individual shareholder"). In February 2012, the Company paid \$300,000 to enter into an agreement (the "Option Agreement") that provided it with an option, exercisable through February 7, 2014, to purchase the shares of NSC owned by the individual shareholder, along with an immediate power of attorney to vote those shares, for \$1.0 million. Such shares constituted 25% of the ownership of NSC as of February 2012. In May 2013, NSC repaid a \$5.7 million loan payable to CW-Cooperatief by issuing additional shares of its stock. As a result of this share issuance to CW-Cooperatief, the Company acquired 99.9% of the ownership of NSC. The Option Agreement contained an anti-dilution provision that required the Company to issue new shares in NSC of an amount sufficient to maintain the individual shareholder's 25% ownership interest in NSC if (i) any new shares of NSC were issued subsequent to the execution of the Option Agreement and (ii) the Company did not exercise its share purchase option by February 7, 2014. The Company exercised its option and paid the \$1.0 million to the individual shareholder to purchase the Option Agreement shares in February 2014.

In October 2015, the Company learned that EWG had filed a lawsuit against the individual shareholder, NSC, NSA, CW-Cooperatief, Ricardo del Monte Nunez, Carlos Eduardo Ahumada Arruit, Luis de Angitia Becerra, and the Public Registry of Commerce of Tijuana, Baja California in the Civil Court located in Tecate, Baja California, Mexico.

In this lawsuit, EWG is challenging the capital investment transactions that increased the Company's ownership interest in NSC to 99.9%. EWG requested that the court, as a preliminary matter: (a) suspend the effectiveness of the challenged transactions; (b) order public officials in Mexico to record the pendency of the lawsuit in the public records; and (c) appoint an inspector for NSA and NSC to oversee its commercial activities. The court granted, ex-parte, the preliminary relief sought by EWG, which resulted in the placement of inscriptions for the lawsuit on NSC's public records.

Additionally, EWG is also seeking an order directing: (i) NSA, NSC and CW-Cooperatief to refrain from carrying out any transactions with respect to the Project; and (ii) NSA, NSC and CW-Cooperatief, and the partners thereof, to refrain from transferring any interests in NSA, NSC and CW-Cooperatief.

On April 5, 2016, NSC filed a motion for reconsideration with the Tecate, Mexico Court asking, among other things, that the Court; (i) reverse its order to record the pendency of the lawsuit in the public records, (ii) cancel the appointment of the inspector, and (iii) allow NSC to provide a counter-guarantee to suspend the effects of the Court's order regarding the challenged transactions. On April 26, 2016, the Tecate Court issued an interlocutory judgment (i) ordering the cancellation of the inscriptions on NSC's public records and (ii) rejecting NSC's motion for cancellation of the appointment of the inspector. The Court's decision regarding NSC's request to provide a counter-guarantee is pending.

On April 26, 2016, NSC filed a full answer to EWG's claims, rejecting every claim made by EWG. The Court's response on this matter is pending.

The Company believes that the claims made by EWG are baseless and without merit, will vigorously defend NSC and CW-Cooperatief in this litigation, and will seek dismissal of the orders entered by the court and all claims against NSC and CW-Cooperatief. Furthermore, in November 2015, NSC and CW-Cooperatief filed a complaint in the United States District Court, Southern District of New York against EWG and its Managing Partner, based upon the Company's conclusion that lawsuit filed by EWG in Mexico directly breaches a contract dated April 12, 2012 between NSC and CW-Cooperatief, and EWG. The Company is vigorously pursuing its claims and seeking relief pursuant to this complaint. The Company incurred legal fees of approximately \$196,000 for the three months ended March 31, 2016 in connection with the NSC litigation.

The Company cannot presently determine the outcome of this litigation. However, such litigation could adversely impact the Company's efforts to complete the Project.

Mexico Tax Authority

The Mexico tax authority, the Servicio de Administracion Tributaria ("SAT"), assessed NSC for taxes relating to payments to foreign vendors on which the SAT contended should have been subject to income tax withholdings during NSC's 2011 tax year. As of December 31, 2015, the assessment and related penalties, surcharges, inflation adjustments and late fees totaled 7,367,875 Mexican pesos. Such assessments were equivalent to approximately \$428,203 as of December 31, 2015 based upon the exchange rate between the US\$ and the Mexican peso.

NSC retained the assistance of Mexican tax advisers in this matter, as it believed the assumptions and related work performed by the SAT did not support their tax assessment. As a result, NSC elected to contest this assessment in Mexico federal tax court. NSC was required to provide an irrevocable letter of credit which amounted to 7,367,875 Mexican pesos as of December 31, 2015 as collateral in connection with this tax case. The restricted cash balance of \$428,203 included in the accompanying consolidated balance sheet as of December 31, 2015 represented cash on deposit with a bank to secure payment of this irrevocable letter of credit.

In November 2014, NSC received a favorable judgment from the tax court. Based on this outcome, the SAT filed an appeal shortly thereafter to contest the judgment. On February 15, 2016, NSC received a favorable judgment from the appellate tax court.

9. Contingencies

Retail License

The Company sells water through its retail operations under a license issued in July 1990 by the Cayman Islands government that grants Cayman Water the exclusive right to provide potable water to customers within its licensed service area. As discussed below, this license was set to expire in July 2010 but has since been extended while negotiations for a new license take place. Pursuant to the license, Cayman Water has the exclusive right to produce potable water and distribute it by pipeline to its licensed service area which consists of two of the three most populated areas of Grand Cayman, the Seven Mile Beach and West Bay areas. For the three months ended March 31, 2016 and 2015, the Company generated approximately 42%, and 41%, respectively, of its consolidated revenues and 56% and 57%, respectively, of its consolidated gross profits from the retail water operations conducted pursuant to Cayman Water's exclusive license. As discussed later herein, if Cayman Water is not in default of any of its terms, this license provides Cayman Water with the right to renew the license on terms that are no less favorable than those that the government offers to any third party.

Under the license, Cayman Water pays a royalty to the government of 7.5% of its gross retail water sales revenues (excluding energy cost adjustments). The selling prices of water sold to its customers are determined by the license and vary depending upon the type and location of the customer and the monthly volume of water purchased. The license provides for an automatic adjustment for inflation or deflation on an annual basis, subject to temporary limited exceptions, and an automatic adjustment for the cost of electricity on a monthly basis. The Water Authority Cayman (the "WAC"), on behalf of the government, reviews and confirms the calculations of the price adjustments for inflation and electricity costs. If Cayman Water wants to adjust its prices for any reason other than inflation or electricity costs, Cayman Water has to request prior approval of the Cabinet of the Cayman Islands government. Disputes regarding price adjustments would be referred to arbitration.

The license was scheduled to expire in July 2010 but has been extended several times by the Cayman Islands government in order to provide the parties with additional time to negotiate the terms of a new license agreement. The most recent extension of the license expires on June 30, 2016.

In February 2011, the Water (Production and Supply) Law, 2011 and the Water Authority (Amendment) Law, 2011 (the "New Laws") were published and enacted. Under the New Laws, the WAC will issue any new license, and such new license could include a rate of return on invested capital model, as discussed in the following paragraph.

Following the enactment of the New Laws, the Company was advised in correspondence from the Cayman Islands government and the WAC that: (i) the WAC is now the principal negotiator, and not the Cayman Islands government, in these license negotiations, and (ii) the WAC has determined that a rate of return on invested capital model ("RCAM") for the retail license is in the best interest of the public and Cayman Water's customers. RCAM is the rate model currently utilized in the electricity transmission and distribution license granted by the Cayman Islands government to the Caribbean Utilities Company, Ltd. The Company responded to the Cayman Islands government that it disagreed with the government's position on these two matters and negotiations for a new license temporarily ceased.

In July 2012, in an effort to resolve several issues relating to its retail license renewal negotiations, the Company filed an Application for Leave to Apply for Judicial Review (the "Application") with the Grand Court of the Cayman Islands (the "Court"), seeking declarations that: (i) certain provisions of the New Laws appear to be incompatible and a determination as to how those provisions should be interpreted, (ii) the WAC's roles as the principal license negotiator, statutory regulator and the Company's competitor put the WAC in a position of hopeless conflict, and (iii) the WAC's decision to replace the rate structure under the Company's current exclusive license with RCAM was predetermined and unreasonable. In October 2012 the Company was notified that the Court agreed to consider the issues raised in the Application.

The hearing for this judicial review was held on April 1, 2014. Prior to the commencement of the hearing, the parties agreed that the Court should solely be concerned with the interpretation of the statutory provisions. As part of this agreement, the WAC agreed to consider our submissions on the RCAM model and/or alternative models of pricing. In June 2014, the Court determined that: (i) the renewal of the license does not require a public bidding process; and (ii) the WAC is the proper entity to negotiate with the Company for the renewal of the license.

The Company's submissions on the RCAM model and/or alternative models of pricing were made to the WAC on June 9, 2014. The Company received a letter from the WAC dated September 11, 2014, which fully rejected the Company's submissions and stated that they intend to provide the Company with a draft RCAM license in due course.

On November 21, 2014, the Company wrote to the Minister of Works offering to recommence license negotiations on the basis of the RCAM model subject to certain conditions which are: (i) the Government would undertake to amend the current water legislation to provide for an independent regulator and a fair and balanced regulatory regime more consistent with that provided under the electrical utility regulatory regime, (ii) the Government and the Company would mutually appoint an independent referee and chairman of the negotiations, (iii) the Company's new license would provide exclusivity for the production and provision of all piped water, both potable and non-potable, within its Cayman Islands license area, (iv) the Government would allow the Company to submit its counter proposal to the WAC's June 2010 RCAM license draft, and (v) the principle of subsidization of residential customer rates by commercial customer rates would continue under a new license. On March 23 2015, the Company received a letter from the Minister of Works with the following responses to the Company's November 21, 2014 letter: (1) while the Cayman government plans to create a new public utilities commission, the provision of the new retail license will not depend upon the formation of such a commission; (2) any consideration regarding inclusion of the exclusive right to sell non-potable water within the area covered by the retail license will not take place until after the draft license has proceeded through the review process of the negotiations; (3) rather than allow the Company to submit its counter proposal to the WAC's June 2010 RCAM license draft, the WAC will draft the license with the understanding that the Company will be

allowed to propose amendments thereto; (4) the principle of subsidization of residential customer rates by commercial customer rates would continue under the new license; and (5) a request that the Company consider eliminating its monthly minimum volume charge in the new license.

The Company recommenced license negotiations with the WAC during the third quarter of 2015 based upon a draft RCAM license provided by the WAC. Such license negotiations remain on-going. The Company is presently unable to determine when such negotiations will be completed or the final outcome of such negotiations.

The Cayman Islands government could ultimately offer a third party a license to service some or all of Cayman Water's present service area. However, as set forth in the existing license, "*the Governor hereby agrees that upon the expiry of the term of this Licence or any extension thereof, he will not grant a licence or franchise to any other person or company for the processing, distribution, sale and supply of water within the Licence Area without having first offered such a licence or franchise to the Company on terms no less favourable than the terms offered to such other person or company.*"

The resolution of these license negotiations could result in a material reduction of the operating income and cash flows the Company has historically generated from its retail license and could require the Company to record an impairment charge to reduce the carrying value of its goodwill. Such impairment charge could have a material adverse impact on the Company's results of operations.

The Company is presently unable to determine what impact the resolution of this matter will have on its financial condition, results of operations or cash flows.

CW-Belize

By Statutory Instrument No. 81 of 2009, the Minister of Public Utilities of the government of Belize published an order, the Public Utility Provider Class Declaration Order, 2009 (the "Order"), which as of May 1, 2009 designated CW-Belize as a public utility provider under the laws of Belize. With this designation, the Public Utilities Commission of Belize (the "PUC") has the authority to set the rates charged by CW-Belize and to otherwise regulate its activities. On November 1, 2010, CW-Belize received a formal complaint from the PUC alleging that CW-Belize was operating without a license under the terms of the Water Industry Act. CW-Belize applied for this license in December 2010. On July 29, 2011, the PUC issued the San Pedro Public Water Supply Quality and Security Complaint Order (the "Second Order") which among other things requires that (i) CW-Belize and its customer jointly make a submission to the responsible Minister requesting that the area surrounding CW-Belize's seawater abstraction wells be designated a forest reserve or national park and be designated a Controlled Area under section 58 of the Water Industry Act, (ii) CW-Belize submit an operations manual for CW-Belize's desalination plant to the PUC for approval, (iii) CW-Belize and its customer modify the water supply agreement between the parties to (a) include new water quality parameters included in the Order and (b) cap the current exclusive water supply arrangement in the agreement at a maximum of 450,000 gallons per day, (iv) CW-Belize keep a minimum number of replacement seawater RO membranes in stock at all times and (v) CW-Belize take possession of and reimburse the PUC for certain equipment which the PUC purchased from a third-party in late 2010. CW-Belize has applied for declaratory judgment and has been granted a temporary injunction to stay the enforcement of the Second Order by the PUC until such time as the Belize courts could hear the matter. The initial hearing on this matter was conducted on October 30 and 31, 2012 with an additional hearing on November 29, 2012. The ruling on this case is pending. The Company is presently unable to determine what impact the Order and the Second Order will have on its results of operations, financial position or cash flows.

Windsor Plant Water Supply Agreement

CW-Bahamas provides bulk water to the Water and Sewerage Corporation of The Bahamas ("WSC"), which distributes the water through its own pipeline system to residential, commercial and tourist properties on the Island of New Providence. Pursuant to a water supply agreement, CW-Bahamas was required to provide the WSC with at least 16.8 million gallons per week of potable water from the Windsor plant. This water supply agreement was scheduled to expire when CW-Bahamas delivered the total amount of water required under the agreement in July 2013, but has been extended on a month-to-month basis. At the conclusion of the agreement, the WSC has the option to:

- i. extend the agreement for an additional five years at a rate to be negotiated;
- ii. exercise a right of first refusal to purchase any materials, equipment and facilities that CW-Bahamas intends to remove from the site at a purchase price to be negotiated with CW-Bahamas; or
- iii. require CW-Bahamas to remove all materials, equipment and facilities from the site.

At the request of the government of The Bahamas, CW-Bahamas continues to operate and maintain the Windsor plant on a month-to-month basis to provide the government of The Bahamas with additional time to decide whether or not it will extend CW-Bahamas' water supply agreement for the Windsor plant on a long-term basis. CW-Bahamas generated revenues from the operation of this plant of approximately \$1.3 million, and \$1.5 million during the three months ended March 31, 2016, and 2015, respectively.

CW-Bali

Through its subsidiary CW-Bali, the Company has built and presently operates a seawater reverse osmosis plant with a productive capacity of approximately 790,000 gallons per day located in Nusa Dua, one of the primary tourist areas of Bali, Indonesia. The Company built this plant based upon its belief that future water shortages in this area of Bali will eventually enable CW-Bali to sell all of this plant's production. However, since its inception, the sales volumes for this plant have not been sufficient to cover its operating costs. CW-Bali's operating losses were approximately (\$147,000), and (\$161,000) for the three months ended March 31, 2016, and 2015, respectively. As of March 31, 2016, the capitalized costs for this plant reflected on the Company's consolidated balance sheet were approximately \$3.1 million.

In 2015, the Indonesian government passed Regulation 121 which provides a mechanism for governmental regulatory oversight over the utilization of Indonesia's water resources. Under this new regulation, the approval or cooperation of the local government water utility is required for any water supply contracts executed by non-governmental providers after the effective date of the regulation. Consequently CW-Bali will be required to enter into a cooperation agreement with Bali's local government water utility, PDAM, or otherwise obtain PDAM's approval, to supply any new customers.

The Company is presently seeking a strategic partner to (i) purchase a major portion of its equity ownership in CW-Bali; (ii) lead CW-Bali's sales and marketing efforts and liaise with PDAM; and (iii) assist with CW-Bali's on-going funding requirements. The Company also plans to market the available productive capacity of CW-Bali's Nusa Dua plant to PDAM. If the Company is not able to obtain a strategic partner for CW-Bali, sell water to PDAM or other new customers, or otherwise significantly increase the revenues generated by its Nusa Dua plant in the future, the Company will be required to record an impairment charge to reduce the carrying value of CW-Bali's plant assets to their fair value. Such an impairment charge could have a material adverse impact on the Company's results of operations.

10. Impact of recent accounting standards

Adoption of New Accounting Standards:

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, *Consolidation (Topic 810) - Amendments to the Consolidation Analysis*. The amendments in this update require management to reevaluate whether certain legal entities should be consolidated. Specifically, the amendments (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, (2) eliminate the presumption that a general partner should consolidate a limited partnership, (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-02 did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 provides authoritative guidance related to the presentation of debt issuance costs on the balance sheet, requiring companies to present debt issuance costs as a direct deduction from the carrying value of debt. The amendments in this update are effective for public business entities in fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The new guidance must be applied retrospectively to each prior period presented. The adoption of ASU 2015-03 did not have a material impact on the Company's consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after adoption of ASU 2015-03. The SEC Staff announced they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The amendment requires retrospective application and represents a change in accounting principle. The amendment becomes effective in fiscal years beginning after December 15, 2015. The adoption of ASU 2015-15 did not have a material impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments*, which requires an acquirer to recognize adjustments identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adjustment must include the cumulative effect of the adjustment as if the accounting had been completed on the acquisition date. The update should be applied prospectively and becomes effective January 1, 2016. Early application is permitted. The adoption of ASU 2015-16 did not have a material impact on the Company's consolidated financial statements.

Effect of newly issued but not yet effective accounting standards:

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 prescribes a five step framework in accounting for revenues from contracts within its scope, including (a) identification of the contract, (b) identification of the performance obligations under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligations and (e) recognition of revenues as the identified performance obligations are satisfied. ASU 2014-09 also prescribes additional disclosures and financial statement presentations. ASU 2014-09 may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. This amendment was originally effective January 1, 2017. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date by one year to January 1, 2018. Early application is permitted but not before January 1, 2017. The Company is currently evaluating the effect the adoption of this standard will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, that amends the principal versus agent guidance in ASU 2014-09. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. ASU 2016-08 also provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on Company's consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing*, that amends the revenue guidance in ASU 2014-09 on identifying performance obligations and accounting for licenses of intellectual property. ASU 2016-10 changed the FASB's previous proposals on renewals of right-to-use licenses and contractual restrictions. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on Company's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. ASU 2015-11 applies to all inventory that is measured using first-in, first-out or average cost. The guidance requires an entity to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective prospectively for fiscal years, and for interim periods within those years, beginning after December 15, 2016. Early application is permitted. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 requires net deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet and eliminates the classification between current and noncurrent amounts ASU No. 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides guidance for the recognition, measurement, presentation and disclosure of financial assets and financial liabilities. ASU 2016-01 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017 and, for most provisions, is effective using the cumulative-effect transition approach. Early application is permitted for certain provisions. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets. The accounting guidance for lessors will remain relatively largely unchanged. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments- Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*, which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. ASU 2016-07 will be effective for the Company's fiscal year beginning January 1, 2017 and subsequent interim periods. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

11. Subsequent events

The Company's management evaluated subsequent events through the time of the filing of this report on Form 10-Q. Other than as disclosed in these condensed consolidated financial statements, the Company's management is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on its consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding our future revenues, future plans, objectives, expectations and events, assumptions and estimates. Forward-looking statements can be identified by use of the words or phrases "will," "will likely result," "are expected to," "will continue," "estimate," "project," "potential," "believe," "plan," "anticipate," "expect," "intend," or similar expressions and variations of such words. Statements that are not historical facts are based on our current expectations, beliefs, assumptions, estimates, forecasts and projections for our business and the industry and markets related to our business.

The forward-looking statements contained in this report are not guarantees of future performance and involve certain risks, uncertainties and assumptions which are difficult to predict. Actual outcomes and results may differ materially from what is expressed in such forward-looking statements. Important factors which may affect these actual outcomes and results include, without limitation:

- tourism and weatzer conditions in the areas we serve;
- the economies of the U.S. and other countries in which we conduct business;
- our relationships with the governments we serve;
- regulatory matters, including resolution of the negotiations for the renewal of our retail license on Grand Cayman;
- our ability to successfully enter new markets, including Mexico and Asia; and
- other factors, including those "Risk Factors" set forth under Part II, Item 1A in this Quarterly Report and in our 2015 Annual Report on Form 10-K.

The forward-looking statements in this Quarterly Report speak as of its date. We expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained in this Quarterly Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based, except as may be required by law.

References herein to "we," "our," "ours" and "us" refer to Consolidated Water Co. Ltd. and its subsidiaries.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ significantly from such estimates and assumptions.

Certain of our accounting estimates or assumptions constitute "critical accounting estimates" for us because:

- the nature of these estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on financial condition and results of operations is material.

Our critical accounting estimates relate to the valuation of our (i) equity investment in our affiliate, OC-BVI; (ii) goodwill and intangible assets; and (iii) long-lived assets.

Valuation of Investment in OC-BVI

We account for our investment in OC-BVI under the equity method of accounting for investments in common stock. This method requires recognition of a loss on an equity investment that is other than temporary, and indicates that a current fair value of an equity investment that is less than its carrying amount may indicate a loss in the value of the investment.

As a quoted market price for OC-BVI's stock is not available, to test for possible impairment of our investment in OC-BVI, we estimate its fair value through the use of the discounted cash flow method, which relies upon projections of OC-BVI's operating results, working capital and capital expenditures. The use of this method requires us to estimate OC-BVI's cash flows from (i) its water supply agreement with the BVI government for its Bar Bay plant (the "Bar Bay agreement"); and (ii) the pending amount awarded by the Eastern Caribbean Court of Appeals for the value of the Baughers Bay plant previously transferred by OC-BVI to the BVI government (see further discussion of the Baughers Bay litigation at Item 1. - Notes to the Condensed Consolidated Financial Statements - Note 7).

We estimate the cash flows OC-BVI will receive from its Bar Bay agreement by (i) identifying various possible future scenarios for this agreement, which include the cancellation of the agreement after its initial seven-year term, and the exercise by the BVI government of the seven-year extension in the agreement; (ii) estimating the cash flows associated with each possible scenario; and (iii) assigning a probability to each scenario. We similarly estimate the cash flows OC-BVI will receive from the BVI government for the amount due under the ruling by the Eastern Caribbean Court of Appeals for the value of the Baughers Bay plant at the date it was transferred to the BVI government by assigning probabilities to different valuation scenarios. The resulting probability-weighted sum represents the expected cash flows, and our best estimate of future cash flows, to be derived by OC-BVI from its Bar Bay agreement and the pending court award.

The identification of the possible scenarios for the Bar Bay plant agreement and the Baughers Bay plant valuation, the projections of cash flows for each scenario, and the assignment of relative probabilities to each scenario all represent significant estimates made by us. While we use our best judgment in identifying these possible scenarios, estimating the expected cash flows for these scenarios and assigning relative probabilities to each scenario, these estimates are by their nature highly subjective and are also subject to material change by our management over time based upon new information or changes in circumstances.

As of March 31, 2016, after updating our probability-weighted estimates of OC-BVI's future cash flows and our resulting estimate of the fair value of our investment in OC-BVI, we determined that the carrying value of our investment in OC-BVI exceeded its fair value and recorded an impairment loss on this investment of \$50,000, for the three months ended March 31, 2016. We recorded similar impairment losses of \$310,000 and \$1,060,000 for the three months ended March 31, 2015 and the year ended December 31, 2015, respectively. The remaining carrying value of our investment in OC-BVI of approximately \$4.6 million as of March 31, 2016 assumes that the BVI government will honor its obligations under the Bar Bay agreement and also assumes (on a probability-weighted basis) that (i) the BVI government will exercise its option to extend the Bar Bay agreement for seven years beyond its initial term, which expires March 4, 2017 and (ii) OC-BVI will receive the pending amount (based upon our estimate) awarded by the Eastern Caribbean Court of Appeals for the value of the Baughers Bay plant transferred by OC-BVI to the BVI government.

The \$4.6 million carrying value of our investment in OC-BVI as of March 31, 2016 exceeds our underlying equity in OC-BVI's net assets by approximately \$850,000. We account for this excess as goodwill. The BVI government is OC-BVI's sole customer and substantially all of OC-BVI's revenues are generated from its Bar Bay plant. As the Bar Bay agreement matures to its March 4, 2017 expiration date and OC-BVI receives the pending court award amount assumed due for the value of the Baughers Bay plant, OC-BVI's expected future cash flows, and therefore its fair value computed under the discounted cash flow method, will decrease. Unless OC-BVI obtains an extension or modification of its Bar Bay agreement that results in a significant increase in the estimated future cash flows from its Bar Bay plant, we will be required to record additional impairment losses during 2016 to reduce the carrying value of our investment in OC-BVI to its then current fair value. These impairment losses will, in the aggregate, at least equal the underlying \$850,000 in goodwill reflected in the carrying value of our investment in OC-BVI. The losses we record for our investment in OC-BVI in the future will exceed this \$850,000 if OC-BVI ultimately ceases operations at its Bar Bay plant, as OC-BVI will be required to record an impairment loss to reduce the carrying value of its Bar Bay plant to its then estimated fair value. OC-BVI's aggregate carrying value of the assets that comprise its Bar Bay plant was approximately \$4.3 million as of March 31, 2016. Future impairment losses for our investment in OC-BVI and our equity in any future operating losses incurred by OC-BVI could have a material adverse impact on our results of operations.

Goodwill and intangible assets

Goodwill represents the excess cost over the fair value of the assets of an acquired business. Goodwill and intangible assets acquired in a business combination accounted for as a purchase and determined to have an indefinite useful life are not amortized, but are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed periodically for impairment. We evaluate the possible impairment of goodwill annually as part of our reporting process for the fourth quarter of each fiscal year. Management identifies our reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. We determine the fair value of each reporting unit and compare the fair value to the carrying amount of the reporting unit. To the extent the carrying amount of the reporting unit exceeds the fair value of the reporting unit, we are required to perform the second step of the impairment test, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. If the implied fair value is less than its carrying amount, the impairment loss is recorded.

For the years ended December 31, 2015 and 2014, we estimated the fair value of our reporting units by applying the discounted cash flow method, the subject company stock price method, the guideline public company method, and the mergers and acquisitions method.

The discounted cash flow method relied upon seven-year discrete projections of operating results, working capital and capital expenditures, along with a terminal value subsequent to the discrete period. These seven-year projections were based upon historical and anticipated future results, general economic and market conditions, and considered the impact of planned business and operational strategies. The discount rates for the calculations represented the estimated cost of capital for market participants at the time of each analysis. In preparing these seven-year projections for our retail unit we (i) identified possible outcomes of our on-going negotiations with the Cayman Islands government for the renewal of our retail license; (ii) estimated the cash flows associated with each possible outcome; and (iii) assigned a probability to each outcome and associated estimated cash flows. The weighted average estimated cash flows were then summed to determine the overall fair value of the retail unit under this method. The possible outcomes used for the discounted cash flow method for the retail unit included the implementation of a rate of return on invested capital model, the methodology proposed by Cayman Islands government representatives for the new retail license.

We also estimated the fair value of each of our reporting units for the years ended December 31, 2015 and 2014 through reference to the quoted market prices for our Company and guideline companies and the market multiples implied by guideline merger and acquisition transactions.

We weighted the fair values estimated for each of our reporting units under each method and summed such weighted fair values to estimate the overall fair value for each reporting unit. The respective weightings we applied to each method as of December 31, 2015 were consistent with those used as of December 31, 2014 and were as follows:

Method	2015		2014	
	Retail	Bulk	Retail	Bulk
Discounted cash flow	50%	50%	50%	50%
Subject company stock price	30%	30%	30%	30%
Guideline public company	10%	10%	10%	10%
Mergers and acquisitions	10%	10%	10%	10%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The fair values we estimated for our retail and bulk units exceeded their carrying amounts by 72% and 20%, respectively, as of December 31, 2015. The fair values we estimated for our retail and bulk units exceeded their carrying amounts by 36% and 29%, respectively, as of December 31, 2014.

We also performed an analysis reconciling the conclusions of value for our reporting units to our market capitalization at October 1, 2015. This reconciliation resulted in an implied control premium for our Company of 5%.

Long-lived assets

We review the carrying amounts of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, we recognize an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measure the impairment loss based on the difference between the carrying amount and fair value.

Through our subsidiary, CW-Bali, we have built and presently operate a seawater reverse osmosis plant with a productive capacity of approximately 790,000 gallons per day located in Nusa Dua, one of the primary tourist areas of Bali, Indonesia. We built this plant based upon our belief that future water shortages in this area of Bali will eventually enable us to sell all of this plant's production. However, since its inception, the sales volumes for this plant have not been sufficient to cover its operating costs. CW-Bali's operating losses were approximately (\$147,000) and (\$161,000) for the three months ended March 31, 2016 and 2015, respectively, and (\$484,000) for the year ended December 31, 2015. As of March 31, 2016, the capitalized costs for this plant reflected on our consolidated balance sheet were approximately \$3.1 million. If we are not able to significantly increase the revenues generated by this plant in the future, we will be required to record an impairment charge to reduce the carrying value of CW-Bali's plant assets to their fair value. Such impairment charge could have a material adverse impact on our consolidated results of operations.

RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included under Part I, Item 1 of this Quarterly Report and our consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for our fiscal year ended December 31, 2015 ("2015 Form 10-K") and the information set forth under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2015 Form 10-K.

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Consolidated Results

Net income attributable to Consolidated Water Co. Ltd. common stockholders for 2016 was \$2,054,641 (\$0.14 per share on a fully-diluted basis), as compared to \$1,921,261 (\$0.13 per share on a fully-diluted basis) for 2015.

Total revenues for 2016 decreased to \$14,034,772 from \$14,666,112 in 2015 due to lower revenues for our retail and bulk segments. Gross profit for 2016 was \$6,177,031 or 44% of total revenues, as compared to \$6,148,302 or 42% of total revenues, for 2015. Gross profit for the retail and bulk segments decreased, while gross profit for the services segment increased, from 2015 to 2016. For further discussion of revenues and gross profit for 2016, see the "Results by Segment" analysis that follows.

General and administrative ("G&A") expenses on a consolidated basis were \$4,460,986 and \$3,892,966 for 2016 and 2015, respectively. The increase in consolidated G&A expenses from 2015 to 2016 is primarily attributable to an increase of approximately \$230,000 in the project development expenses incurred by our Mexican subsidiary, NSC, and the addition of the expenses of Aerex Industries, Inc. ("Aerex") after our acquisition of 51% of this company on February 11, 2016.

Net other income for 2016 was \$389,557, as compared to net other expense of (\$219,557) for 2015. The fluctuation in this net component of our results of operations results principally from (i) a decrease in the impairment charge recorded for our equity investment in OC-BVI for the respective periods of \$260,000; and (ii) foreign currency gains recorded for CW-Bali in 2016 as compared to foreign currency losses recorded for this subsidiary in 2015.

Results by Segment

Retail Segment:

The retail segment contributed \$442,703 and \$470,360 to our income from operations for 2016 and 2015, respectively.

Revenues generated by our retail water operations were \$5,970,238 in 2016 as compared to \$6,135,638 in 2015. Although the volume of water sold by the retail segment increased by approximately 5% from 2015 to 2016, retail revenues declined by approximately 3% in 2016 due to (i) lower energy costs, which reduced the energy component of the rates we charge to our Cayman Water customers by almost \$237,000 from 2015; and (ii) the annual first quarter adjustment of our base rates under our retail license, which were lowered in 2016 by 4.4% due to downward movement in the price indices used as the basis for such rate adjustments.

Retail segment gross profit was \$3,340,564 (56% of retail revenues) and \$3,368,775 (55% of retail revenues) for 2016 and 2015, respectively. The slight improvement in retail gross profit as a percentage of revenues from 2015 to 2016 is due principally to lower energy costs.

Consistent with prior periods, we record all non-direct G&A expenses in our retail segment and do not allocate any of these non-direct costs to our other two business segments. Retail G&A expenses for 2016 and 2015 remained relatively consistent at \$2,897,861 and \$2,898,415, for 2016 and 2015, respectively.

CW-Bali owns and operates a seawater reverse osmosis plant with a productive capacity of approximately 790,000 gallons per day located in Nusa Dua, one of the primary tourist areas of Bali, Indonesia. We built this plant based upon our belief that future water shortages in this area of Bali will eventually enable us to sell all of this plant's production. We sold approximately 2.1 million and 8.7 million gallons to customers on a month-to-month basis during the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, capitalized costs for this plant reflected on our consolidated balance sheet were approximately \$3.1 million. The revenues we generated from this plant amounted to \$27,000 and \$71,000 for the three months ended March 31, 2016 and 2015, respectively. CW-Bali's operating losses were approximately (\$147,000) and (\$161,000) for the three months ended March 31, 2016 and 2015, respectively.

Bulk Segment:

The bulk segment contributed \$2,219,073 and \$2,498,892 to our income from operations for 2016 and 2015, respectively.

Bulk segment revenues were \$7,265,293 and \$8,382,316 for 2016 and 2015, respectively. The decrease in bulk revenues from 2015 to 2016 is attributable to our Bahamas and Cayman operations, which generated approximately \$916,000 and \$224,000 less in revenues, respectively, in 2016 than in 2015 due to a significant decrease in the prices of diesel fuel and electricity from 2015 to 2016, which reduced the energy component of our bulk water rates.

Gross profit for our bulk segment was \$2,654,969 and \$2,916,256 for 2016 and 2015, respectively. Gross profit as a percentage of bulk revenues was approximately 37% and 35% for 2016 and 2015, respectively. Gross profit as a percentage of revenues increased in 2016 as compared to 2015 due to the reduced energy prices, as energy expense for our bulk operations was approximately \$940,000 less in 2016 than in 2015.

Bulk segment G&A expenses remained relatively consistent at \$435,896 and \$417,364 for 2016 and 2015, respectively.

Services Segment:

The services segment incurred losses from operations of (\$945,731) and (\$713,916) for 2016 and 2015, respectively.

Services segment revenues were \$799,241 and \$148,158 for 2016 and 2015, respectively. Services revenues increased in 2016 due to the addition of Aerex's revenues.

Gross profit (loss) for our services segment was \$181,498 and (\$136,729) for 2016 and 2015, respectively. The increase in the service segment's gross profit from 2015 to 2016 reflects the incremental gross profit generated by Aerex.

G&A expenses for the services segment were \$1,127,229 and \$577,187 for 2016 and 2015, respectively. The increase in G&A expenses for 2016 as compared to 2015 reflects an increase of approximately \$230,000 in the project development expenses incurred by our Mexican subsidiary, NSC, and the incremental expenses of Aerex. NSC's G&A expenses increased from 2015 to 2016 as a result of legal fees incurred in connection with the NSC litigation and professional fees and other expenses incurred to prepare NSC's tender documents for the Rosarito project.

FINANCIAL CONDITION

The increases in the amounts reported in our consolidated balance sheets for (i) property, plant and equipment; (ii) intangible assets; (iii) goodwill; (iv) deferred tax liability; and (v) non-controlling interests from December 31, 2015 to March 31, 2016 result from the acquisition of Aerex on February 11, 2016.

Accounts receivable increased by approximately \$4.3 million from December 31, 2015 to March 31, 2016 primarily due to accounts receivable for Aerex of approximately \$965,000 and an increase in the accounts receivables for CW-Bahamas of approximately \$2.5 million. We believe, based upon prior payment history, that CW-Bahamas' accounts receivable balances will be collected in full.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position

Our projected liquidity requirements for the remainder of 2016 include capital expenditures for our existing operations of approximately \$2.9 million and the remaining balance on our demand loan payable of \$6.5 million due on May 14, 2016. Our liquidity requirements for the rest of 2016 may also include quarterly dividends, if such dividends are declared by our Board. Our dividend payments amounted to approximately \$4.4 million for the year ended December 31, 2015 and approximately \$1.1 million for the three months ended March 31, 2016.

In May 2014, we obtained financing (the proceeds of which were used to fund NSC's land purchases in May 2014) in the form of a demand loan payable with an initial principal balance of \$10 million. The outstanding balance on this demand loan payable was \$6.5 million as of March 31, 2016. Payments on this loan are due quarterly under a five year amortization schedule with the remaining principal balance due on May 14, 2016. This loan bears interest at LIBOR plus 1.5%. We expect to repay this loan with available cash balances on its due date.

As of March 31, 2016, we had cash and cash equivalents and a certificate of deposit totaling approximately \$41.2 million and working capital of approximately \$47.7 million. We are not presently aware of anything that would lead us to believe that we will not have sufficient liquidity to meet our needs for the remainder of 2016 and thereafter.

Transfers from the Company's Bahamas and Belize bank accounts to Company bank accounts in other countries require the approval of the Central Banks of the Bahamas and Belize, respectively. As of March 31, 2016, the equivalent United States dollar cash balances for deposits held in the Bahamas and Belize were approximately \$17.4 million and \$4.6 million, respectively. The \$17.4 million Bahamas balance includes the certificate of deposit balance of approximately \$5.6 million.

Discussion of Cash Flows for the Three Months Ended March 31, 2016

Our cash and cash equivalents decreased to \$35.6 million as of March 31, 2016 from \$44.8 million as of December 31, 2015.

Cash Flows from Operating Activities

Our operating activities used cash of approximately \$357,000. This net cash used reflects net income generated for the three months of approximately \$2.2 million as adjusted for (i) various items included in the determination of net income that do not affect cash flows during the year and (ii) changes in the other components of working capital. The more significant of such items included depreciation and amortization of approximately \$1.7 million, a net increase in accounts receivable of approximately \$3.5 million, and a net decrease in accounts payable and other current liabilities of approximately \$1.1 million.

Cash Flows from Investing Activities

Net cash used in our investing activities was approximately \$7.8 million. On February 11, 2016, we acquired a 51% ownership of Aerex Industries, Inc. through a stock purchase agreement for an aggregate purchase price of approximately \$7.7 million in cash. We purchased property plant and equipment and expended funds on construction in progress in the normal course of business in the aggregate of amount of approximately \$1.0 million. We collected \$449,338 in principal repayments on our notes receivable from the Water Authority Cayman (the "WAC"). As a result of a favorable

ruling by a Mexico appellate court in February 2016, we also obtained the release of approximately \$423,000 in cash that had been restricted and pledged as collateral for a letter of credit at December 31, 2015.

Cash Flows from Financing Activities

Our financing activities used approximately \$1.1 million in net cash as we paid dividends of approximately \$1.1 million and repaid \$0.5 million of our demand note payable. We also obtained a \$490,000 working capital loan from Aerex's prior sole stockholder that matures on August 10, 2016.

Material Commitments, Expenditures and Contingencies

Retail License

We sell water through our retail operations under a license issued in July 1990 by the Cayman Islands government that grants Cayman Water the exclusive right to provide potable water to customers within its licensed service area. As discussed below, this license was set to expire in July 2010 but has since been extended while negotiations for a new license take place. Pursuant to the license, we have the exclusive right to produce potable water and distribute it by pipeline to our licensed service area which consists of two of the three most populated areas of Grand Cayman, the Seven Mile Beach and West Bay areas. For the three months ended March 31, 2016 and 2015, we generated approximately 42% and 41%, respectively, of our consolidated revenues and 56% and 57%, respectively, of our consolidated gross profits from the retail water operations conducted pursuant to Cayman Water's exclusive license. As discussed later herein, if we are not in default of any of its terms, this license provides us with the right to renew the license on terms that are no less favorable than those that the government offers to any third party.

Under our license, we pay a royalty to the government of 7.5% of our gross retail water sales revenues (excluding energy cost adjustments). The selling prices of water sold to our customers are determined by the license and vary depending upon the type and location of the customer and the monthly volume of water purchased. The license provides for an automatic adjustment for inflation or deflation on an annual basis, subject to temporary limited exceptions, and an automatic adjustment for the cost of electricity on a monthly basis. The WAC, on behalf of the government, reviews and confirms the calculations of the price adjustments for inflation and electricity costs. If we want to adjust our prices for any reason other than inflation or electricity costs, we have to request prior approval of the Cabinet of the Cayman Islands government. Disputes regarding price adjustments would be referred to arbitration.

The license was scheduled to expire in July 2010 but has been extended several times by the Cayman Islands government in order to provide the parties with additional time to negotiate the terms of a new license agreement. The most recent extension of the license expires June 30, 2016.

In February 2011, the Water (Production and Supply) Law, 2011 and the Water Authority (Amendment) Law, 2011 (the "New Laws") were published and are now in full force and effect. Under the New Laws, the WAC will issue any new license, and such new license could include a rate of return on invested capital model, as discussed in the following paragraph.

We have been advised in correspondence from the Cayman Islands government and the WAC that: (i) the WAC is now the principal negotiator, and not the Cayman Islands government, in these license negotiations, and (ii) the WAC has determined that a rate of return on invested capital model ("RCAM") for the retail license is in the best interest of the public and our customers. RCAM is the rate model currently utilized in the electricity transmission and distribution license granted by the Cayman Islands government to the Caribbean Utilities Company, Ltd. We have advised the Cayman Islands government that we disagree with its position on these two issues.

In July 2012, in an effort to resolve several issues relating to our retail license renewal negotiations, we filed an Application for Leave to Apply for Judicial Review (the "Application") with the Grand Court of the Cayman Islands (the "Court"), seeking declarations that: (i) certain provisions of the New Laws appear to be incompatible and a determination as to how those provisions should be interpreted, (ii) the WAC's roles as the principal license negotiator, statutory regulator and our competitor put the WAC in a position of hopeless conflict, and (iii) the WAC's decision to replace the rate structure under our current exclusive license with RCAM was predetermined and unreasonable. In October 2012, we were notified that the Court agreed to consider the issues raised in the Application.

The hearing for this judicial review was held on April 1, 2014. Prior to the commencement of the hearing, the parties agreed that the Court should solely be concerned with the interpretation of the statutory provisions. As part of this agreement, the WAC agreed to consider our submissions on the RCAM model and/or alternative models of pricing. In June 2014, the Court determined that: (i) the renewal of the 1990 License does not require a public bidding process; and (ii) the WAC is the proper entity to negotiate with us for the renewal of the 1990 License.

Our submissions on the RCAM model and/or alternative models of pricing were made to the WAC on June 9, 2014. We received a letter from the WAC dated September 11, 2014, which fully rejected our submissions and stated that the WAC intend to provide us with a draft RCAM license in due course.

On November 21, 2014, we wrote to the Minister of Works offering to recommence license negotiations on the basis of the RCAM model subject to certain conditions which are: (i) the Government would undertake to amend the current water legislation to provide for an independent regulator and a fair and balanced regulatory regime more consistent with that provided under the electrical utility regulatory regime, (ii) the Government and we would mutually appoint an independent referee and chairman of the negotiations, (iii) our new license would provide exclusivity for the production and provision of all piped water, both potable and non-potable, within our Cayman Islands license area, (iv) the Government would allow us to submit our counter proposal to the WAC's June 2010 RCAM license draft, and (v) the principle of subsidization of residential customer rates by commercial customer rates would continue under a new license. On March 23 2015, we received a letter from the Minister of Works with the following responses to our November 21, 2014 letter: (1) that while the Cayman government plans to create a public utilities commission, the provision of a new license will not depend upon the formation of such a commission; (2) any consideration regarding inclusion of the exclusive right to sell non-potable water within the area covered by the retail license will not take place until after the draft license has proceeded through the review process of the negotiations; (3) rather than allow us to submit a counter proposal to the WAC's June 2010 RCAM license draft, the WAC will draft the license with the understanding that we will be allowed to propose amendments thereto; (4) the principle of subsidization of residential customer rates by commercial customer rates would continue under the new license; and (5) a request that we consider eliminating our monthly minimum volume charge in the new license.

We recommenced license negotiations with the WAC during the third quarter of 2015. However we are presently unable to determine when such negotiations will be completed or the final outcome of such negotiations.

The Cayman Islands government could ultimately offer a third party a license to service some or all of our present service area. However, as set forth in the 1990 license, *“the Governor hereby agrees that upon the expiry of the term of this Licence or any extension thereof, he will not grant a licence or franchise to any other person or company for the processing, distribution, sale and supply of water within the Licence Area without having first offered such a licence or franchise to the Company on terms no less favourable than the terms offered to such other person or company.”*

The resolution of these license negotiations could result in a material reduction of the operating income and cash flows we have historically generated from our retail license and could require us to record an impairment charge to reduce the carrying value of our goodwill. Such impairment charge could have a material adverse impact on our results of operations.

We are presently unable to determine what impact the resolution of this matter will have on our cash flows, financial condition or results of operations.

N.S.C. Agua, S.A. de C.V.

In May 2010, we acquired, through our wholly-owned Netherlands subsidiary, Consolidated Water Cooperatief, U.A., (“CW-Cooperatief”) a 50% interest in N.S.C. Agua, S.A. de C.V. (“NSC”), a development stage Mexican company. We have since purchased, through the conversion of a loan we made to NSC, sufficient shares to raise our ownership interest in NSC to 99.9%. NSC was formed to pursue a project (the “Project”) encompassing the construction, operation and minority ownership of a 100 million gallon per day seawater reverse osmosis desalination plant to be located in northern Baja California, Mexico and accompanying pipelines to deliver water to the Mexican potable water system. As discussed in the paragraphs that follow, during 2015 the scope of the Project was defined by the State of Baja California (the “State”) to consist of a first phase consisting of a 50 million gallons per day plant and a pipeline that connects to the Mexican potable water infrastructure and a second phase consisting of an additional 50 million gallons of production capacity.

Since its inception, NSC has engaged engineering groups with extensive regional and/or technical experience to prepare preliminary designs and cost estimates for the desalination plant and the proposed pipeline and prepare the environmental impact studies for local, state and federal regulatory agencies, and has also acquired the land, performed pilot plant and feed water source testing, and evaluated financing alternatives for the Project.

Through a series of transactions completed in 2012-2014, NSC purchased 20.1 hectares of land on which the proposed Project’s plant would be constructed for an aggregate price of \$20.6 million.

In 2012 and 2013, NSC conducted an equipment piloting plant and water data collection program at the proposed feed water source for the Project under a Memorandum of Understanding (the “EPC MOU”) with a global engineering, procurement and construction contractor for large seawater desalination plants. Under the EPC MOU, the contractor installed and operated an equipment piloting plant and collected water quality data from the proposed feed water source site in Rosarito Beach, Baja California, Mexico. The EPC MOU required that NSC negotiate exclusively with the contractor for the construction of the 100 million gallon per day seawater reverse osmosis desalination plant, and further required payment by NSC to the contractor of up to \$500,000 as compensation for the operation and maintenance of the equipment piloting plant should NSC not award the engineering, procurement and construction contract for the Project to the contractor. This first phase of the pilot plant testing program was completed in October 2013. NSC decided not to extend the EPC MOU beyond its February 2014 expiration date and NSC paid the contractor \$350,000 during 2014 as compensation for the operation and maintenance of the pilot plant.

In 2012 NSC entered into a lease with an effective term of 20 years from the date of full operation of the desalination plant with the Comisión Federal de Electricidad for approximately 5,000 square meters of land on which it plans to construct the water intake and discharge works for the plant. The amounts due on this lease are payable in Mexican pesos at an amount that is currently equivalent to approximately \$20,000 per month. This lease is cancellable should NSC ultimately not proceed with the Project.

In August 2014, the State enacted new legislation to regulate Public-Private Association projects which involve the type of long-term contract between a public sector authority and a private party that NSC is seeking to complete the Project. Pursuant to this new legislation, on January 4, 2015, NSC submitted an expression of interest for its project to the Secretary of Infrastructure and Urban Development of the State of Baja California (“SIDUE”). In January 2015, SIDUE accepted NSC’s expression of interest and requested that NSC submit a detailed proposal for the Project that complies with requirements of the new legislation. NSC submitted this detailed proposal (the “APP Proposal”) to SIDUE in late March 2015. The new legislation required that such proposal be evaluated by SIDUE and submitted to the Public-Private Association Projects State Committee (the “APP Committee”) for review and authorization. If the Project is authorized the State would be required to conduct a public tender for the Project.

In response to its APP Proposal, in September 2015 NSC received a letter dated June 30, 2015 from the Director General of the Comisión Estatal de Agua de Baja California (“CEA”), the State agency with responsibility for the Project, stating that (i) the Project is in the public interest with high social benefits and is consistent with the objectives of the State development plan and (ii) that the Project and accompanying required public tender process should be conducted. In November 2015, the State officially commenced the tender for the Project, the scope of which the State has defined as a first phase to be operational in 2019 consisting of a 50 million gallons per day plant and a pipeline that connects to the Mexican potable water infrastructure and a second phase to be operational in 2024 consisting of an additional 50 million gallons per day of production capacity. The State originally set March 23, 2016 as the deadline for tender submissions but subsequently extended such deadline to April 21, 2016.

NSC submitted its tender for the Project on April 21, 2016. We cannot presently determine when the tender evaluation process will be completed by the State or the outcome of such evaluation process.

We have acknowledged since the inception of the Project that, due to the amount of capital the Project requires, NSC will ultimately need an equity partner or partners for the Project. Consequently, NSC’s tender to the State for the Project is based upon the following: (i) NSC will sell or otherwise transfer the land and other Project assets to a new company (“Newco”) that would build and own the Project; (ii) NSC’s potential partners would provide the majority of the equity for the Project and thereby would own the majority interest in Newco; (iii) NSC would maintain a minority ownership position in Newco; and (iv) Newco would enter into a long-term management and technical services contract for the Project with an entity partially owned by NSC or another Company subsidiary.

Included in our consolidated results of operations are general and administrative expenses from NSC, consisting of organizational, legal, accounting, engineering, consulting and other costs relating to NSC’s project development activities. Such expenses amounted to \$767,000 and \$537,000 for the three months ended March 31, 2016 and 2015, respectively. The assets and liabilities of NSC included in the Company’s consolidated balance sheets amounted to approximately \$22.0 million and \$502,000, respectively, as of March 31, 2016 and approximately \$22.0 million and \$488,000 respectively, as of December 31, 2015.

We expect to incur additional project development costs on behalf of NSC during the remainder of 2016.

Despite the expenditures we have made and the activities we have completed to date, upon completion of the tender process the State may award the Project to a party other than NSC, or the State may cancel the tender process. If NSC is not awarded the Project, the land NSC has purchased may lose its strategic importance as the site for the Project and consequently may decline in value. If NSC is not awarded the Project, NSC may ultimately be unable to sell this land for an amount equal to or in excess of its current carrying value of \$20.6 million, and any loss on sale of the land, or impairment charge we may be required to record as a result of a decrease in the fair value of the land, could have a material adverse impact on our results of operations.

NSC Litigation

Immediately following CW-Cooperatief’s acquisition of its initial 50% ownership in NSC, the remaining 50% ownership interest in NSC was held by an unrelated company, Norte Sur Agua, S. de R.L. de C.V. (“NSA”). NSA subsequently transferred ownership of half of its shares in NSC to EWG Water LLC and the other half of its shares in NSC to Alejandro de la Vega (the “individual shareholder”). In February 2012, we paid \$300,000 to enter into an agreement (the “Option Agreement”) that provided us with an option, exercisable through February 7, 2014, to purchase the shares of NSC owned by the individual shareholder, along with an immediate power of attorney to vote those shares, for \$1.0 million. Such shares constituted 25% of the ownership of NSC as of February 2012. In May 2013, NSC repaid a \$5.7 million loan payable to CW-Cooperatief by issuing additional shares of its stock. As a result of this share issuance to CW-Cooperatief, we acquired 99.9% of the ownership of NSC. The Option Agreement contained an anti-dilution provision that required us to issue new shares in NSC of an amount sufficient to maintain the individual shareholder’s 25% ownership interest in NSC if (i) any new shares of NSC were issued subsequent to the execution of the Option Agreement and (ii) we did not exercise our share purchase option by February 7, 2014. We exercised our option and paid the \$1.0 million to the individual shareholder to purchase the Option Agreement shares in February 2014.

In October 2015, we learned that EWG has filed a lawsuit against the individual shareholder, NSC, NSA, CW-Cooperatief, Ricardo del Monte Nunez, Carlos Eduardo Ahumada Arruit, Luis de Angitia Becerra, and the Public Registry of Commerce of Tijuana, Baja California in the Civil Court located in Tecate, Baja California, Mexico.

In this lawsuit, EWG is challenging the capital investment transactions that increased our ownership interest in NSC to 99.9%. EWG requested that the court, as a preliminary matter: (a) suspend of the effectiveness of the challenged transactions; (b) order of public officials in Mexico to record the pendency of the lawsuit in the public records; and (c) appoint an inspector for NSA and NSC to oversee its commercial activities. The court granted, ex-parte, the preliminary relief sought by EWG, which resulted in the placement of inscriptions for the lawsuit on NSC’s public records.

Additionally, EWG also is seeking an order directing: (i) NSA, NSC and CW-Cooperatief to refrain from carrying out any transactions with respect to the Project; and (ii) NSA, NSC and CW-Cooperatief, and the partners thereof, to refrain from transferring any interests in NSA, NSC and CW-Cooperatief.

On April 5, 2016, NSC filed a motion for reconsideration with the Tecate, Mexico Court asking, among other things, that the Court; (i) reverse its order to record the pendency of the lawsuit in the public records, (ii) cancel the appointment of the inspector, and (iii) allow NSC to provide a counter-guarantee to suspend the effects of the Court's order regarding the challenged transactions. On April 26, 2016, the Tecate Court issued an interlocutory judgment (i) ordering the cancellation of the inscriptions on NSC's public records and (ii) rejecting NSC's motion for cancellation of the appointment of the inspector. The Court's decision regarding NSC's request to provide a counter-guarantee is pending.

On April 26, 2016, NSC filed a full answer to EWG's claims, rejecting every claim made by EWG. The Court's response on this matter is pending.

We believe that the claims made by EWG are baseless and without merit, will vigorously defend NSC and CW-Cooperatief in this litigation, and will seek dismissal of the orders entered by the court and all claims against NSC and CW-Cooperatief. We cannot presently determine the outcome of this litigation. However such litigation could adversely impact our efforts to complete the Project. We incurred legal fees of approximately \$196,000 for the three months ended March 31, 2016 in connection with the NSC litigation.

CW-Belize

By Statutory Instrument No. 81 of 2009, the Minister of Public Utilities of the government of Belize published an order, the Public Utility Provider Class Declaration Order, 2009 (the "Order"), which as of May 1, 2009 designated CW-Belize as a public utility provider under the laws of Belize. With this designation, the Public Utilities Commission of Belize (the "PUC") has the authority to set the rates charged by CW-Belize and to otherwise regulate its activities. On November 1, 2010, CW-Belize received a formal complaint from the PUC alleging that CW-Belize was operating without a license under the terms of the Water Industry Act. CW-Belize applied for this license in December 2010. On July 29, 2011, the PUC issued the San Pedro Public Water Supply Quality and Security Complaint Order (the "Second Order") which among other things requires that (i) CW-Belize and its customer jointly make a submission to the responsible Minister requesting that the area surrounding CW-Belize's seawater abstraction wells be designated a forest reserve or national park and be designated a Controlled Area under section 58 of the Water Industry Act, (ii) CW-Belize submit an operations manual for CW-Belize's desalination plant to the PUC for approval, (iii) CW-Belize and its customer modify the water supply agreement between the parties to (a) include new water quality parameters included in the Order and (b) cap the current exclusive water supply arrangement in the agreement at a maximum of 450,000 gallons per day, (iv) CW-Belize keep a minimum number of replacement seawater RO membranes in stock at all times and (v) CW-Belize take possession of and reimburse the PUC for certain equipment which the PUC purchased from a third-party in late 2010. CW-Belize has applied for declaratory judgment and has been granted a temporary injunction to stay the enforcement of the Second Order by the PUC until such time as the Belize courts could hear the matter. The initial hearing on this matter was conducted on October 30 and 31, 2012 with an additional hearing on November 29, 2012. The ruling on this case is pending. We are presently unable to determine what impact the Order and the Second Order will have on our results of operations, financial position or cash flows.

Windsor Plant Water Supply Agreement

Our subsidiary CW-Bahamas provides bulk water to the WSC, which distributes the water through its own pipeline system to residential, commercial and tourist properties on the Island of New Providence. Pursuant to a water supply agreement, we are required to provide the WSC with at least 16.8 million gallons per week of potable water from the Windsor plant, and the WSC had contracted to purchase at least that amount on a take-or-pay basis. This water supply agreement was scheduled to expire when we delivered the total amount of water required under the agreement in July 2013, but has been extended on a month-to-month basis. At the conclusion of the agreement, the WSC has the option to:

- extend the agreement for an additional five years at a rate to be negotiated;
- exercise a right of first refusal to purchase any materials, equipment and facilities that CW-Bahamas intends to remove from the Windsor plant site, and negotiate a purchase price with CW-Bahamas; or
- require CW-Bahamas to remove all materials, equipment and facilities from the site.

At the request of the government of The Bahamas, we continue to operate and maintain the Windsor plant on a month-to-month basis to provide the government of The Bahamas with additional time to decide whether or not it will extend CW-Bahamas' water supply agreement for the Windsor plant on a long-term basis. CW-Bahamas generated revenues from the operation of this plant of approximately \$1.3 million and \$1.5 million during the three months ended March 31, 2016 and 2015, respectively.

CW-Bali

Through our subsidiary CW-Bali, we have built and presently operate a seawater reverse osmosis plant with a productive capacity of approximately 790,000 gallons per day located in Nusa Dua, one of the primary tourist areas of Bali, Indonesia. We built this plant based upon our belief that future water shortages in this area of Bali will eventually enable us to sell all of this plant's production. However, since its inception, our sales volumes for this plant have not been sufficient to cover its operating costs. CW-Bali's operating losses were approximately (\$147,000) and (\$161,000) for the three months ended March 31, 2016 and 2015, respectively, and approximately (\$484,000) for the year ended December 31, 2015. As of March 31, 2016, the capitalized costs for this plant reflected on our consolidated balance sheet were approximately \$3.1 million.

In 2015, the Indonesian government passed Regulation 121 which provides a mechanism for governmental regulatory oversight over the utilization of Indonesia's water resources. Under this new regulation, the approval or cooperation of the local government water utility is required for any water supply contracts executed by non-governmental providers after the effective date of the regulation. Consequently CW-Bali will be required to enter into a cooperation agreement with Bali's local government water utility, PDAM, or otherwise obtain PDAM's approval, to supply any new customers. However, we presently have no reason to believe PDAM would not approve any new water supply agreements for CW-Bali.

We are presently seeking a strategic partner to (i) purchase a major portion of our equity ownership in CW-Bali; (ii) lead its sales and marketing efforts; (iii) liaise with PDAM; and (iv) assist with CW-Bali's on-going funding requirements. We also plan to market the available productive capacity of our Nusa Dua plant to PDAM. If we are not able to obtain a strategic partner for CW-Bali, sell water to PDAM or other new customers, or otherwise significantly increase the revenues generated by our Nusa Dua plant in the future, we will be required to record an impairment charge to reduce the carrying value of CW-Bali's plant assets to their fair value. Such an impairment charge could have a material adverse impact on our results of operations.

Adoption of New Accounting Standards:

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, *Consolidation (Topic 810) - Amendments to the Consolidation Analysis*. The amendments in this update require management to reevaluate whether certain legal entities should be consolidated. Specifically, the amendments (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, (2) eliminate the presumption that a general partner should consolidate a limited partnership, (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-02 did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 provides authoritative guidance related to the presentation of debt issuance costs on the balance sheet, requiring companies to present debt issuance costs as a direct deduction from the carrying value of debt. The amendments in this update are effective for public business entities in fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The new guidance must be applied retrospectively to each prior period presented. The adoption of ASU 2015-03 did not have a material impact on the Company's consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after adoption of ASU 2015-03. The SEC Staff announced they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The amendment requires retrospective application and represents a change in accounting principle. The amendment becomes effective in fiscal years beginning after December 15, 2015. The adoption of ASU 2015-15 did not have a material impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments*, which requires an acquirer to recognize adjustments identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adjustment must include the cumulative effect of the adjustment as if the accounting had been completed on the acquisition date. The update should be applied prospectively and becomes effective January 1, 2016. Early application is permitted. The adoption of ASU 2015-16 did not have a material impact on the Company's consolidated financial statements.

Effect of newly issued but not yet effective accounting standards:

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 prescribes a five step framework in accounting for revenues from contracts within its scope, including (a) identification of the contract, (b) identification of the performance obligations under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligations and (e) recognition of revenues as the identified performance obligations are satisfied. ASU 2014-09 also prescribes additional disclosures and financial statement presentations. ASU 2014-09 may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. This amendment was originally effective January 1, 2017. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date by one year to January 1, 2018. Early application is permitted but not before January 1, 2017. The Company is currently evaluating the effect the adoption of this standard will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, that amends the principal versus agent guidance in ASU 2014-09. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. ASU 2016-08 also provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on Company's consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing*, that amends the revenue guidance in ASU 2014-09 on identifying performance obligations and accounting for licenses of intellectual property. ASU 2016-10 changed the FASB's previous proposals on renewals of right-to-use licenses and contractual restrictions. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on Company's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. ASU 2015-11 applies to all inventory that is measured using first-in, first-out or average cost. The guidance requires an entity to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective prospectively for fiscal years, and for interim periods within those years, beginning after December 15, 2016. Early application is permitted. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 requires net deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet and eliminates the classification between current and noncurrent amounts ASU No. 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides guidance for the recognition, measurement, presentation and disclosure of financial assets and financial liabilities. ASU 2016-01 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017 and, for most provisions, is effective using the cumulative-effect transition approach. Early application is permitted for certain provisions. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets. The accounting guidance for lessors will remain relatively largely unchanged. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments- Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*, which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. ASU 2016-07 will be effective for the Company's fiscal year beginning January 1, 2017 and subsequent interim periods. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the effect the adoption of this amendment will have on the Company's consolidated financial statements.

Dividends

- On January 31, 2016, we paid a dividend of \$0.075 to shareholders of record on January 1, 2016.
- On February 16, 2016, our Board declared a dividend of \$0.075 payable on April 30, 2016 to shareholders of record on April 1, 2016.

We have paid dividends to owners of our common shares and redeemable preferred shares since we began declaring dividends in 1985. However, the payment of any future cash dividends will depend upon our earnings, financial condition, cash flows, capital requirements and other factors our Board of Directors deems relevant in determining the amount and timing of such dividends.

Dividend Reinvestment and Common Stock Purchase Plan.

This program is available to our shareholders, who may reinvest all or a portion of their common cash dividends into shares of common stock at prevailing market prices and may also invest optional cash payments to purchase additional shares at prevailing market prices as part of this program.

Impact of Inflation

Under the terms of our Cayman Islands license and our water sales agreements in The Bahamas, Belize and the British Virgin Islands, our water rates are automatically adjusted for inflation on an annual basis, subject to temporary exceptions. We, therefore, believe that the impact of inflation on our gross profit, measured in consistent dollars, will not be material. However, significant increases in items such as fuel and energy costs could create additional credit risks for us, as our customers' ability to pay our invoices could be adversely affected by such increases.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from December 31, 2015 to the end of the period covered by this report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, with the participation of its principal executive officer and principal financial and accounting officer, the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial and accounting officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls

We are in the process of integrating Aerex Industries, Inc. into our overall internal control over financial reporting processes.

Except as described above, there have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CW-Belize

By Statutory Instrument No. 81 of 2009, the Minister of Public Utilities of the government of Belize published an order, the Public Utility Provider Class Declaration Order, 2009 (the "Order"), which as of May 1, 2009 designated CW-Belize as a public utility provider under the laws of Belize. With this designation, the Public Utilities Commission of Belize (the "PUC") has the authority to set the rates charged by CW-Belize and to otherwise regulate its activities. On November 1, 2010, CW-Belize received a formal complaint from the PUC alleging that CW-Belize was operating without a license under the terms of the Water Industry Act. CW-Belize applied for this license in December 2010. On July 29, 2011, the PUC issued the San Pedro Public Water Supply Quality and Security Complaint Order (the "Second Order") which among other things requires that (i) CW-Belize and its customer jointly make a submission to the responsible Minister requesting that the area surrounding CW-Belize's seawater abstraction wells be designated a forest reserve or national park and be designated a Controlled Area under section 58 of the Water Industry Act, (ii) CW-Belize submit an operations manual for CW-Belize's desalination plant to the PUC for approval, (iii) CW-Belize and its customer modify the water supply agreement between the parties to (a) include new water quality parameters included in the Order and (b) cap the current exclusive water supply arrangement in the agreement at a maximum of 450,000 gallons per day, (iv) CW-Belize keep a minimum number of replacement seawater RO membranes in stock at all times and (v) CW-Belize take possession of and reimburse the PUC for certain equipment which the PUC purchased from a third-party in late 2010. CW-Belize has applied for declaratory judgment and has been granted a temporary injunction to stay the enforcement of the Second Order by the PUC until such time as the Belize courts could hear the matter. The initial hearing on this matter was conducted on October 30 and 31, 2012 with an additional hearing on November 29, 2012. The ruling on this case is pending. We are presently unable to determine what impact the Order and the Second Order will have on our results of operations, financial position or cash flows.

NSC

In May 2010, we acquired, through our wholly-owned Netherlands subsidiary, Consolidated Water Cooperatief, U.A., (“CW-Cooperatief”) a 50% interest in N.S.C. Agua, S.A. de C.V. (“NSC”), a development stage Mexican company. We have since purchased, through the conversion of a loan we made to NSC, sufficient shares to raise our ownership interest in NSC to 99.9%. NSC was formed to pursue a project encompassing the construction, operation and minority ownership of a 100 million gallon per day seawater reverse osmosis desalination plant to be located in northern Baja California, Mexico and an accompanying pipeline to deliver water to the Mexican potable water system (the “Project”).

Immediately following CW-Cooperatief’s acquisition of its initial 50% ownership in NSC, the remaining 50% ownership interest in NSC was held by an unrelated company, Norte Sur Agua, S. de R.L. de C.V. (“NSA”). NSA subsequently transferred ownership of half of its shares in NSC to EWG Water LLC and the other half of its shares in NSC to Alejandro de la Vega (the “individual shareholder”). In February 2012, we paid \$300,000 to enter into an agreement (the “Option Agreement”) that provided us with an option, exercisable through February 7, 2014, to purchase the shares of NSC owned by the individual shareholder, along with an immediate power of attorney to vote those shares, for \$1.0 million. Such shares constituted 25% of the ownership of NSC as of February 2012. In May 2013, NSC repaid a \$5.7 million loan payable to CW-Cooperatief by issuing additional shares of its stock. As a result of this share issuance to CW-Cooperatief, we acquired 99.9% of the ownership of NSC. The Option Agreement contained an anti-dilution provision that required us to issue new shares in NSC of an amount sufficient to maintain the individual shareholder’s 25% ownership interest in NSC if (i) any new shares of NSC were issued subsequent to the execution of the Option Agreement and (ii) we did not exercise our share purchase option by February 7, 2014. We exercised our option and paid the \$1.0 million to the individual shareholder to purchase the Option Agreement shares in February 2014.

In October 2015, we learned that EWG has filed a lawsuit against the individual shareholder, NSC, NSA, CW-Cooperatief, Ricardo del Monte Nunez, Carlos Eduardo Ahumada Arruit, Luis de Angitia Becerra, and the Public Registry of Commerce of Tijuana, Baja California in the Civil Court located in Tecate, Baja California, Mexico.

In this lawsuit, EWG is challenging the capital investment transactions that increased our ownership interest in NSC to 99.9%. EWG requested that the court, as a preliminary matter: (a) suspend the effectiveness of the challenged transactions; (b) order public officials in Mexico to record the pendency of the lawsuit in the public records; and (c) appoint an inspector for NSA and NSC to oversee its commercial activities. The Court granted, ex-parte, the preliminary relief sought by EWG, which resulted in the placement of inscriptions for the lawsuit on NSC’s public records.

Additionally, EWG is also seeking an order directing: (i) NSA, NSC and CW-Cooperatief to refrain from carrying out any transactions with respect to the Project; and (ii) NSA, NSC and CW-Cooperatief, and the partners thereof, to refrain from transferring any interests in NSA, NSC and CW-Cooperatief. The Court has not yet ruled on these requests.

On April 5, 2016, NSC filed a motion for reconsideration with the Tecate, Mexico Court asking, among other things, that the Court; (i) reverse its order to record the pendency of the lawsuit in the public records, (ii) cancel the appointment of the inspector, and (iii) allow NSC to provide a counter-guarantee to suspend the effects of the Court’s order regarding the challenged transactions. On April 26, 2016, the Tecate Court issued an interlocutory judgment (i) ordering the cancellation of the inscriptions on NSC’s public records and (ii) rejecting NSC’s motion for cancellation of the appointment of the inspector. The Court’s decision regarding NSC’s request to provide a counter-guarantee is pending.

On April 26, 2016, NSC filed a full answer to EWG’s claims, rejecting every claim made by EWG. The Court’s response on this matter is pending.

We believe that the claims made by EWG are baseless and without merit, and we will vigorously defend NSC and CW-Cooperatief in this litigation, and will seek dismissal of the orders entered by the court and all claims against NSC and CW-Cooperatief. Furthermore, on November 19, 2015, NSC and CW-Cooperatief filed a complaint in the United States District Court, Southern District of New York against EWG and its Managing Partner, based upon our conclusion that lawsuit filed by EWG in Mexico directly breaches a contract dated April 12, 2012 between NSC and CW-Cooperatief, and EWG. We are vigorously pursuing our claims and seeking relief pursuant to this complaint. We have incurred legal fees of approximately \$196,000 for the three months ended March 31, 2016 in connection with the NSC litigation.

We cannot presently determine the outcome of this litigation. However, such litigation could adversely impact our efforts to complete the Project.

ITEM 1A. RISK FACTORS

Our business faces significant risks. These risks include those disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 as supplemented by the additional risk factors included below. If any of the events or circumstances described in the referenced risks actually occurs, our business, financial condition or results of operations could be materially adversely affected and such events or circumstances could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. These risks should be read in conjunction with the other information set forth in this Quarterly Report as well as in our Annual Report on Form 10-K for the year ended December 31, 2015 and in our other periodic reports on Form 10-Q and Form 8-K.

Our exclusive license to provide water to retail customers in the Cayman Islands may not be renewed in the future.

In the Cayman Islands, we provide water to retail customers under a license issued in July 1990 by the Cayman Islands government that grants our subsidiary, Cayman Water, the exclusive right to provide water to retail customers within our licensed service area. Our service area is comprised of an area on Grand Cayman that includes the Seven Mile Beach and West Bay areas, two of the three most populated areas in the Cayman Islands. For the three months ended March 31, 2016 and 2015, the Company generated approximately 42 %, and 41%, respectively, of its consolidated revenues and 56% and 57%, respectively, of its consolidated gross profits from the retail water operations conducted pursuant to Cayman Water’s exclusive license. If we are not in default of any of its terms, the license provides us with the right to renew the license on terms that are no less favorable than those that the government offers to any third party.

Under our license, we pay a royalty to the government of 7.5% of our gross retail water sales revenues (excluding energy cost adjustments). The selling prices of water sold to our customers are determined by the license and vary depending upon the type and location of the customer and the monthly volume of water purchased. The license provides for an automatic adjustment for inflation or deflation on an annual basis, subject to temporary limited exceptions, and an automatic adjustment for the cost of electricity on a monthly basis. The Water Authority Cayman (the “WAC”), on behalf of the government, reviews and confirms the calculations of the price adjustments for inflation and electricity costs. If we want to adjust our prices for any reason other than inflation or electricity costs, we have to request prior approval of the Cabinet of the Cayman Islands government. Disputes regarding price adjustments would be referred to arbitration.

This license was set to expire on July 10, 2010; however, the Cayman Islands government and we have extended the license several times in order to provide sufficient time to negotiate the terms of a new license agreement. The most recent extension of our license expires June 30, 2016.

In February 2011, the Water (Production and Supply) Law, 2011 and the Water Authority (Amendment) Law, 2011 (the “New Laws”) were published and enacted. Under the New Laws, the WAC will issue any new license, and such new license could include a rate of return on invested capital model, as discussed in the following paragraph.

Following the enactment of the New Laws, we were advised in correspondence from the Cayman Islands government and the WAC that: (i) the WAC is the principal negotiator, and not the Cayman Islands government, in our license negotiations, and (ii) the WAC had determined that a rate of return on invested capital model (“RCAM”) for the retail license is in the best interest of the public and our customers. RCAM is the rate model currently utilized in the electricity transmission and distribution license granted by the Cayman Islands government to the Caribbean Utilities Company, Ltd. We responded to the Cayman Islands government that we disagreed with its position on these two matters and negotiations for a new license temporarily ceased.

In July 2012, in an effort to resolve several issues relating to our retail license renewal negotiations, we filed an Application for Leave to Apply for Judicial Review (the “Application”) with the Grand Court of the Cayman Islands (the “Court”), stating that: (i) certain provisions of the New Laws appear to be incompatible, (ii) the WAC’s roles as the principal license negotiator, statutory regulator and our competitor put the WAC in a position of hopeless conflict, and (iii) the WAC’s decision to replace the rate structure under our current exclusive license with RCAM was predetermined and unreasonable. In October 2012, we were notified that the Court agreed to consider the issues outlined in the Application.

The hearing for this judicial review was held on April 1, 2014. Prior to the commencement of the hearing, the parties agreed that the Court should solely be concerned with the interpretation of the statutory provisions. As part of this agreement, the WAC agreed to consider our submissions on the RCAM model and/or alternative models of pricing. In June 2014, the Court determined that: (i) the renewal of the license does not require a public bidding process; and (ii) the WAC is the proper entity to negotiate with us for the renewal of the license.

Our submissions on the RCAM model and/or alternative models of pricing were made to the WAC on June 9, 2014. We received a letter from the WAC dated September 11, 2014, which fully rejected our submissions and stated that the WAC intend to provide us with a draft RCAM license in due course.

On November 21, 2014, we wrote to the Minister of Works offering to recommence license negotiations on the basis of the RCAM model subject to certain conditions which are: (i) the Government would undertake to amend the current water legislation to provide for an independent regulator and a fair and balanced regulatory regime more consistent with that provided under the electrical utility regulatory regime, (ii) the Government and we would mutually appoint an independent referee and chairman of the negotiations, (iii) our new license would provide exclusivity for the production and provision of all piped water, both potable and non-potable, within our Cayman Islands license area, (iv) the Government would allow us to submit our counter proposal to the WAC’s June 2010 RCAM license draft, and (v) the principle of subsidization of residential customer rates by commercial customer rates would continue under a new license. On March 23 2015, we received a letter from the Minister of Works with the following responses to our November 21, 2014 letter: (1) that while the Cayman government plans to create a public utilities commission, the provision of a new license will not depend upon the formation of such a commission; (2) any consideration regarding inclusion of the exclusive right to sell non-potable water within the area covered by the retail license will not take place until after the draft license has proceeded through the review process of the negotiations; (3) rather than allow us to submit a counter proposal to the WAC’s June 2010 RCAM license draft, the WAC will draft the license with the understanding that we will be allowed to propose amendments thereto; (4) the principle of subsidization of residential customer rates by commercial customer rates would continue under the new license; and (5) a request that we consider eliminating our monthly minimum volume charge in the new license.

We recommenced license negotiations with the WAC during the third quarter of 2015 based upon a draft RCAM license provided by the WAC. Such license negotiations remain on-going. We are presently unable to determine when such negotiations will be completed or the final outcome of such negotiations.

The Cayman Islands government could ultimately offer a third party a license to service some or all of our present service area. However, as set forth in the existing license, *“the Governor hereby agrees that upon the expiry of the term of this Licence or any extension thereof, he will not grant a licence or franchise to any other person or company for the processing, distribution, sale and supply of water within the Licence Area without having first offered such a licence or franchise to the Company on terms no less favourable than the terms offered to such other person or company.”*

The resolution of these license negotiations could result in a material reduction of the operating income and cash flows we have historically generated from our retail operations and could require us to record an impairment charge to reduce the carrying value of our goodwill. Such impairment charge could have a material adverse impact on our results of operations.

We have purchased \$20.7 million in land and equipment and incurred development expenses totaling approximately \$17.7 million for a possible project in Mexico. We expect to expend significant additional funds in 2016 to continue to pursue this project. However, we may not be successful in completing this project.

We own a 99.9% interest in N.S.C. Agua, S.A. de C.V. (“NSC”), a development stage Mexico company formed to pursue a project encompassing the construction, operation and minority ownership of a 100 million gallon per day seawater reverse osmosis desalination plant to be located in northern Baja California, Mexico and an accompanying pipeline to deliver water to the Mexican potable water system (the “Project”). As of March 31, 2016, our consolidated balance sheet includes purchases for the Project of \$20.6 million in land and \$111,000 in equipment. The project development activities we have conducted, which include conducting an equipment piloting plant and water data collection program at the proposed feed water source, completing various engineering studies and obtaining various governmental permits, have resulted in additional developmental expenses totaling \$17.7 million from 2010 through March 31, 2016.

In August 2014, the State of Baja California (the “State”) enacted new legislation to regulate Public-Private Association projects which involve the type of long-term contract between a public sector authority and a private party that NSC is seeking to complete the Project. Pursuant to this new legislation, in January 2015, NSC submitted an expression of interest for its project to the Secretary of Infrastructure and Urban Development of the State of Baja California (“SIDUE”). SIDUE accepted NSC’s expression of interest and requested that NSC submit a detailed proposal for the Project that complied with requirements of the new legislation. NSC submitted this detailed proposal (the “APP Proposal”) to SIDUE in late March 2015. The new legislation required that such proposal be evaluated by SIDUE and submitted to the Public-Private Association Projects State Committee (the “APP Committee”) for review and authorization. If the Project is authorized the State would be required to conduct a public tender for the Project.

In response to our APP Proposal, in September 2015 NSC received a letter dated June 30, 2015 from the Director General of the Comisión Estatal de Agua de Baja California (“CEA”), the State agency with responsibility for the Project that stated (i) the Project is in the public interest with high social benefits and is consistent with the objectives of the State development plan and (ii) that the Project and accompanying required public tender process should be conducted. In November 2015, the State officially commenced the tender for the Project, the scope of which the State defined as a first phase to be operational in 2019 consisting of a 50 million gallons per day plant and a pipeline that connects to the Mexican potable water infrastructure and a second phase to be operational in 2024 consisting of an additional 50 million gallons per day of production capacity. The State originally set March 23, 2016 as the deadline for tender submissions but subsequently extended such deadline to April 21, 2016.

NSC submitted its tender for the Project on April 21, 2016. We cannot presently determine when the tender evaluation process will be completed by the State or the outcome of such evaluation process.

Despite the expenditures we have made and the activities we have completed to date, upon completion of the tender process the State may award the Project to a party other than NSC, or the State may cancel the tender process. If NSC is not awarded the Project, the land we have purchased may lose its strategic importance as the site for the Project and consequently may decline in value. If NSC is not awarded the Project, we may ultimately be unable to sell this land for an amount equal to or in excess of its current carrying value of \$20.6 million, and any loss on sale of the land, or impairment charge we may be required to record as a result of a decrease in the fair value of the land, could have a material adverse impact on our results of operations.

EWG Water LLC (“EWG”), a minority shareholder in NSC, has filed a lawsuit against NSC, CW-Cooperatief, the Public Registry of Commerce of Tijuana, Baja California, and other parties in the Civil Court located in Tecate, Baja California, Mexico.

In this lawsuit, EWG is challenging the capital investment transactions that increased our ownership interest in NSC to 99.9%. EWG requested that the court, as a preliminary matter: (a) suspend the effectiveness of the challenged transactions; (b) order public officials in Mexico to record the pendency of the lawsuit in the public records; and (c) appoint an inspector for NSC to oversee its commercial activities. The Court granted, ex-parte, the preliminary relief sought by EWG but subsequently ruled that the lawsuit

Additionally, EWG is also seeking an order directing: (i) NSC and CW-Cooperatief to refrain from carrying out any transactions with respect to the Project; and (ii) NSC and CW-Cooperatief, and the partners thereof, to refrain from transferring any interests in NSC and CW-Cooperatief.

This litigation could adversely impact our efforts to complete the Project.

We have constructed a plant in Bali, Indonesia pursuant to the belief that the future demand for our water in this area will enable us to sell water in sufficient quantities to generate profits from this plant. If we are unable to significantly increase the amount of water we presently sell from this plant, we will be required to record an impairment charge to reduce the carrying value of this plant’s assets.

Through our subsidiary, CW-Bali, we have built and presently operate a seawater reverse osmosis plant with a productive capacity of approximately 790,000 gallons per day located in Nusa Dua, one of the primary tourist areas of Bali, Indonesia. We built this plant based upon our belief that future water shortages in this area of Bali will eventually enable us to sell all of this plant’s production. However, since its inception, the sales volumes for this plant have not been sufficient to cover its operating costs. CW-Bali’s operating losses were approximately (\$147,000) for the three months ended March 31, 2016 and (\$484,000) for the year ended December 31, 2015. As of March 31, 2016, the capitalized costs for this plant reflected on our consolidated balance sheet were approximately \$3.1 million. If we are not able to significantly increase the revenues generated by this plant in the future, we will be required to record an impairment charge to reduce the carrying value of CW-Bali’s plant assets to their fair value. Such an impairment charge could have a material adverse impact on our results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of equity securities during the three months ended March 31, 2016.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSOLIDATED WATER CO. LTD.

By: /s/ Frederick W. McTaggart
Frederick W. McTaggart
Chief Executive Officer
(Principal Executive Officer)

By: /s/ David W. Sasnett
David W. Sasnett
Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: May 10, 2016

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Section 2: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1

Rule 13a-14(a)/15d-14(a) Certification

I, Frederick W. McTaggart, certify that:

1. I have reviewed this report on Form 10-Q of Consolidated Water Co. Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are

reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2016

By: /s/ Frederick W. McTaggart

Frederick W. McTaggart
Chief Executive Officer
(Principal Executive Officer)

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Section 3: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2

Rule 13a-14(a)/15d-14(a) Certification

I, David W. Sasnett, certify that:

1. I have reviewed this report on Form 10-Q of Consolidated Water Co. Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2016

By: /s/ David W. Sasnett

David W. Sasnett
Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

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Section 4: EX-32.1 (EXHIBIT 32.1)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the report of Consolidated Water Co. Ltd. (the "Company") on Form 10-Q for the quarter ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frederick W. McTaggart, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 10, 2016

By: /s/ Frederick W. McTaggart
Frederick W. McTaggart
Chief Executive Officer
(Principal Executive Officer)

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Section 5: EX-32.2 (EXHIBIT 32.2)

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the report of Consolidated Water Co. Ltd. (the "Company") on Form 10-Q for the quarter ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David W. Sasnett, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 10, 2016

By: /s/ David W. Sasnett
David W. Sasnett
Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

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