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 September 30, 2017

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	**98-0619652**
(State or other jurisdiction of incorporation or organization)	(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**	**N/A**
(Address of principal executive offices)	(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 (§232.405 of this chapter) 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, or a non-accelerated filer, smaller reporting company or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (do not check if a smaller reporting company) Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 November 3, 2017, 14,901,711 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 (CI$) into US$, 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 US$.

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

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 46,976,764	$ 39,254,116
Accounts receivable, net	13,007,883	16,500,798
Inventory	2,291,082	2,305,879
Prepaid expenses and other current assets	2,430,570	1,096,200
Current portion of loans receivable	1,377,956	1,633,588
Costs and estimated earnings in excess of billings	1,673,460	85,211
Total current assets	67,757,715	60,875,792
Property, plant and equipment, net	50,759,258	53,084,105
Construction in progress	1,433,341	885,494
Inventory, non-current	4,408,321	4,606,088
Loans receivable	1,093,641	2,135,428
Investment in OC-BVI	3,124,910	4,086,630
Intangible assets, net	4,116,982	5,195,476
Goodwill	9,784,248	9,784,248
Land held for development	20,558,424	20,558,424
Other assets	2,803,617	2,392,843
Total assets	$ 165,840,457	$ 163,604,528
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other current liabilities	$ 5,332,446	$ 4,898,908
Dividends payable	1,189,924	1,187,214
Note payable to related party	392,000	490,000
Billings in excess of costs and estimated earnings	294,156	102,966
Total current liabilities	7,208,526	6,679,088
Deferred tax liability	1,502,649	1,915,241
Other liabilities	1,160,307	904,827
Total liabilities	9,871,482	9,499,156
Commitments and contingencies		
Equity		
Consolidated Water Co. Ltd. stockholders' equity		
Redeemable preferred stock, $0.60 par value. Authorized 200,000 shares; issued and outstanding 33,974 and 35,225 shares, respectively	20,384	21,135
Class A common stock, $0.60 par value. Authorized 24,655,000 shares; issued and outstanding 14,901,711 and 14,871,664 shares, respectively	8,941,027	8,922,998
Class B common stock, $0.60 par value. Authorized 145,000 shares; none issued	-	-
Additional paid-in capital	86,106,647	85,621,033
Retained earnings	52,648,399	51,589,337
Cumulative translation adjustment	(549,555)	(549,555)
Total Consolidated Water Co. Ltd. stockholders' equity	147,166,902	145,604,948
Non-controlling interests	8,802,073	8,500,424
Total equity	155,968,975	154,105,372
Total liabilities and equity	$ 165,840,457	$ 163,604,528

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 September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Retail revenues	$ 5,570,654	$ 5,447,200	$ 18,111,274	$ 17,710,271
Bulk revenues	7,881,464	7,429,732	23,615,787	22,136,086
Services revenues	111,302	125,929	360,758	710,576
Manufacturing revenues	3,008,783	1,382,492	5,444,678	3,261,827
Total revenues	16,572,203	14,385,353	47,532,497	43,818,760
Cost of retail revenues	2,488,441	2,464,841	7,895,617	7,779,831
Cost of bulk revenues	5,582,401	4,922,162	15,750,402	14,345,747
Cost of services revenues	114,667	168,577	320,586	638,389
Cost of manufacturing revenues	2,078,888	910,450	3,967,945	2,366,060
Total cost of revenues	10,264,397	8,466,030	27,934,550	25,130,027
Gross profit	6,307,806	5,919,323	19,597,947	18,688,733
General and administrative expenses	4,896,323	4,528,679	14,695,184	13,925,439
Impairment loss on long-lived assets	578,480	2,000,000	1,578,480	2,000,000
Impairment of goodwill	-	1,750,000	-	1,750,000
Income (loss) from operations	833,003	(2,359,356)	3,324,283	1,013,294
Other income (expense):				
Interest income	70,741	137,806	301,813	514,532
Interest expense	(1,016)	(1,246)	(11,178)	(95,615)
Profit sharing income from OC-BVI	36,450	38,475	46,575	87,075
Equity in the earnings of OC-BVI	138,913	101,301	127,955	232,523
Impairment loss on investment in OC-BVI	-	(875,000)	-	(925,000)
Net unrealized gain (loss) on put/call options	171,000	(275,000)	323,000	(275,000)
Other	31,206	110,968	83,791	507,183
Other income (expense), net	447,294	(762,696)	871,956	45,698
Income (loss) before income taxes	1,280,297	(3,122,052)	4,196,239	1,058,992
Provision for (benefit from) income taxes	(136,447)	(146,198)	(412,592)	(389,860)
Net income (loss)	1,416,744	(2,975,854)	4,608,831	1,448,852
Income (loss) attributable to non-controlling interests	255,605	(1,110,522)	191,916	(944,790)
Net income (loss) attributable to Consolidated Water Co. Ltd. stockholders	$ 1,161,139	$ (1,865,332)	$ 4,416,915	$ 2,393,642
Basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	$ 0.08	$ (0.13)	$ 0.30	$ 0.16
Diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	$ 0.08	$ (0.13)	$ 0.29	$ 0.16
Dividends declared per common share	$ 0.075	$ 0.075	$ 0.225	$ 0.225
Weighted average number of common shares used in the determination of:				
Basic earnings per share	14,898,246	14,815,248	14,886,738	14,803,216
Diluted earnings per share	15,072,142	14,852,967	15,054,343	14,940,635

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income (loss)	$ 1,416,744	$ (2,975,854)	$ 4,608,831	$ 1,448,852
Other comprehensive income (loss)				
Foreign currency translation adjustment	-	(11,208)	-	(17,042)
Total other comprehensive loss	-	(11,208)	-	(17,042)
Comprehensive income (loss)	1,416,744	(2,987,062)	4,608,831	1,431,810
Income (loss) attributable to non-controlling interests	255,605	(1,111,082)	191,916	(945,642)
Comprehensive income (loss) attributable to Consolidated Water Co. Ltd. stockholders	$ 1,161,139	$ (1,875,980)	$ 4,416,915	$ 2,377,452

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

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

	Nine Months Ended September 30,	
	2017	**2016**
Net cash provided by operating activities	$ 11,727,551	$ 4,516,088
Cash flows from investing activities		
Maturity of certificate of deposit	-	5,637,538
Additions to property, plant and equipment and construction in progress	(3,016,713)	(2,569,066)
Proceeds from sale of equipment	18,827	547,332
Distribution of earnings from OC-BVI	1,136,250	-
Acquisition of Aerex, net of cash acquired	-	(7,742,853)
Collections on loans receivable	1,297,419	1,370,142
Release of restricted cash balance	-	398,744
Net cash used in investing activities	(564,217)	(2,358,163)
Cash flows from financing activities		
Dividends paid to common shareholders	(3,346,477)	(3,322,793)
Dividends paid to non-controlling interests	-	(182,663)
Dividends paid to preferred shareholders	(8,665)	(9,151)
Issuance (repurchase) of redeemable preferred stock	12,456	(9,599)
Proceeds received from exercise of stock options	-	174,853
Issuance (repayment) of note payable to related party	(490,000)	490,000
Issuance of note payable to related party	392,000	-
Repayments of demand loan payable	-	(7,000,000)
Net cash used in financing activities	(3,440,686)	(9,859,353)
Effect of exchange rate changes on cash	-	806
Net increase (decrease) in cash and cash equivalents	7,722,648	(7,700,622)
Cash and cash equivalents at beginning of period	39,254,116	44,792,734
Cash and cash equivalents at end of period	$ 46,976,764	$ 37,092,112
Interest paid in cash	$ 7,062	$ 67,689
Non-cash investing and financing activities		
Issuance of 9,441 and 8,421, respectively, shares of redeemable preferred stock for services rendered	$ 118,485	$ 111,410
Issuance of 17,833, and 9,964, respectively, shares of common stock for services rendered	$ 203,551	$ 106,415
Conversion (on a one-to-one basis) of 12,214 and 11,558, respectively, shares of redeemable preferred stock to common stock	$ 7,328	$ 6,935
Dividends declared but not paid	$ 1,120,176	$ 1,114,083
Transfers from inventory to property, plant and equipment and construction in progress	$ 228,549	$ 134,362
Transfers from construction in progress to property, plant and equipment	$ 2,109,960	$ 1,787,580

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

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 Commonwealth of The Bahamas, the British Virgin Islands, the United States and Indonesia. 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, municipal and industrial water production, supply and 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"), N.S.C. Agua, S.A. de C.V. ("NSC") and Aguas de Rosarito S.A.P.I. de C.V. ("AdR"). 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, 2017.

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, 2016.

Foreign currency: The Company's reporting currency is the United States dollar ("US$"). The functional currency of the Company and its foreign operating subsidiaries (other than NSC, AdR, CW-Bali, and CW-Cooperatief) is the currency for each respective country. The functional currency for NSC, AdR, CW-Bali and CW-Cooperatief is the US$. The exchange rates for the Cayman Islands dollar, the Belize dollar and 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 and AdR conduct 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 and re-measurements were ($5,612) and $1,734 for the three months ended September 30, 2017 and 2016, respectively, and $164,339 and ($92,030) for the nine months ended September 30, 2017 and 2016, respectively, and are included in "Other income (expense) - Other" 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 September 30, 2017 and December 31, 2016 include a certificate of deposit 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 September 30, 2017, the equivalent United States dollar cash balances for deposits held in The Bahamas and Belize were approximately $13.3 million and $6.0 million, respectively.

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. CW-Bali

Through its subsidiary CW-Bali, the Company built a seawater reverse osmosis plant with a production 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 would eventually enable it to sell all of this plant's production. Since inception of CW-Bali's operations in 2013, the sales volumes for its plant have not been sufficient to cover its operating costs and CW-Bali has incurred net losses. The Company's net losses from CW-Bali for its two most recent fiscal years ended December 31, 2016 and 2015, were approximately ($2.5 million) and ($861,000), respectively. The results of CW-Bali were included in the retail segment for segment reporting purposes.

In late 2015, the Company decided to seek a strategic partner for CW-Bali to (i) purchase a major portion of its equity ownership in CW-Bali; (ii) lead CW-Bali's sales and marketing efforts; (iii) liaise with the local water utility; and (iv) assist with CW-Bali's on-going funding requirements. Although discussions were held and due diligence information was exchanged with potential strategic partners, the Company did not receive an offer for an investment in, a purchase of, or a joint venture for CW-Bali from any of these potential partners on terms it deemed acceptable.

On May 23, 2017, after considering CW-Bali's historical and projected operating losses, its on-going funding requirements, the current business and economic environment in Bali and the Company's inability to obtain a strategic partner for CW-Bali, the Company's Board of Directors formally resolved to discontinue CW-Bali's operations. The Company planned to cease the production of water in Bali, sell its stock in CW-Bali or CW-Bali's net assets, and exit the Bali market at the earliest practical date, which the Company initially believed would be no later than March 31, 2018. Based upon the information available as of the date of the filing of the Company's interim financial statements for the quarter ended June 30, 2017, the Company accounted for CW-Bali as a discontinued operation in its consolidated financial statements for the three and six months ended June 30, 2017.

However, in October 2017, CW-Bali's sole remaining customer filed a lawsuit in Bali, Indonesia against CW-Bali, its President, and the Company's Chief Financial Officer in his capacity as the President of CW-Bali's Board of Commissioners (i.e. Directors) seeking compensatory damages of 57.1 billion rupiahs and punitive damages of 26 billion rupiahs as a result of the anticipated breach of this customer's water supply agreement that will arise from CW-Bali's planned cessation of operations. Such damages were equivalent to approximately $4.2 million and $1.9 million, respectively, as of the exchange rate on November 8, 2017. Management of the Company believes this lawsuit is without merit and will vigorously defend CW-Bali and the two other defendants. However, until this lawsuit is resolved the Company is legally prohibited from disposing of its investment in CW-Bali or any of CW-Bali's assets. As a result of the uncertainties arising from this lawsuit, CW-Bali no longer meets the criteria for classification as a discontinued operation as the Company cannot conclude if or when a sale or disposition of CW-Bali's assets could be considered probable.

Based upon the decision to cease CW-Bali's operations, for the six months ended June 30, 2017 the Company estimated the future cash flows the Company would receive under various scenarios from the disposition of its investment in CW-Bali and assigned a probability to each scenario to determine an estimated fair value of its investment in CW-Bali. Based upon these probability-weighted sums, the Company recorded an impairment loss of approximately $1,000,000 for the six months ended June 30, 2017 to reduce the carrying value of its investment in CW-Bali (which includes $549,555 in cumulative translation adjustments reflected in stockholders' equity) to its estimated fair value. During the three months ended September 30, 2017 the Company updated its estimated fair value projections for CW-Bali in light of the lawsuit filed in October 2017 and recorded an additional impairment loss of $578,480 to reduce the carrying value of its investment in Bali to its estimated fair value of approximately $378,000 as of September 30, 2017.

Summarized financial information for CW-Bali as of September 30, 2017 and for the three months and nine months ended September 30, 2017 and 2016 is as follows:

	September 30, 2017 (Unaudited)	December 31, 2016
Current assets	$ 266,342	$ 480,979
Property, plant and equipment, net	154,501	612,568
Inventory, non-current	-	47,272
Other assets	-	112,324
Total assets	$ 420,843	$ 1,253,143
Current liabilities	$ 43,214	$ 58,521
Allowance for cumulative translation adjustment (included in Other liabilities in the condensed consolidated balance sheets)	578,480	-
Total liabilities	$ 621,694	$ 58,521

	Three Months ended September 30, 2017	Three Months ended September 30, 2016	Nine Months ended September 30, 2017	Nine Months ended September 30, 2016
Revenues	$ 55,222	$ 24,349	$ 117,443	$ 70,760
Loss from operations	$ (8,446)	$ (133,582)	$ (158,869)	$ (437,525)
Impairment loss	$ (578,480)	$ (2,000,000)	$ (1,578,480)	$ (2,000,000)
Net loss	$ (569,356)	$ (1,998,349)	$ (1,712,663)	$ (2,120,015)

Depreciation	$	-	$	75,810	$	47,165	$	227,353

4. Segment information

The Company has four reportable segments: retail, bulk, services and manufacturing. The retail segment consists of Cayman Water which owns and operates the water utility that provides potable water to the Seven Mile Beach and West Bay areas of Grand Cayman Island pursuant to an exclusive license granted by the Cayman Islands government and CW-Bali which sells water to resort properties in Bali, Indonesia. The bulk segment supplies potable water to government utilities in Grand Cayman, The Bahamas and Belize under long-term contracts. The services segment provides desalination plant management and operating services to affiliated companies and designs, constructs and sells desalination plants to third parties. The manufacturing segment manufactures and services a wide range of water-related products and provides design, engineering, management, operating and other services applicable to commercial, municipal and industrial water production, supply and treatment.

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 expenses to its other three 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 each segment sells different products and/or services, serves customers with distinctly different needs and generates different gross profit margins.

	Three Months Ended September 30, 2017				
	Retail	**Bulk**	**Services**	**Manufacturing**	**Total**
Revenues	$ 5,570,654	$ 7,881,464	$ 111,302	$ 3,008,783	$ 16,572,203
Cost of revenues	2,488,441	5,582,401	114,667	2,078,888	10,264,397
Gross profit (loss)	3,082,213	2,299,063	(3,365)	929,895	6,307,806
General and administrative expenses	3,070,681	315,374	863,646	646,622	4,896,323
Impairment loss on long-lived assets	578,480	-	-	-	578,480
Income (loss) from operations	$ (566,948)	$ 1,983,689	$ (867,011)	$ 283,273	833,003
Other income, net					447,294
Income before income taxes					1,280,297
Provision for (benefit from) income taxes					(136,447)
Net income					1,416,744
Income from attributable to non-controlling interests					255,605
Net income attributable to Consolidated Water Co. Ltd. stockholders					$ 1,161,139

Depreciation and amortization expenses for the three months ended September 30, 2017 for the retail, bulk, services and manufacturing segments were $491,771, $1,274,471, $7,638, and $398,368 respectively.

	Three Months Ended September 30, 2016				
	Retail	**Bulk**	**Services**	**Manufacturing**	**Total**
Revenues	$ 5,447,200	$ 7,429,732	$ 125,929	$ 1,382,492	$ 14,385,353
Cost of revenues	2,464,841	4,922,162	168,577	910,450	8,466,030
Gross profit (loss)	2,982,359	2,507,570	(42,648)	472,042	5,919,323
General and administrative expenses	2,811,262	425,000	643,660	648,757	4,528,679
Impairment loss on long-lived assets	2,000,000	-	-	-	2,000,000
Impairment of goodwill	-	-	-	1,750,000	1,750,000
Income (loss) from operations	$ (1,828,903)	$ 2,082,570	$ (686,308)	$ (1,926,715)	(2,359,356)
Other expense, net					(762,696)
Loss before income taxes					(3,122,052)
Provision for (benefit from) income taxes					(146,198)
Net loss					(2,975,854)
Loss attributable to non-controlling interests					(1,110,522)
Net loss attributable to Consolidated Water Co. Ltd. stockholders					$ (1,865,332)

Depreciation and amortization expenses for the three months ended September 30, 2016 for the retail, bulk, services and manufacturing segments were $567,833, $811,741, $29,037 and $422,230 respectively.

	Nine Months Ended September 30, 2017				
	Retail	Bulk	Services	Manufacturing	Total
Revenues	$ 18,111,274	$ 23,615,787	$ 360,758	$ 5,444,678	$ 47,532,497
Cost of revenues	7,895,617	15,750,402	320,586	3,967,945	27,934,550
Gross profit	10,215,657	7,865,385	40,172	1,476,733	19,597,947
General and administrative expenses	9,288,941	940,105	2,498,766	1,967,372	14,695,184
Impairment loss on long-lived assets	1,578,480	-	-	-	1,578,480
Income (loss) from operations	$ (651,764)	$ 6,925,280	$ (2,458,594)	$ (490,639)	3,324,283
Other income (expense), net					871,956
Income before income taxes					4,196,239
Provision for (benefit from) income taxes					(412,592)
Net income					4,608,831
Income from attributable to non-controlling interests					191,916
Net income attributable to Consolidated Water Co. Ltd. stockholders					$ 4,416,915

Depreciation and amortization expenses for the nine months ended September 30, 2017 for the retail, bulk, services and manufacturing segments were $1,514,069, $2,928,287, $37,295, and $1,204,313 respectively.

	Nine Months Ended September 30, 2016				
	Retail	Bulk	Services	Manufacturing	Total
Revenues	$ 17,710,271	$ 22,136,086	$ 710,576	$ 3,261,827	$ 43,818,760
Cost of revenues	7,779,831	14,345,747	638,389	2,366,060	25,130,027
Gross profit	9,930,440	7,790,339	72,187	895,767	18,688,733
General and administrative expenses	8,588,529	1,302,884	2,363,392	1,670,634	13,925,439
Impairment loss on long-lived assets	2,000,000	-	-	-	2,000,000
Impairment of goodwill	-	-	-	1,750,000	1,750,000
Income (loss) from operations	$ (658,089)	$ 6,487,455	$ (2,291,205)	$ (2,524,867)	1,013,294
Other income (expense), net					45,698
Income before income taxes					1,058,992
Provision for (benefit from) income taxes					(389,860)
Net income					1,448,852
Loss attributable to non-controlling interests					(944,790)
Net income attributable to Consolidated Water Co. Ltd. stockholders					$ 2,393,642

Depreciation and amortization expenses for the nine months ended September 30, 2016 for the retail, bulk, services and manufacturing segments were $1,714,928, $2,480,314, $87,113 and $1,126,169 respectively.

	As of September 30, 2017				
	Retail	Bulk	Services	Manufacturing	Total
Accounts receivable, net	$ 1,855,483	$ 9,457,940	$ 1,343,756	$ 350,704	$ 13,007,883
Property plant and equipment, net	$ 23,466,107	$ 25,311,839	$ 96,698	$ 1,884,614	$ 50,759,258
Construction in progress	$ 195,508	$ 1,226,677	$ 3,256	$ 7,900	$ 1,433,341
Intangibles, net	$ -	$ 550,315	$ -	$ 3,566,667	$ 4,116,982
Goodwill	$ 1,170,511	$ 2,328,526	$ -	$ 6,285,211	$ 9,784,248
Land held for development	$ -	$ -	$ 20,558,424	$ -	$ 20,558,424
Total segment assets	$ 54,650,263	$ 72,474,419	$ 24,197,958	$ 14,517,817	$ 165,840,457

	As of December 31, 2016				
	Retail	Bulk	Services	Manufacturing	Total
Accounts receivable, net	$ 2,646,628	$ 12,692,714	$ 629,930	$ 531,526	$ 16,500,798
Property plant and equipment, net	$ 24,890,031	$ 26,124,724	$ 91,030	$ 1,978,320	$ 53,084,105
Construction in progress	$ 134,392	$ 743,296	$ -	$ 7,806	$ 885,494
Intangibles, net	$ -	$ 599,960	$ 15,516	$ 4,580,000	$ 5,195,476
Goodwill	$ 1,170,511	$ 2,328,526	$ -	$ 6,285,211	$ 9,784,248
Land held for development	$ -	$ -	$ 20,558,424	$ -	$ 20,558,424
Total segment assets	$ 54,303,011	$ 68,663,628	$ 25,558,495	$ 15,079,394	$ 163,604,528

5. Earnings per share

Earnings per share ("EPS") is 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss) attributable to Consolidated Water Co. Ltd. stockholders	$ 1,161,139	$ (1,865,332)	$ 4,416,915	$ 2,393,642
Less: preferred stock dividends	(2,548)	(2,680)	(8,571)	(8,921)
Net income (loss) available to common shares in the determination of basic earnings per common share	$ 1,158,591	$ (1,868,012)	$ 4,408,344	$ 2,384,721
Weighted average number of common shares in the determination of basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	14,898,246	14,815,248	14,886,738	14,803,216
Plus:				
Weighted average number of preferred shares outstanding during the period	45,087	37,719	39,035	38,516
Potential dilutive effect of unexercised options and unvested stock grants	128,809	-	128,570	98,903
Weighted average number of shares used for determining diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	15,072,142	14,852,967	15,054,343	14,940,635

6. Investment in OC-BVI

The Company owns 50% of the outstanding voting common shares and a 43.53% equity interest in 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 to which it sells bulk water.

The Company's equity investment in OC-BVI amounted to $3,124,910 and $4,086,630 as of September 30, 2017 and December 31, 2016, respectively.

OC-BVI sells water produced by a desalination plant with a capacity of 720,000 gallons per day located at Bar Bay, Tortola (the "Bar Bay plant") to the BVI government under a contract (the "Bar Bay agreement") that was due to expire in March 2017 but was extended on February 14, 2017 for 14 years. The selling price for the water under the extension is approximately 31% lower than the price that was in effect as of December 31, 2016. 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 on a take-or-pay basis. The Bar Bay agreement 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 (including interest) for the water provided by the Bar Bay plant on a timely basis; and (ii) the remaining amount due under a court ruling relating to the Baughers Bay litigation (see discussion that follows).

Summarized financial information for OC-BVI is as follows:

	September 30, 2017	December 31, 2016
Current assets	$ 4,115,006	$ 5,627,414
Non-current assets	3,747,753	3,963,242
Total assets	$ 7,862,759	$ 9,590,656

	September 30, 2017	December 31, 2016
Current liabilities	$ 553,252	$ 197,673
Non-current liabilities	1,340,550	1,854,900
Total liabilities	$ 1,893,802	$ 2,052,573

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$ 578,635	$ 965,169	$ 2,071,387	$ 2,850,242
Cost of revenues	408,557	540,522	1,410,106	1,537,860
Gross profit	170,078	424,647	661,281	1,312,382
General and administrative expenses	192,492	231,750	680,349	714,483
Income (loss) from operations	(22,414)	192,897	(19,068)	597,899
Other income (expense), net	351,474	62,165	362,442	(15,598)
Net income	329,060	255,062	343,374	582,301
Income attributable to non-controlling interests	9,943	22,346	49,429	48,133
Net income attributable to controlling interests	$ 319,117	$ 232,716	$ 293,945	$ 534,168

A reconciliation of the beginning and ending balances for the investment in OC-BVI for the nine months ended September 30, 2017 is as follows:

Balance as of December 31, 2016	$ 4,086,630
Profit sharing and equity from earnings of OC-BVI	174,530
Distributions received from OC-BVI	(1,136,250)
Balance as of September 30, 2017	$ 3,124,910

The Company recognized $138,913 and $101,301 for the three months ended September 30, 2017 and 2016, respectively, and $127,955 and $232,523 for the nine months ended September 30, 2017 and 2016, respectively, in earnings (losses) from its equity investment in OC-BVI. The Company recognized $36,450 and $38,475 for the three months ended September 30, 2017 and 2016, respectively, and $46,575 and $87,075 for the nine months ended September 30, 2017 and 2016, respectively, in profit sharing income from its profit sharing agreement with OC-BVI.

For the three months ended September 30, 2017 and 2016, the Company recognized approximately $111,302 and $125,930, respectively, in revenues from its management services agreement with OC-BVI. For the nine months ended September 30, 2017 and 2016, the Company recognized approximately $360,758 and $390,280, respectively, in revenues from its management services agreement with OC-BVI. Amounts receivable by OC-BVI from the Company were $20,295 and $0 as of September 30, 2017 and December 31, 2016, respectively. Amounts payable by OC-BVI to the Company were $287,635 and $54,559 as of September 30, 2017 and December 31, 2016, respectively. The Company's deferred revenues from OC-BVI, included in other current liabilities in the accompanying condensed consolidated balance sheets, were $301,373 and $0 as of September 30, 2017 and December 31, 2016, respectively. The Company's remaining unamortized balance recorded for this management services agreement, which is reflected as an intangible asset on the Company's condensed consolidated balance sheets, was $0 and $15,516 as of September 30, 2017 and December 31, 2016, respectively.

Baughers Bay Litigation

Through March 2010, OC-BVI supplied water to the BVI government from a plant located at Baughers Bay, Tortola, under the terms of a water supply agreement dated May 1990 (the "1990 Agreement") with an initial seven-year term that expired in May 1999. The 1990 Agreement provided that such 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, awarding ownership of the Baughers Bay plant to the BVI government without compensation to OC-BVI and awarding OC-BVI payments from the BVI government for the water supplied from the plant at rates deemed appropriate by the Court. Both OC-BVI and the BVI subsequently filed appeals with the Eastern Caribbean Court of Appeals (the "Appellate Court") asking the Appellate Court to review certain rulings by the Court with respect to this litigation.

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

In June 2012, the Appellate Court issued the final ruling with respect to the Baughers Bay litigation. This ruling upheld the previous ruling of the Court with one exception: the Appellate Court 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 and the BVI government engaged a mutually approved valuation expert to complete a valuation of the Baughers Bay plant at the date it was transferred to the BVI government in accordance with the Appellate Court ruling. In June 2016, OC-BVI received the final valuation report from this valuation expert, which set forth a value for the Baughers Bay plant of $13.0 million as of the date OC-BVI transferred possession of the plant to the BVI government. Applying the valuation determined by the valuation expert to the formula set forth by the Appellate Court in its ruling, OC-BVI would be entitled to $11.58 million from the BVI government for the Baughers Bay plant. The BVI government has disagreed with the valuation methodology used by the valuation expert and the resulting valuation for the Baughers Bay plant. OC-BVI cannot presently determine if the Appellate Court will uphold the Baughers Bay plant valuation or when, or to what extent, any amount for the value of the Baughers Bay plant will be paid by the BVI government to OC-BVI. Consequently, any amount due for the Baughers Bay plant valuation will not be included in OC-BVI's results of operations until such amount, if any, is paid by the BVI government.

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. While a quoted market price for OC-BVI's stock is not available, due to the uncertainties (specifically the Baughers Bay litigation and the possible expiration without renewal of the Bar Bay agreement) associated with OC-BVI's future cash flows, the Company tested the carrying value of its investment in OC-BVI (which exceeded the Company's proportionate share of OC-BVI's net assets by an amount accounted for as goodwill) for impairment in 2016 and prior years.

The Company estimated the fair value of its investment in OC-BVI through the use of the discounted cash flow method, which relied upon projections of OC-BVI's operating results, working capital and capital expenditures. The use of this method required the Company to estimate OC-BVI's future cash flows from its Bar Bay plant and the resolution of the Baughers Bay litigation.

The Company estimated OC-BVI's cash flows from its Bar Bay plant by (i) identifying various possible future scenarios which included the execution of a new agreement for the Bar Bay plant as well as the termination of Bar Bay plant operations upon the scheduled expiration of the Bar Bay agreement in March 2017; (ii) estimating the cash flows associated with each possible scenario; and (iii) assigning a probability to each scenario. The Company similarly estimated the cash flows OC-BVI would receive from the BVI government in connection with the Court and Appellate Court rulings on the Baughers Bay litigation by assigning probabilities to different scenarios. The resulting probability-weighted sum represented the Company's best estimate of future cash flows to be generated by OC-BVI.

The identification of the possible scenarios for the Bar Bay plant agreement and the Baughers Bay litigation, the projections of cash flows for each scenario, and the assignment of relative probabilities to each scenario all represented significant estimates made by the Company. While the Company used 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 were by their nature highly subjective and were also subject to material change by the Company's management over time based upon new information or changes in circumstances.

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 recorded impairment losses of approximately $875,000 and $925,000 for the three and nine months ended September 30, 2016, respectively, to reduce the carrying value of its investment in OC-BVI.

As a result of the extension of the Bar Bay agreement, no impairment losses were necessary in 2017 for the Company's investment in OC-BVI. As of September 30, 2017, the amount of the Company's proportionate share (43.53%) of OC-BVI's net assets exceeded the carrying value of the Company's investment in OC-BVI by approximately $30,000.

7. NSC and AdR Project Development

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 99.99%. 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 gallon 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.

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

In November 2012, NSC entered into a lease with an effective term of 20-years from the date of full operation of the Project's 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 may be cancelled by NSC 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, 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 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 was 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 del 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 gallon 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. A consortium comprised of NSC, NuWater S.A.P.I. de C.V. and Degremont S.A. de C.V. (the "Consortium") submitted its tender for the Project on the April 21, 2016 tender submission deadline date set by the State.

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 was 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.

On June 15, 2016, the State designated the Consortium as the winner of tender process for the Project.

On August 17, 2016, NSC and NuWater incorporated Newco under the name Aguas de Rosarito S.A.P.I. de C.V. ("AdR"), a special project company, to complete the Project and executed a shareholders agreement for AdR agreeing among other things that (i) AdR would purchase the land and other Project assets from NSC on the date that the Project begins commercial operations and (ii) AdR would enter into a Management and Technical Services Agreement with NSC effective on the first day that the Project begins commercial operations. As of September 30, 2017 and December 31, 2016, NSC owned 99.6% of AdR.

On August 22, 2016, the Public Private Partnership Agreement for public private partnership number 002/2015, contest number SIDUE-CEA-APP-2015-002 ("APP Contract"), was executed between AdR, CEA, the Government of Baja California represented by the Secretary of Planning and Finance and the Public Utilities Commission of Tijuana ("CESPT"). The APP Contract requires AdR to design, construct, finance and operate a seawater desalination plant (and accompanying aqueducts) with a capacity of up to 100 million gallons per day in two phases: the first with a capacity of 50 million gallons per day and an aqueduct to the Mexican potable water system in Tijuana, Baja California; and the second phase with a capacity of 50 million gallons per day and an aqueduct to a second delivery point in Tijuana. The first phase must be operational within 36 months of commencing construction and the second phase must be operational by the end of 2024. The APP Contract further requires AdR to operate and maintain the plant and aqueducts for a period of 37 years starting from the commencement of operation of the first phase. At the end of the operating period, the plant and aqueducts will be transferred to CEA.

The total Project cost for Phase 1 is expected to be approximately 9.1 billion Mexican pesos. Annual revenues from the Project for Phase 1 are expected to be approximately 1.79 billion Mexican pesos. Water rates under the APP Contract are indexed to the Mexican national consumer price index over its term. Electrical energy costs incurred by AdR to desalinate and deliver water are treated as a pass-through charge to CEA, subject to efficiency guarantees. AdR expects to raise Mexican peso denominated debt financing through a consortium led by the North American Development Bank, which also provided financial advisory services to the Consortium through the bidding process and contract negotiations.

The APP Contract does not become effective until the following conditions are met:

- the State has established and registered various payment trusts, guaranties and bank credit lines for specific use by the Project;
- the CEA has obtained the rights from the relevant federal authority to take and desalinate seawater and distribute it for municipal use;
- various agreements between the CEA, the payment trusts and the CESPT have been executed;
- AdR has obtained all rights of ways required for the Phase 1 aqueduct;
- AdR has obtained permission from the relevant federal authority to discharge the residual water from the Project's desalination plant; and
- all equity and debt financing agreements necessary to provide the funding to AdR for the first phase of the Project have been executed.

On December 30, 2016, the Congress of the State of Baja California, Mexico passed Decreto #57 which, among other things, ratified and authorized the execution of the APP Contract. Earlier this year, following consultations between representatives of the State of Baja California and the Ministry of Finance of the Federal Government of Mexico, it was determined that certain amendments to Decreto #57 were required in order to comply with recent changes to the Federal Fiscal Discipline Law. In addition, during the course of its recent due diligence related to the potential financing of the Project, the North American Development Bank requested that the State of Baja California amend Decreto #57 to authorize the inclusion of revenues from the CESPT in the primary payment trust for the Project. These amendments are included in Decreto #95 which is currently under consideration by the Congress of the State of Baja California. The Company cannot say with any certainty whether or not Decreto #95 will be approved by the Congress. In the event that Decreto #95 is ultimately not approved, the Company may not be able to obtain the debt financing required to complete the Project.

As of September 30, 2017, AdR has paid approximately $665,000 for deposits on, or purchases of, rights of way for the Phase 1 aqueduct, which are included in other assets on the Company's condensed consolidated balance sheet.

Both the exchange rate for the Mexico peso relative to the dollar and general macroeconomic conditions in Mexico have varied since the U.S. Presidential election in November 2016. These changes could adversely impact the estimated construction, operating, and financing costs for the Project. The APP Contract and its underlying legislation allow for the parties to negotiate (but do not guarantee) modifications to the water tariff in the event of such significant macroeconomic condition changes. On February 10, 2017, AdR submitted proposals to the CEA requesting an increase to the water tariff to compensate for changes in foreign exchange rates, lending rates and certain changes in law which have impacted the Project. If AdR is unable to obtain this requested increase in the water tariff, it may be unable to obtain the debt and equity financing required for the Project. The Company is currently unable to determine whether or not such water tariff increase will be approved.

If AdR is ultimately unable to proceed with the Project, the land NSC has purchased and the right of way deposits may lose their strategic importance as the site for the Project and consequently may decline in value. If AdR does not proceed with the Project, NSC may ultimately be unable to sell this land or recoup their right of way deposits for an amount at least equal to its current carrying value of approximately $21.2 million ($20.56 million for the land and $665,000 for the right of way deposits), and any loss on sale of the land, or impairment loss NSC may be required to record as a result of a decrease in the fair value could have a material adverse impact on the Company’s results of operations.

Included in the Company’s results of operations are general and administrative expenses from NSC and AdR, consisting of organizational, legal, accounting, engineering, consulting and other costs relating to Project development activities. Such expenses amounted to approximately $864,000 and $606,000 for the three months ended September 30, 2017 and 2016, respectively, and $2,469,000 and $2,248,000 for the nine months ended September 30, 2017 and 2016, respectively. The assets and liabilities of NSC and AdR included in the Company’s condensed consolidated balance sheets amounted to approximately $22.8 million and $371,000, respectively, as of September 30, 2017 and approximately $22.3 million and $221,000 respectively, as of December 31, 2016.

EWG 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 (“EWG”) 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 for a price of $1.0 million along with an immediate power of attorney to vote those shares. 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 99.99% 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 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 challenged, among other things, the capital investment transactions that increased the Company’s ownership interest in NSC to 99.99%. 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.

EWG also sought an order directing, among other things: (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, Mexico 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.

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.

On May 17, 2016, NSC filed a claim with the Third District Court in Matters of Amparo and Federal Trials in the City of Tijuana, Baja California (the “Amparo Court”) challenging the Tecate, Mexico court ex-parte order which appointed an inspector over NSC’s commercial activities. On July 29, 2016, the Amparo Court found that such appointment is unconstitutional and reversed the Tecate, Mexico court’s appointment of an inspector.

On September 6, 2016, the Tecate, Mexico court issued a decree granting the counter-guaranty requested by NSC. Such counter-guaranty was fixed in the amount of 300,000 Mexican pesos and was given to the court on October 13, 2016 at which time all remaining ex-parte restrictions on NSC related to the challenged transactions were suspended.

On May 2, 2017, the Tecate, Mexico court declared that the initial filing of this lawsuit had expired due to EWG’s lack of activity with respect to certain actions required to proceed to trial. However, EWG can appeal the expiration or refile the lawsuit.

8. Fair value measurements

As of September 30, 2017 and December 31, 2016, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, the notes payable to related party 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 as of September 30, 2017 and December 31, 2016 approximate their fair value as their 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 September 30, 2017 and December 31, 2016:

	September 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities:				
Recurring				
Net liability arising from put/call options	$ -	$ -	$ 357,000	$ 357,000

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities:				
Recurring				
Net liability arising from put/call options	$ -	$ -	$ 680,000	$ 680,000

The activity for the Level 3 liability for the nine months ended September 30, 2017:

Net liability arising from put/call options[(1)]	
Balance as of December 31, 2016	$ 680,000
Unrealized gain	(323,000)
Balance as of September 30, 2017	$ 357,000

(1) In connection with the Company's acquisition of 51% of Aerex in February 2016, the Company acquired from Aerex's former sole shareholder an option to compel such shareholder to sell, and granted to such shareholder an option to require the Company to purchase, the shareholder's remaining 49% ownership interest in Aerex at a price based upon the fair value of Aerex at the time of the exercise of the option. The options are exercisable on or after the third anniversary of the February 2016 acquisition date. The net liability arising from the put/call options is included in other liabilities in the accompanying condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016.

9. Contingencies

Cayman Water

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 September 30, 2017 and 2016, the Company generated approximately 33% and 38%, respectively, of its consolidated revenues and 48% and 52%, respectively, of its consolidated gross profit from the retail water operations conducted pursuant to Cayman Water's exclusive license. For the nine months ended September 30, 2017 and 2016, the Company generated approximately 38% and 40%, respectively, of its consolidated revenues and 52% and 55%, respectively, of its consolidated gross profit from the retail water operations conducted pursuant to Cayman Water's exclusive license.

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 January 31, 2018.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office ("OfReg"). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services, and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for economic regulation of the water utility sector from the Water Authority-Cayman (the "WAC") to OfReg. In July 2017, the Company began negotiating with OfReg for a new retail license in the Cayman Islands and such negotiations are continuing.

Under its present 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 WAC, on behalf of the government, previously reviewed and confirmed the calculations of the price adjustments for inflation and electricity costs. On July 7, 2017, the Company was advised by OfReg that regulatory responsibility for the water utility sector had been transferred from the WAC to OfReg effective May 22, 2017, and that effective immediately all reviews and confirmations of calculations of the price adjustments for inflation and electricity costs will be performed by OfReg. If Cayman Water wants to adjust its prices for any reason other than inflation or electricity costs, Cayman Water has to request prior approval from the Cabinet of the Cayman Islands government. Disputes regarding price adjustments would be referred to arbitration.

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 Company is presently unable to determine what impact the resolution of its retail license negotiations will have on its cash flows, financial condition or results of operations but such resolution could result in a material reduction of the operating income and cash flows the Company has historically generated from its retail operations and could require the Company to record an impairment loss to reduce the carrying value of its goodwill. Such impairment loss could have a material adverse impact on the Company's results of operations.

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 financial condition, results of operations or cash flows.

CW-Bahamas

CW-Bahamas' water supply agreements with the Water and Sewerage Corporation of The Bahamas ("WSC") for its Blue Hills and Windsor plants require CW-Bahamas to guarantee delivery of a minimum quantity of water per week. If CW-Bahamas does not meet these minimums, it will be required to pay the WSC for the difference between the minimum and actual gallons delivered at a per gallon rate equal to the price per gallon that WSC is currently paying under the respective agreement. The Blue Hills and Windsor agreements require CW-Bahamas to deliver 63.0 million gallons and 16.8 million gallons of water each week, respectively.

Aerex Put/Call Options

In connection with the Company's acquisition of 51% of Aerex in February 2016, the Company acquired from Aerex's former sole shareholder an option to compel such shareholder to sell, and granted to such shareholder an option to require the Company to purchase, the shareholder's remaining 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 February 2016 acquisition date. The fair value of the net liability arising from these put/call options was $357,000 and $680,000 as of September 30, 2017 and December 31, 2016, respectively, and is included in other liabilities in the accompanying condensed consolidated balance sheets.

10. Impact of recent accounting standards

Adoption of new accounting standards:

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 adoption of ASU 2015-11 did not have a material impact on the Company's financial position, results of operations or cash flows.

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 adoption of ASU 2015-17 did not have a material impact on the Company's financial position, results of operations or cash flows.

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 adoption of ASU 2016-07 did not have a material impact on the Company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU 2016-09, C*ompensation - 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 adoption of ASU 2016-09 did not have a material impact on the Company's financial position, results of operations or cash flows.

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.

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.

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.

In May 2016, the FASB issued ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting*. ASU 2016-11 rescinds several SEC Staff Announcements that are codified in Topic 605, including, among other items, guidance relating to accounting for shipping and handling fees and freight services.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,* which clarifies implementation guidance around collectability, sales taxes collected from customers, noncash considerations, contract modifications at transition, and completed contracts at transition.

In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which amended the guidance on performance obligation disclosures and makes technical corrections and improvements to the new revenue standard. The standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and permits early adoption on a limited basis. The update permits the use of either the retrospective or cumulative effect transition method.

The effective dates of ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, and ASU 2016-20 are the same as ASU 2015-14 discussed above. The Company intends to elect the modified retrospective method to all active contracts on the date of initial application, which will involve applying the guidance retrospectively only to the most current period presented in the financial statements and recognizing the cumulative effect of initially applying the guidance as an adjustment to the January 1, 2018 opening balance of retained earnings at the date of initial application. Based on an analysis the Company has performed, the adoption of ASC 606, *Revenue from Contracts with Customers* will not have a material impact on the Company’s financial position, results of operations or cash flows.

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 adoption of ASU 2016-01 is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

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. The Company expects that the adoption of the new lease standard will have a material impact on the Company’s condensed consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities principally for certain leases currently accounted for as operating leases.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies how certain cash receipts and payments are presented in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017 and early adoption is permitted. The adoption of ASU 2016-15 is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 should be applied on a prospective basis and is effective for annual periods beginning January 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

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 weather 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 the United States; and
- other factors, including those "Risk Factors" set forth under Part II, Item 1A. "Risk Factors" in this Quarterly Report and in our 2016 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 valuations 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. While a quoted market price for OC-BVI's stock is not available, due to the uncertainties (specifically the Baughers Bay litigation and the possible expiration without renewal of the Bar Bay agreement) associated with OC-BVI's future cash flows, we tested the carrying value of our investment in OC-BVI (which exceeded our proportionate share of OC-BVI's net assets by an amount accounted for as goodwill) for impairment in 2016 and prior years.

We estimated the fair value of our investment in OC-BVI through the use of the discounted cash flow method, which relied upon projections of OC-BVI's operating results, working capital and capital expenditures. The use of this method required us to estimate OC-BVI's future cash flows from its Bar Bay plant and the resolution of the Baughers Bay litigation.

We estimated OC-BVI's cash flows from its Bar Bay plant by (i) identifying various possible future scenarios which included the execution of a new agreement for the Bar Bay plant as well as the termination of Bar Bay plant operations upon the scheduled expiration of the Bar Bay agreement in March 2017; (ii) estimating the cash flows associated with each possible scenario; and (iii) assigning a probability to each scenario. We similarly estimated the cash flows OC-BVI would receive from the BVI government in connection with the final court rulings on the Baughers Bay litigation (which were issued in 2012) by assigning probabilities to different scenarios. The resulting probability-weighted sum represented our best estimate of future cash flows to be generated by OC-BVI.

The identification of the possible scenarios for the Bar Bay plant agreement and the Baughers Bay litigation, the projections of cash flows for each scenario, and the assignment of relative probabilities to each scenario all represented significant estimates made by us. While we used 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 were by their nature highly subjective and were also subject to material change by our management over time based upon new information or changes in circumstances.

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 recorded impairment losses for our investment in OC-BVI for 2016 and other prior years. Such impairment losses amounted to $875,000 and $925,000 for the three and nine months ended September 30, 2016, respectively, and $925,000 for the year ended December 31, 2016.

In February 2017, the BVI government executed a 14-year extension to water supply agreement for OC-BVI's Bar Bay plant. Based upon the execution of this extension, we believe further impairment losses to reduce the carrying value of our investment in OC-BVI will not be required unless the BVI government fails to comply with the terms of the Bar Bay extension or a presently unforeseen event occurs that would impact the future cash flows we expect OC-BVI to generate.

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 these fair values to the carrying amounts of the reporting units. 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's goodwill may be impaired. In this step, we compare the implied fair value of each reporting unit's goodwill with the carrying amount of such 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's goodwill. If the implied fair value is less than its carrying amount, the impairment loss is recorded.

For the year ended December 31, 2016, we estimated the fair value of our reporting units by applying the discounted cash flow 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 methodology for determining water rates 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 year ended December 31, 2016 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, 2016 were as follows:

Method	Retail	Bulk	Manufacturing
Discounted cash flow	80%	80%	80%
Guideline public company	10%	10%	10%
Mergers and acquisitions	10%	10%	10%
	100%	100%	100%

The fair values we estimated for our retail, bulk and manufacturing units exceeded their carrying amounts by 123%, 41%, and 26%, respectively, as of December 31, 2016.

We also performed an analysis reconciling the conclusions of value for our reporting units to our market capitalization at December 31, 2016. This reconciliation resulted in no implied control premium for our Company.

Our manufacturing unit consists of the operations of Aerex, a company in which we acquired a 51% ownership interest in February 2016. In connection with this acquisition we recorded goodwill of $8,035,211. Aerex's actual results of operations in the months following our acquisition fell significantly short of the projected results that were included in the overall cash flow projections we utilized to determine the purchase price for Aerex and the fair values of its assets and liabilities. Due to this shortfall in Aerex's results of operations, we updated our projections for Aerex's future cash flows and tested Aerex's goodwill for possible impairment as of September 30, 2016 by estimating its fair value using the discounted cash flow method. As a result of this impairment testing, we determined that the carrying value of our Aerex goodwill exceeded its fair value, and recorded an impairment loss of $1,750,000 for the three months ended September 30, 2016 to reduce the carrying value of this goodwill to $6,285,211. We may be required to record additional impairment losses to reduce the carrying value of our Aerex goodwill in future periods if we determine it likely that Aerex's results of operations will fall short of our most recent projections of its future cash flows.

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.

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, 2016 ("2016 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 2016 Form 10-K.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Consolidated Results

Net income attributable to Consolidated Water Co. Ltd. stockholders for 2017 was $1,161,139 ($0.08 per share on a fully-diluted basis), as compared to net loss of ($1,865,332) (($0.13) per share on a fully-diluted basis) for 2016.

Total revenues for 2017 increased to $16,572,203 as compared to $14,385,353 for 2016 as a result of higher revenues for the retail, bulk and manufacturing segments. Gross profit for 2017 was $6,307,806 (38% of total revenues) as compared to $5,919,323 (41% of total revenues) for 2016. The increase in gross profit dollars for 2017 from 2016 results from higher revenues. The decrease in gross profit as a percentage of revenues from 2016 to 2017 is primarily attributable to a decrease in the gross profit percentages generated by the manufacturing and bulk segments. For further discussion of revenues and gross profit for 2017 see the "*Results by Segment*" analysis that follows.

General and administrative ("G&A") expenses on a consolidated basis were $4,896,323 and $4,528,679 for 2017 and 2016, respectively. Consolidated G&A expenses increased from 2016 to 2017 due to incremental (i) employee costs of approximately $170,000 reflecting an increase in compensation rates; and (ii) professional fees of approximately $208,000, the majority of which relates to our Mexico project development activities.

Other income (expense), net for 2017 was $447,294, as compared to ($762,696) for 2016. The improvement in 2017 in this net component of our consolidated statement of income arises principally from (i) an unrealized gain of $171,000 in 2017 on the net put/call option associated with the acquisition of Aerex as compared to an unrealized loss in 2016 on this net put/call option of ($275,000); and (ii) the impairment loss of ($875,000) recorded in 2016 for our investment in OC-BVI.

Results by Segment

<u>Retail Segment</u>

The retail segment generated losses from operations of ($566,948) and ($1,828,903) in 2017 and 2016, respectively. Such losses are primarily attributable to impairment losses recorded for CW-Bali, as discussed in the paragraphs that follow.

Revenues generated by our retail water operations were $5,570,654 in 2017 as compared to $5,447,200 in 2016. The volume of water sold by the retail segment increased by almost 6% from 2016 to 2017.

Retail segment gross profit was $3,082,213 (55% of retail revenues) and 2,982,359 (55% of retail revenues) for 2017 and 2016, respectively. The slight decline in retail gross profit as a percentage of revenues from 2016 to 2017 is attributable to incremental energy, engineering and laboratory costs for 2017 aggregating approximately $166,000.

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 three business segments. Retail G&A expenses for 2017 and 2016 were $3,070,681 and $2,811,262 for 2017 and 2016, respectively. The increase in retail G&A expenses from 2016 to 2017 is primarily due to incremental employee costs of approximately $179,000.

Through our subsidiary CW-Bali, we built a seawater reverse osmosis plant with a production 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 would eventually enable us to sell all of this plant's production. However, since inception of CW-Bali's operations in 2013, the sales volumes for its plant have not been sufficient to cover its operating costs and CW-Bali has incurred net losses. Our net losses from CW-Bali for our two most recent fiscal years ended December 31, 2016 and 2015 were approximately ($2.5 million) and ($861,000), respectively.

In late 2015, we decided to seek a strategic partner for CW-Bali to (i) purchase a major portion of its equity ownership; (ii) lead CW-Bali's sales and marketing efforts; (iii) liaise with the local water utility; and (iv) assist with CW-Bali's on-going funding requirements. Although discussions were held and due diligence information was exchanged with potential strategic partners, we did not receive an offer for an investment in, a purchase of, or a joint venture for CW-Bali from any of these potential partners on terms we deemed acceptable. During the three months ended September 30, 2016, we reassessed the prospects for CW-Bali in light of its results to date, current circumstances and uncertainties impacting the business, and expected future funding requirements and tested its long-lived assets for possible impairment. As a result of this testing we recorded an impairment loss of $2.0 million for the three months ended September 30, 2016 to reduce the carrying value of our long-lived CW-Bali assets to their estimated fair value.

On May 23, 2017, after considering CW-Bali's historical and projected operating losses, its on-going funding requirements, the current business and economic environment in Bali and our inability to obtain a strategic partner for CW-Bali, our Board of Directors formally resolved to discontinue CW-Bali's operations. We planned to cease the production of water in Bali, sell its stock in CW-Bali or CW-Bali's net assets, and exit the Bali market at the earliest practical date, which we initially believed would be no later than March 31, 2018.

However, in October 2017, CW-Bali's sole remaining customer filed a lawsuit in Bali, Indonesia against CW-Bali, our President, and our Chief Financial Officer in his capacity as the President of CW-Bali's Board of Commissioners (i.e. Directors) seeking compensatory damages of 57.1 billion rupiahs and punitive damages of 26 billion rupiahs as a result of the anticipated breach of this customer's water supply agreement that will arise from CW-Bali's planned cessation of operations. Such damages were equivalent to approximately $4.2 million and $1.9 million, respectively, as of the exchange rate on November 8, 2017. We believe this lawsuit is without merit and will vigorously defend CW-Bali and the two other defendants. However, until this lawsuit is resolved we are legally prohibited from disposing of our investment in CW-Bali or any of CW-Bali's assets.

Based upon the decision to cease CW-Bali's operations, for the six months ended June 30, 2017 we estimated the future cash flows we would receive under various scenarios from the disposition of its investment in CW-Bali and assigned a probability to each scenario to determine an estimated fair value of its investment in CW-Bali. Based upon these probability-weighted sums, we recorded an impairment loss of approximately $1,000,000 for the six months ended June 30, 2017 to reduce the carrying value of its investment in CW-Bali (which includes $549,555 in cumulative translation adjustments reflected in stockholders' equity) to its estimated fair value. During the three months ended September 30, 2017, we updated our estimated fair value projections for CW-Bali in light of the lawsuit filed in October 2017 and recorded an additional impairment loss of $578,480 to reduce the carrying value of our investment in Bali to its estimated fair value of approximately $378,000 as of September 30, 2017.

The results of operations for the retail segment for the three months ended September 30, 2017 include sales for CW-Bali of $55,222 and a net loss from operations for CW-Bali of ($8,466), excluding the ($578,480) impairment loss discussed above. The results of operations for the retail segment for the three months ended September 30, 2016 include sales for CW-Bali of $24,329 and a net loss from operations for CW-Bali of ($133,582), excluding the ($2,000,000) impairment loss discussed above.

Bulk Segment

The bulk segment contributed $1,983,689 and $2,082,570 to our income from operations for 2017 and 2016, respectively.

Bulk segment revenues were $7,881,464 and $7,429,732 for 2017 and 2016, respectively. The increase in bulk revenues from 2016 to 2017 is primarily attributable to our Bahamas operations, which generated approximately $442,000 in incremental revenues due to a significant increase in the prices of diesel fuel and electricity from 2016 to 2017, which increased the energy component of our bulk water rates in The Bahamas.

Gross profit for our bulk segment was $2,299,063 (29% of bulk revenues) and $2,507,570 (34% of bulk revenues) for 2017 and 2016, respectively. The decrease in the bulk segment gross profit in dollars and as a percentage of revenues in 2017 resulted from a charge of approximately $430,000 relating to the refurbishment of a fixed asset used in our Bahamas operations.

Bulk segment G&A expenses decreased to $315,374 for 2017 as compared to $425,000 for 2016. This decrease reflects bank charges incurred to transfer funds from our Bahamas operations to our Cayman headquarters that were significantly lower for 2017 than for 2016 due to a decrease in the amount of funds transferred.

Services Segment

The services segment incurred losses from operations of ($867,011) and ($686,308) for 2017 and 2016, respectively.

Services segment revenues remained relatively consistent at $111,302 for 2017 as compared to $125,929 for 2016.

Gross profit (loss) for our services segment was ($3,365) and ($42,648) for 2017 and 2016, respectively. The slight decrease in the service segment's gross loss from 2016 to 2017 is attributable to lower engineering expenses.

G&A expenses for the services segment increased to $863,646 for 2017 as compared to $643,660 for 2016. This increase reflects G&A expenses for our Mexico project development activities incurred by NSC and AdR for 2017 that exceeded those incurred for 2016 by approximately $257,000.

Manufacturing Segment

The manufacturing segment contributed $283,273 to our income from operations for 2017, as compared to generating a loss from operations of ($1,926,715) in 2016.

Manufacturing revenues increased to $3,008,783 in 2017 from $1,382,492 in 2016 due to an increase in the average dollar value of manufacturing contracts.

Manufacturing segment gross profit was $929,895 (31% of revenues) and $472,042 (34% of revenues) for 2017 and 2016, respectively. Gross profit for 2017 increased in dollars from 2016 due to higher revenues.

G&A expenses for the manufacturing segment were $646,622 and $2,398,757 for 2017 and 2016, respectively. Manufacturing G&A expenses decreased in 2017 from 2016 due to the goodwill impairment charge of $1,750,000 recorded for this segment in 2016.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Consolidated Results

Net income attributable to Consolidated Water Co. Ltd. stockholders for 2017 was $4,416,915 ($0.29 per share on a fully diluted basis), as compared to $2,393,642 ($0.16 per share on a fully-diluted basis) for 2016.

Total revenues for 2017 increased to $47,532,497 from $43,818,760 in 2016 due to higher revenues for our retail, bulk and manufacturing segments. Gross profit for 2017 was $19,597,947 (41% of total revenues) as compared to $18,688,733 (43% of total revenues) for 2016 as the gross profit for our retail, bulk and manufacturing segments increased from 2016 to 2017. For further discussion of revenues and gross profit for 2017 see the "*Results by Segment*" analysis that follows.

G&A expenses on a consolidated basis were $14,695,184 and $13,925,439 for 2017 and 2016, respectively. The rise in consolidated G&A expenses from 2016 to 2017 is primarily attributable (i) incremental employee costs of approximately $488,000 arising from a statutory retirement payment, an increase in compensation rates; and (ii) an increase in the project development expenses incurred by Aerex of approximately $204,000.

Other income, net for 2017 was $871,956, as compared to $45,698 for 2016. The improvement in 2017 in this net component of our consolidated statement of income reflects (i) an unrealized gain of $323,000 in 2017 on the net put/call option associated with the acquisition of Aerex as compared to an unrealized loss in 2016 on this net put/call option of ($275,000); and (ii) the impairment loss of ($925,000) recorded in 2016 for our investment in OC-BVI.

Results by Segment

Retail Segment

The retail segment generated losses from operations of ($651,764) and ($658,089) in 2017 and 2016, respectively. Such losses are primarily attributable to impairment losses recorded for CW-Bali, as discussed in paragraphs that follow.

Revenues generated by our retail water operations increased slightly to $18,111,274 in 2017 from $17,710,271 in 2016, as a result of a 4% increase in the volume of water sold.

Retail segment gross profit remained relatively consistent at $10,215,657 (56% of retail revenues) and $9,930,440 (56% of retail revenues) for 2017 and 2016, respectively.

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 three business segments. Retail G&A expenses for 2017 and 2016 were $9,288,941 and $8,588,529 for 2017 and 2016, respectively. The increase in retail G&A expenses from 2016 to 2017 is primarily due to (i) incremental employee costs of approximately $491,000 arising from a statutory retirement payment and an increase in compensation rates; and (ii) incremental professional fees of approximately $250,000.

Through our subsidiary CW-Bali, we built a seawater reverse osmosis plant with a production 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 would eventually enable us to sell all of this plant's production. However, since inception of CW-Bali's operations in 2013, the sales volumes for its plant have not been sufficient to cover its operating costs and CW-Bali has incurred net losses. Our net losses from CW-Bali for our two most recent fiscal years ended December 31, 2016 and 2015 were approximately ($2.5 million) and ($861,000), respectively.

In late 2015, we decided to seek a strategic partner for CW-Bali to (i) purchase a major portion of its equity ownership; (ii) lead CW-Bali's sales and marketing efforts; (iii) liaise with the local water utility; and (iv) assist with CW-Bali's on-going funding requirements. Although discussions were held and due diligence information was exchanged with potential strategic partners, we did not receive an offer for an investment in, a purchase of, or a joint venture for CW-Bali from any of these potential partners on terms we deemed acceptable. During the three months ended September 30, 2016, we reassessed the prospects for CW-Bali in light of its results to date, current circumstances and uncertainties impacting the business, and expected future funding requirements and tested its long-lived assets for possible impairment. As a result of this testing we recorded an impairment loss of $2.0 million for the nine months ended September 30, 2016 to reduce the carrying value of our long-lived CW-Bali assets to their estimated fair value.

On May 23, 2017, after considering CW-Bali's historical and projected operating losses, its on-going funding requirements, the current business and economic environment in Bali and our inability to obtain a strategic partner for CW-Bali, our Board of Directors formally resolved to discontinue CW-Bali's operations. We planned to cease the production of water in Bali, sell its stock in CW-Bali or CW-Bali's net assets, and exit the Bali market at the earliest practical date, which we initially believed would be no later than March 31, 2018.

However, in October 2017, CW-Bali's sole remaining customer filed a lawsuit in Bali, Indonesia against CW-Bali, our President, and our Chief Financial Officer in his capacity as the President of CW-Bali's Board of Commissioners (i.e. Directors) seeking compensatory damages of 57.1 billion rupiahs and punitive damages of 26 billion rupiahs as a result of the anticipated breach of this customer's water supply agreement that will arise from CW-Bali's planned cessation of operations. Such damages were equivalent to approximately $4.2 million and $1.9 million, respectively, as of the exchange rate on November 8, 2017. We believe this lawsuit is without merit and will vigorously defend CW-Bali and the two other defendants. However, until this lawsuit is resolved we are legally prohibited from disposing of our investment in CW-Bali or any of CW-Bali's assets.

Based upon the decision to cease CW-Bali's operations, for the six months ended June 30, 2017 we estimated the future cash flows we would receive under various scenarios from the disposition of its investment in CW-Bali and assigned a probability to each scenario to determine an estimated fair value of its investment in CW-Bali. Based upon these probability-weighted sums, we recorded an impairment loss of approximately $1,000,000 for the six months ended June 30, 2017 to reduce the carrying value of its investment in CW-Bali (which includes $549,555 in cumulative translation adjustments reflected in stockholders' equity) to its estimated fair value. During the three months ended September 30, 2017, we updated our estimated fair value projections for CW-Bali in light of the lawsuit filed in October 2017 and recorded an additional impairment loss of $578,480 to reduce the carrying value of our investment in Bali to its estimated fair value of approximately $378,000 as of September 30, 2017.

The results of operations for the retail segment for the nine months ended September 30, 2017 include sales for CW-Bali of $117,443 and a net loss from operations for CW-Bali of ($158,869), excluding the ($1,578,480) impairment losses discussed above. The results of operations for the retail segment for the nine months ended September 30, 2016 include sales for CW-Bali of $70,760 and a net loss from operations for CW-Bali of ($437,525), excluding the ($2,000,000) impairment loss discussed above.

Bulk Segment

The bulk segment contributed $6,925,280 and $6,487,455 to our income from operations for 2017 and 2016, respectively.

Bulk segment revenues were $23,615,787 and $22,136,086 for 2017 and 2016, respectively. The increase in bulk revenues from 2016 to 2017 is primarily attributable to our Bahamas operations, which generated approximately $1,534,000 in incremental revenues due to a significant increase in the prices of diesel fuel and electricity from 2016 to 2017, which increased the energy component of our bulk water rates in The Bahamas.

Gross profit for our bulk segment was $7,865,385 (33% of bulk revenues) and $7,790,339 (35% of bulk revenues) for 2017 and 2016, respectively. Gross profit as a percentage of revenues decreased in 2017 as compared to 2016 due to higher energy prices, as energy expense for our bulk operations was approximately $1,256,000 more in 2017 than in 2016, and as a result of a 9% decrease (excluding energy pass through adjustments) in the price of water sold by our Windsor plant in the Bahamas that became effective at the beginning of 2017.

Bulk segment G&A expenses decreased to $940,105 for 2017 as compared to $1,302,884 for 2016. This decrease reflects bank charges incurred to transfer funds from our Bahamas operations to our Cayman headquarters that were significantly lower for 2017 than for 2016 due to a decrease in the amount of funds transferred.

Services Segment

The services segment incurred losses from operations of ($2,458,594) and ($2,291,205) for 2017 and 2016, respectively.

Services segment revenues decreased to $360,758 for 2017 as compared to $710,576 for 2016 as we generated $320,296 in revenues in 2016 under our contract with the Water Authority - Cayman to refurbish their North Sound plant.

Gross profit for our services segment was $40,172 and $72,187 for 2017 and 2016, respectively. The service segment's gross profit decreased from 2016 to 2017 on lower revenues.

G&A expenses for the services segment remained relatively consistent at $2,498,766 and $2,363,392 for 2017 and 2016, respectively.

Manufacturing Segment

Our manufacturing segment consists of Aerex, a company in which we acquired a 51% ownership interest as of February 11, 2016. Consequently, the results of our manufacturing segment for 2017 are not entirely comparable to those reported for 2016, as 2017 reflects a full nine months of Aerex's operations whereas 2016 reflects Aerex's operations for shorter period that began February 11, 2016 and ended on September 30, 2016.

The manufacturing segment incurred losses from operations of ($490,639) and ($2,524,867) for 2017 and 2016, respectively.

Manufacturing revenues were $5,444,678 and $3,261,827 for 2017 and 2016, respectively. The increase in revenues from 2016 to 2017 reflects the additional period of manufacturing activity in 2017 as compared to 2016 due to the acquisition of Aerex on February 11, 2016 and an increase in the average dollar value of manufacturing contracts.

Manufacturing segment gross profit was $1,476,733 (27% of revenues) and $895,767 (27% of revenues) for 2017 and 2016, respectively. Gross profit for 2017 increased in dollars from 2016 due to the incremental revenues.

G&A expenses for the manufacturing segment were $1,967,372 and $3,420,634. Manufacturing G&A expenses decreased in 2017 from 2016 due to the goodwill impairment charge of $1,750,000 recorded for this segment in 2016. Excluding this impairment charge, manufacturing G&A increased from 2017 to 2016 as a result of an increase of approximately $204,000 in project development expenses incurred for 2017.

FINANCIAL CONDITION

Accounts receivable decreased by approximately $3.5 million from December 31, 2016 to September 30, 2017 primarily due to a decrease in the accounts receivables for CW-Bahamas of approximately $3.0 million. We believe, based upon prior payment history, that our accounts receivable balances will be collected in full. Prepaid expenses and other current assets increased by approximately $1.3 million primarily due to prepaid insurance premiums. Costs and estimated earnings in excess of billings increased by approximately $1.6 million from December 31, 2016 to September 30, 2017 due to Aerex.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position

Our projected liquidity requirements for 2017 include capital expenditures for our existing operations of approximately $2.8 million, dividends payable of approximately $1.1 million and approximately $1.9 million to be expended for NSC's and AdR's project development activities. Our liquidity requirements for 2017 may also include further quarterly dividends, if such dividends are declared by our Board of Directors. Our dividend payments amounted to approximately $4.6 million for the year ended December 31, 2016 and approximately $3.4 million for the nine months ended September 30, 2017.

In February 2016, we purchased 51% of the equity ownership of Aerex, a U.S. original equipment manufacturer and service provider of a wide range of products and services applicable to industrial, commercial and municipal water treatment, for $7.7 million in cash. Immediately following our acquisition of Aerex, we and the former sole shareholder of Aerex loaned Aerex $510,000 and $490,000, respectively, in the form of notes payable which were scheduled to mature on June 30, 2017 and bore interest at 1% per annum. These notes payable were repaid in April 2017. In February 2017, we and the former sole shareholder of Aerex loaned Aerex $408,000 and $392,000, respectively, in the form of notes payable which mature on September 30, 2017 and bear interest at 1% per annum. In October 2017, we and the former shareholder of Aerex extended the term of the notes payable issued in February 2017 for an additional 6 months with a new maturity date of March 31, 2018. Additionally, we and the former shareholder loaned Aerex an additional $306,000 and $294,000, respectively, for a total outstanding notes payable balance with a maturity date of March 31, 2018 of $1,400,000.

As of September 30, 2017, we had cash and cash equivalents of approximately $47.0 million and working capital of approximately $60.5 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.

CW-Bahamas and CW-Belize Liquidity Considerations

Transfers from our bank accounts in The Bahamas and Belize to our bank accounts in other countries require the approval of the Central Banks of The Bahamas and Belize, respectively. As of September 30, 2017, the equivalent United States dollar cash balances for our bank account deposits in The Bahamas and Belize were approximately $13.3 million and $6.0 million, respectively.

Weakness in the Belize economy and other factors have reduced the amount of U.S. dollars that Belize banks can transfer outside the country, which has limited the amount of U.S. dollars we are presently able to transfer from Belize. We cannot presently determine when conditions in Belize will improve or when we will have an improved ability to transfer funds from CW-Belize.

Discussion of Cash Flows for the Nine Months Ended September 30, 2017

Our cash and cash equivalents increased to $47.0 million as of September 30, 2017 from $39.3 million as of December 31, 2016.

Cash Flows from Operating Activities

Our operating activities provided cash of approximately $11.7 million. This net cash amount reflects net income generated for the nine months of approximately $4.6 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 and changes in working capital components included depreciation and amortization of approximately $5.7 million, a net decrease in accounts receivable and costs and estimated earnings in excess of billings of approximately $2.0 million, an increase in prepaids and other assets of $2.0 million and an impairment loss of $1.6 million to reduce the carrying value of our investment in CW-Bali.

Cash Flows from Investing Activities

Net cash used in our investing activities was approximately $564,000. Additions to property, plant and equipment and construction in progress was approximately $3.0 million which was partially offset by a $1.1 million distribution of earnings from OC-BVI and approximately $1.3 million collections on our loan receivable.

Cash Flows from Financing Activities

Our financing activities used approximately $3.4 million in net cash as we paid dividends of approximately $3.4 million. In February 2017, we also obtained a $392,000 note payable from Aerex's prior sole stockholder that matures on September 30, 2017 and also repaid the original loan of $490,000 from the same stockholder in April 2017.

Material Commitments, Expenditures and Contingencies

Renewal of 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, 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 September 30, 2017 and 2016, we generated approximately 33% and 38%, respectively, of our consolidated revenues and 48% and 52%, respectively, of our consolidated gross profit from the retail water operations conducted pursuant to Cayman Water's exclusive license. For the nine months ended September 30, 2017 and 2016, we generated approximately 38% and 40%, respectively, of our consolidated revenues and 52% and 55%, respectively, of our consolidated gross profit from the retail water operations conducted pursuant to Cayman Water's exclusive license.

The license was originally 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 January 31, 2018.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office ("OfReg"). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services, and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for economic regulation of the water utility sector from the Water Authority-Cayman (the "WAC") to OfReg. In July 2017, we began license negotiations with OfReg for a new retail license in the Cayman Islands and such negotiations are continuing.

Under its present 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 WAC, on behalf of the government, previously reviewed and confirmed the calculations of the price adjustments for inflation and electricity costs. On July 7, 2017, we were advised by OfReg that regulatory responsibility for the water utility sector had been transferred from the WAC to OfReg effective May 22, 2017, and that effective immediately all reviews and confirmations of calculations of the price adjustments for inflation and electricity costs will be performed by OfReg. 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 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.*"

We are presently unable to determine what impact the resolution of our retail license negotiations will have on our cash flows, financial condition or results of operations but such resolution 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 loss to reduce the carrying value of our goodwill. Such impairment loss could have a material adverse impact on our results of operations.

NSC and AdR Project Development

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 99.99%. 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 gallon 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.

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

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 may be cancelled by NSC 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”). 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 was 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 del 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 gallon 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. A consortium comprised of NSC, NuWater S.A.P.I. de C.V. and Degremont S.A. de C.V. (the “Consortium”) submitted its tender for the Project on the April 21, 2016 tender submission deadline date set by the State.

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 was 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.

On June 15, 2016, the State designated the Consortium as the winner of tender process for the Project.

On August 17, 2016, NSC and NuWater incorporated Newco under the name Aguas de Rosarito S.A.P.I. de C.V. (“AdR”), a special purpose company, to complete the Project and executed a shareholders agreement for AdR agreeing among other things that (i) AdR would purchase the land and other Project assets from NSC on the date that the Project begins commercial operation and (ii) AdR would enter into a Management and Technical Services Agreement with NSC effective on the first day that the Project begins commercial operation. As of September 30, 2017 and December 31, 2016, NSC owned 99.6% of AdR.

On August 22, 2016, the Public Private Partnership Agreement for public private partnership number 002/2015, contest number SIDUE-CEA-APP-2015-002 (“APP Contract”), was executed between AdR, CEA, the Government of Baja California represented by the Secretary of Planning and Finance and the Public Utilities Commission of Tijuana (“CESPT”). The APP Contract requires AdR to design, construct, finance and operate a seawater desalination plant (and accompanying aqueducts) with a capacity of up to 100 million gallons per day in two phases: the first with a capacity of 50 million gallons per day and an aqueduct to the Mexican potable water system in Tijuana, Baja California; and the second phase with a capacity of 50 million gallons per day and an aqueduct to a second delivery point in Tijuana. The first phase must be operational within 36 months of commencing construction and the second phase must be operational by the end of 2024. The APP Contract further requires AdR to operate and maintain the plant and aqueducts for a period of 37 years starting from the commencement of operation of the first phase. At the end of the operating period, the plant and aqueducts will be transferred to CEA.

The total Project cost for Phase 1 is expected to be approximately 9.1 billion Mexican pesos. Annual revenues from the Project for Phase 1 are expected to be approximately 1.79 billion Mexican pesos. Water rates under the APP Contract are indexed to the Mexican national consumer price index over its term. Electrical energy costs incurred by AdR to desalinate and deliver water are treated as a pass-through charge to CEA, subject to efficiency guarantees. AdR expects to raise Mexican peso denominated debt financing through a consortium led by the North American Development Bank, which also provided financial advisory services to the Consortium through the bidding process and contract negotiations.

The APP Contract does not become effective until the following conditions are met:

- the State has established and registered various payment trusts, guaranties and bank credit lines for specific use by the Project;
- the CEA has obtained the rights from the relevant federal authority to take and desalinate seawater and distribute it for municipal use;
- various agreements between the CEA, the payment trusts and the CESPT have been executed;
- AdR has obtained all rights of ways required for the Phase 1 aqueduct;
- AdR has obtained permission from the relevant federal authority to discharge the residual water from the Project's desalination plant; and
- all equity and debt financing agreements necessary to provide the funding to AdR for the first phase of the Project have been executed.

On December 30, 2016, the Congress of the State of Baja California, Mexico passed Decreto #57 which, among other things, ratified and authorized the execution of the APP Contract. Earlier this year, following consultations between representatives of the State of Baja California and the Ministry of Finance of the Federal Government of Mexico, it was determined that certain amendments to Decreto #57 were required in order to comply with recent changes to the Federal Fiscal Discipline Law. In addition, during the course of its recent due diligence related to the potential financing of the Project, the North American Development Bank requested that the State of Baja California amend Decreto #57 to authorize the inclusion of revenues from the CESPT in the primary payment trust for the Project. These amendments are included in Decreto #95 which is currently under consideration by the Congress of the State of Baja California. We cannot say with any certainty whether or not Decreto #95 will be approved by the Congress. In the event that Decreto #95 is ultimately not approved, we may not be able to obtain the debt financing required to complete the Project.

As of September 30, 2017, AdR has paid approximately $665,000 for deposits on, or purchases of, rights of way for the Phase 1 aqueduct, which are included in other assets on our condensed consolidated balance sheet.

Both the exchange rate for the Mexico peso relative to the dollar and general macroeconomic conditions in Mexico have varied since the U.S. Presidential election in November 2016. These changes could adversely impact the estimated construction, operating, and financing costs for the Project. The APP Contract and the APP Law allow for the parties to negotiate (but do not guarantee) modifications to the water tariff in the event of such significant macroeconomic condition changes. On February 10, 2017, AdR submitted proposals to the CEA requesting an increase to the water tariff to compensate for changes in foreign exchange rates, lending rates and certain changes in law which have impacted the Project. If AdR is unable to obtain this requested increase in the water tariff, it may be unable to obtain the debt and equity financing required for the Project. We are currently unable to determine whether or not such water tariff increase will be approved.

If AdR is ultimately unable to proceed with the Project, the land NSC has purchased and the right of way deposits may lose their strategic importance as the site for the Project and consequently may decline in value. If AdR does not proceed with the Project, NSC may ultimately be unable to sell this land or recoup their right of way deposits for an amount at least equal to its current carrying value of approximately $21.2 million ($20.56 million for the land and $665,000 for the right of way deposits), and any loss on sale of the land, or impairment loss NSC may be required to record as a result of a decrease in the fair value could have a material adverse impact on the Company's results of operations.

Included in our results of operations are general and administrative expenses from NSC and AdR, consisting of organizational, legal, accounting, engineering, consulting and other costs relating to Project development activities. Such expenses amounted to approximately $864,000 and $606,000 for the three months ended September 30, 2017 and 2016, respectively, and $2,469,000 and $2,248,000 for the nine months ended September 30, 2017 and 2016, respectively. The assets and liabilities of NSC and AdR included in the Company's condensed consolidated balance sheets amounted to approximately $22.8 million and $371,000, respectively, as of September 30, 2017 and approximately $22.3 million and $221,000 respectively, as of December 31, 2016.

EWG 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 ("EWG") 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 for a price of $1.0 million along with an immediate power of attorney to vote those shares. 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 99.99% 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 challenged, among other things, the capital investment transactions that increased our ownership interest in NSC to 99.99%. 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.

EWG also sought an order directing, among other things: (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, Mexico 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.

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.

On May 17, 2016, NSC filed a claim with the Third District Court in Matters of Amparo and Federal Trials in the City of Tijuana, Baja California (the "Amparo Court") challenging the Tecate, Mexico Court ex-parte order which appointed an inspector over NSC's commercial activities. On July 29, 2016, the Amparo Court found that such appointment is unconstitutional and reversed the Tecate, Mexico court's appointment of an inspector.

On September 6, 2016, the Tecate, Mexico court issued a decree granting the counter-guaranty requested by NSC. Such counter-guaranty was fixed in the amount of 300,000 Mexican pesos and was given to the court on October 13, 2016 at which time all remaining ex-parte restrictions on NSC related to the challenged transactions were suspended.

On May 2, 2017, the Tecate, Mexico court declared that the initial filing of this lawsuit had expired due to EWG's lack of activity with respect to certain actions required to proceed to trial. However, EWG can appeal the expiration or refile the lawsuit.

Aerex

Aerex's actual results of operations in the months following our acquisition of the company on February 11, 2016 fell significantly short of the projected results that were included in the overall cash flow projections we utilized to determine the purchase price for Aerex and the fair values of its assets and liabilities. Due to this shortfall in Aerex's results of operations, we updated our projections for Aerex's future cash flows and tested Aerex's goodwill for possible impairment as of September 30, 2016 by estimating its fair value using the discounted cash flow method. As a result of this impairment testing, we determined that the carrying value of our Aerex goodwill exceeded its fair value, and recorded an impairment loss of $1,750,000 for the three months ended September 30, 2016 to reduce the carrying value of this goodwill to $6,285,211. We may be required to record additional impairment losses to reduce the carrying value of our Aerex goodwill in future periods if we determine it likely that Aerex's results of operations will fall short of our most recent projections of its future 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. 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.

Adoption of new accounting standards:

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 adoption of ASU 2015-11 did not have a material impact on our financial position, results of operations or cash flows.

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 adoption of ASU 2015-17 did not have a material impact on our financial position, results of operations or cash flows.

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 adoption of ASU 2016-07 did not have a material impact on our financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU 2016-09, C*ompensation - 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 adoption of ASU 2016-09 did not have a material impact on our financial position, results of operations or cash flows.

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.

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.

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 us will coincide with ASU 2014-09 during the first quarter 2018.

In May 2016, the FASB issued ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting*. ASU 2016-11 rescinds several SEC Staff Announcements that are codified in Topic 605, including, among other items, guidance relating to accounting for shipping and handling fees and freight services.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,* which clarifies implementation guidance around collectability, sales taxes collected from customers, noncash considerations, contract modifications at transition, and completed contracts at transition.

In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which amended the guidance on performance obligation disclosures and makes technical corrections and improvements to the new revenue standard. The standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and permits early adoption on a limited basis. The update permits the use of either the retrospective or cumulative effect transition method.

The effective dates of ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, and ASU 2016-20 are the same as ASU 2015-14 discussed above. We intend to elect the modified retrospective method to all active contracts on the date of initial application. This will involve applying the guidance retrospectively only to the most current period presented in the financial statements and recognizing the cumulative effect of initially applying the guidance as an adjustment to the January 1, 2018 opening balance of retained earnings at the date of initial application. Based on an analysis we have performed, the adoption of ASC 606, *Revenue from Contracts with Customers* will not have a material impact on our financial position, results of operations or cash flows.

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. We currently are evaluating the effect the adoption of this amendment will have on our consolidated financial statements. The adoption of ASU 2016-01 is not expected to have a material impact on our financial position, results of operations or cash flows.

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. We currently are evaluating the effect the adoption of this amendment will have on our consolidated financial statements. We expect that the adoption of the new lease standard will have a material impact on our condensed consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities principally for certain leases currently accounted for as operating leases.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies how certain cash receipts and payments are presented in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017 and early adoption is permitted. We currently are evaluating the effect the adoption of this amendment will have on our consolidated financial statements. The adoption of ASU 2016-15 is not expected to have a material impact on our financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 should be applied on a prospective basis and is effective for annual periods beginning January 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 is not expected to have a material impact on our financial position, results of operations or cash flows.

Dividends

- On January 31, 2017, we paid a dividend of $0.075 to shareholders of record on January 2, 2017.
- On May 1, 2017, we paid a dividend of $0.075 to shareholders of record on April 3, 2017.
- On July 31, 2017, we paid a dividend of $0.075 to shareholders of record on July 3, 2017
- On August 15, 2017, our Board declared a dividend of $0.075 payable on October 31, 2017 to shareholders of record on October 2, 2017.

We have paid dividends to owners of our common shares and redeemable preferred shares since we began declaring dividends in 1985. Our 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, 2016 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, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CW-Bali

On October 20, 2017, a customer of CW-Bali filed a lawsuit in the Denpasar District Court, Bali, Indonesia against CW-Bali, its President and the Company's Chief Financial Officer in his capacity as the President of CW-Bali's Board of Commissioners (i.e. Directors) seeking compensatory damages of 57.1 billion rupiahs and punitive damages of 26 billion rupiahs as a result of the anticipatory breach of this customer's water supply agreement arising from CW-Bali's planned cessation of operations. Such damages were equivalent to approximately $4.2 million and $1.9 million, respectively, as of the exchange rate on November 8, 2017. We believe this lawsuit is without merit and will vigorously defend CW-Bali and the other two defendants. However, until this lawsuit is resolved we are legally prohibited from disposing of our investment in CW-Bali or any of CW-Bali's assets.

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 financial condition, results of operations or cash flows.

EWG Litigation

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 99.99%. 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 ("EWG") 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 for a price of $1.0 million along with an immediate power of attorney to vote those shares. 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 99.99% 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 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 challenged, among other things, the capital investment transactions that increased our ownership interest in NSC to 99.99%. 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.

EWG also sought an order directing, among other things: (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, Mexico 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.

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On May 17, 2016, we filed a claim with the Third District Court in Matters of Amparo and Federal Trials in the City of Tijuana, Baja California (the "Amparo Court") challenging the Tecate, Mexico Court ex-parte order which appointed an inspector over NSC's commercial activities. On July 29, 2016, the Amparo Court found that such appointment is unconstitutional and reversed the Tecate, Mexico Court's appointment of an inspector.

On September 6, 2016, the Tecate, Mexico Court issued a decree granting the counter-guaranty requested by NSC. Such counter-guaranty was fixed in the amount of MXP 300,000.00 Mexican pesos and was given to the Court on October 13, 2016 at which time all remaining ex-parte restrictions on NSC related to the challenged transactions were suspended.

On May 2, 2017, the Tecate, Mexico court declared that the initial filing of this lawsuit had expired due to EWG's lack of activity with respect to certain actions required to proceed to trial. However, EWG can appeal the expiration or refile the lawsuit.

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, 2016 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, 2016 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. 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 September 30, 2017 and 2016, we generated approximately 33% and 38%, respectively, of our consolidated revenues and 48% and 52%, respectively, of our consolidated gross profit from the retail water operations conducted pursuant to Cayman Water's exclusive license. For the nine months ended September 30, 2017 and 2016, we generated approximately 38% and 40%, respectively, of our consolidated revenues and 52% and 55%, respectively, of our consolidated gross profit from the retail water operations conducted pursuant to Cayman Water's exclusive license.

The license was originally 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 January 31, 2018.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office ("OfReg"). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services, and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for economic regulation of the water utility sector from the Water Authority-Cayman to OfReg. In July 2017, we began license negotiations with OfReg for a new retail license in the Cayman Islands and such negotiations are continuing.

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 we have historically generated from our retail license and could require us to record an impairment loss to reduce the carrying value of our goodwill. Such impairment loss could have a material adverse impact on our results of operations.

We have paid $21.4 million for land, right of ways and equipment and incurred development expenses of approximately $22.6 million to date for a possible project in Mexico. We expect to expend significant additional funds in 2017 to continue to pursue this project. However, we may not be successful in completing this project.

We own a 99.99% 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 September 30, 2017, our condensed consolidated balance sheet includes purchases for the Project of approximately $21.4 million for land, right of ways and 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 $22.6 million from 2010 through September 30, 2017.

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 was 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 del 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 gallon 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. A consortium comprised of NSC, NuWater S.A.P.I. de C.V. and Degremont S.A. de C.V. (the "Consortium") submitted its tender for the Project on the April 21, 2016 tender submission deadline date set by the State.

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 was 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.

On June 15, 2016, the State designated the Consortium as the winner of tender process for the Project.

On August 17, 2016, NSC and NuWater incorporated Newco under the name Aguas de Rosarito S.A.P.I. de C.V. ("AdR"), a special purpose company, to complete the Project and executed a shareholders agreement agreeing among other things that: (i) AdR would purchase the land and other Project assets from NSC on the date that the Project begins commercial operation and (ii) AdR would enter into a Management and Technical Services Agreement with NSC effective on the first day that the Project begins commercial operation. As of September 30, 2017 and December 31, 2016, NSC owned 99.6% of AdR.

On August 22, 2016, the Public Private Partnership Agreement for public private partnership number 002/2015, contest number SIDUE-CEA-APP-2015-002 ("APP Contract"), was executed between AdR, the State Water Commission of Baja California ("CEA"), the Government of Baja California represented by the Secretary of Planning and Finance and the Public Utilities Commission of Tijuana ("CESPT"). The APP Contract requires AdR to design, construct, finance and operate a seawater desalination plant (and accompanying aqueducts) with a capacity of up to 100 million gallons per day in two phases: the first with a capacity of 50 million gallons per day and an aqueduct to the Mexican potable water system in Tijuana, Baja California; and the second phase with a capacity of 50 million gallons per day and an aqueduct to a second delivery point in Tijuana. The first phase must be operational within 36 months of commencing construction and the second phase must be operational by the end of 2024. The APP Contract further requires AdR to operate and maintain the plant and aqueducts for a period of 37 years starting from the commencement of operation of the first phase. At the end of the operating period, the plant and aqueducts will be transferred to CEA.

The total Project cost for Phase 1 is expected to be approximately 9.1 billion Mexican pesos. Annual revenues from the Project for Phase 1 are expected to be approximately 1.79 billion Mexican pesos. Water rates under the APP Contract are indexed to the Mexican national consumer price index over its term. Electrical energy costs incurred by AdR to desalinate and deliver water are treated as a pass-through charge to CEA, subject to efficiency guarantees. AdR expects to raise Mexican peso denominated debt financing through a consortium led by the North American Development Bank, which also provided financial advisory services to the Consortium through the bidding process and contract negotiations.

The APP Contract does not become effective until the following conditions are met:

- the State has established and registered various payment trusts, guaranties and bank credit lines for specific use by the Project;
- the CEA has obtained the rights from the relevant federal authority to take and desalinate seawater and distribute it for municipal use;
- various agreements between the CEA, the payment trusts and the CESPT have been executed;
- AdR has obtained all rights of ways required for the Phase 1 aqueduct;
- AdR has obtained permission from the relevant federal authority to discharge the residual water from the Project's desalination plant; and
- all equity and debt financing agreements necessary to provide the funding to AdR for the first phase of the Project have been executed.

On December 30, 2016, the Congress of the State of Baja California, Mexico passed Decreto #57 which, among other things, ratified and authorized the execution of the APP Contract. Earlier this year, following consultations between representatives of the State of Baja California and the Ministry of Finance of the Federal Government of Mexico, it was determined that certain amendments to Decreto #57 were required in order to comply with recent changes to the Federal Fiscal Discipline Law. In addition, during the course of its recent due diligence related to the potential financing of the Project, the North American Development Bank requested that the State of Baja California amend Decreto #57 to authorize the inclusion of revenues from the CESPT in the primary payment trust for the Project. These amendments are included in Decreto #95 which is currently under consideration by the Congress of the State of Baja California. We cannot say with any certainty whether or not Decreto #95 will be approved by the Congress. In the event that Decreto #95 is ultimately not approved, we may not be able to obtain the debt financing required to complete the Project.

As of September 30, 2017, AdR has paid approximately $665,000 for deposits on, or purchases of, rights of way for the Phase 1 aqueduct, which are included in other assets on our condensed consolidated balance sheet.

Both the exchange rate for the Mexico peso relative to the dollar and general macroeconomic conditions in Mexico have varied since the U.S. Presidential election in November 2016. These changes could adversely impact the estimated construction, operating, and financing costs for the Project. The APP Contract and the APP Law allow for the parties to negotiate (but do not guarantee) modifications to the water tariff in the event of such significant macroeconomic condition changes. In February 2017, AdR submitted proposals to the CEA requesting an increase to the water tariff to compensate for changes in foreign exchange rates, lending rates and certain changes in law which have impacted the Project. If AdR is unable to obtain this requested increase in the water tariff, it may be unable to obtain the debt and equity financing required for the Project. We are currently unable to determine whether or not such water tariff increase will be approved.

If AdR is ultimately unable to proceed with the Project, the land NSC has purchased and the right of way deposits may lose their strategic importance as the site for the Project and consequently may decline in value. If AdR does not proceed with the Project, NSC may ultimately be unable to sell this land or recoup their right of way deposits for an amount at least equal to its current carrying value of approximately $21.2 million ($20.56 million for the land and $665,000 for the right of way deposits), and any loss on sale of the land, or impairment loss NSC may be required to record as a result of a decrease in the fair value could have a material adverse impact on the Company's 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 challenged, among other things, the capital investment transactions that increased our ownership interest in NSC to 99.99%. 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, which resulted in the placement of inscriptions for the lawsuit on NSC's public records.

EWG also sought an order directing, among other things: (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 May 2, 2017, the Tecate, Mexico court declared that the initial filing of this lawsuit had expired due to EWG's lack of activity with respect to certain actions required to proceed to trial. However, EWG can appeal the expiration or refile the lawsuit.

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

If the financial performance of our recently acquired subsidiary Aerex does not improve, we may be required to record further impairment losses to reduce the carrying value of the goodwill arising from this acquisition.

In February 2016, we acquired a 51% ownership interest in Aerex. In connection with this acquisition, we recorded initial goodwill of $8,035,211. Aerex's actual results of operations in the months following our acquisition of this company fell significantly short of the projected results that were included in the overall cash flow projections we utilized to determine the purchase price for Aerex and the fair values of its assets and liabilities. Due to this shortfall in Aerex's results of operations, we updated our projections for Aerex's future cash flows and tested Aerex's goodwill for possible impairment as of September 30, 2016 by estimating its fair value using the discounted cash flow method. As a result of this impairment testing, we determined that the carrying value of our Aerex goodwill exceeded its fair value, and recorded an impairment loss of $1,750,000 for the three months ended September 30, 2016 to reduce the carrying value of this goodwill to $6,285,211. We may be required to record additional impairment losses to reduce the carrying value of our Aerex goodwill in future periods if we determine it likely that Aerex's results of operations will fall short of our most recent projections of its future cash flows. Such impairment losses could have a material adverse impact on our results of operations.

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

In July 2017, we issued 1,340 shares of preferred stock to 11 employees for cash at a price of $8.35 per share. The issuance of the preferred stock to six of the employees was exempt from registration under Regulation S promulgated under the Securities Act of 1933, as amended (the “Securities Act”) because the shares were issued outside of the United States to non-US persons (as defined in Regulation S). Five of the employees are US persons and the issuance of such shares to them was exempt under Section 4(a)(2) of the Securities Act. The US persons are knowledgeable, sophisticated and experienced in making investment decisions of this kind and received adequate information about us or had adequate access, including through the employee’s business relationship with us, to information about us.

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: November 9, 2017

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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: November 9, 2017

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: November 9, 2017

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 September 30, 2017 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: November 9, 2017

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 September 30, 2017 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: November 9, 2017

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

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