CONSOLIDATED WATER CO LTD
Form 10-Q/A
June 12, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A
(AMENDMENT NO. 1)

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2003

OR

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

For the transition period from _______________ to _______________

Commission File Number: 0-25248

CONSOLIDATED WATER CO. LTD.

(Exact name of Registrant as specified in its charter)

| CAYMAN ISLANDS | N/A |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| TRAFALGAR PLACE, WEST BAY ROAD, P.O. BOX 1114 GT, GRAND CAYMAN, B.W.I. | N/A |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (345) 945-4277

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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

As at June 2, 2003, there were 4,275,568 of the registrant's ordinary shares of common stock, with CI$ 1.00 par value, outstanding.

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EXPLANATORY NOTE

This quarterly report on Form 10-Q/A is being filed to amend Item 1. "Financial Statements," Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 4. "Controls and Procedures." Accordingly, pursuant to Rule 12b-15 under the Securities Act of 1934, as amended, this Form 10-Q/A contains the complete text of Item 1. "Financial Statements," Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 4. "Controls and Procedures."

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Expressed in United States Dollars)

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| | |
|---|---|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | 3,723 |
| Accounts receivable | 2,770 |
| Inventory | 946 |
| Prepaid expenses and other assets | 448 |
| Deferred expenditures | 1,300 |
| Current portion of loans receivable | 1,080 |
| TOTAL CURRENT ASSETS | 10,270 |
| Loans receivable | 4,045 |
| Property, plant and equipment, net | 21,062 |
| Investments in affiliates (Note 4) | 13,349 |
| Intangible assets (Note 6) | 6,301 |
| Goodwill | 2,673 |
| TOTAL ASSETS | $57,702 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| CURRENT LIABILITIES | |
| Dividends payable | 469 |
| Accounts payable and other liabilities | 1,949 |
| Current portion of long term debt (Note 7) | 12,298 |
| TOTAL CURRENT LIABILITIES | 14,717 |
| Long term debt (Note 7) | 18,322 |
| Security deposits and other liabilities | 136 |
| TOTAL LIABILITIES | 33,176 |
| STOCKHOLDERS' EQUITY | |
| Redeemable preferred stock, $1.20 par value. Authorized 100,000 shares; issued and outstanding 18,914 shares as at March 31, 2003 and 19,740 shares at as December 31, 2002 | 22 |
| Class A common stock, $1.20 par value. Authorized 9,870,000 shares; issued and outstanding 4,239,959 shares as at March 31, 2003 and 3,993,419 shares at as December 31, 2002 | 5,087 |
| Class B common stock, $1.20 par value. Authorized 30,000 shares; issued and outstanding nil shares as at March 31, 2003 and nil shares as at December 31, 2002 | |
| Additional paid-in capital | 10,313 |
| Retained earnings | 9,102 |
| TOTAL STOCKHOLDERS' EQUITY | 24,526 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $57,702 |

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



CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)
(Expressed in United States Dollars)

| | THREE MONTHS ENDED MARCH 31, 2003 | THREE ENDED MAR |
|---|---|---|
| Retail water sales | 2,818,953 | 2,8 |
| Bulk water sales | 1,005,140 | 3 |
| Service revenue | 194,632 | |
| TOTAL REVENUE | 4,018,725 | 3,1 |
| Retail cost of sales | (1,219,878) | (1,4 |
| Bulk cost of sales | (736,469) | (2 |
| Service cost of sales | (117,692) | |
| TOTAL COST OF SALES | (2,074,039) | (1,6 |
| GROSS PROFIT | 1,944,686 | 1,5 |
| General and administrative expenses | (926,635) | (5 |
| INCOME FROM OPERATIONS | 1,018,051 | 9 |
| Other income (expenses): | | |
| Interest income | 5,522 | |
| Interest expense | (293,383) | ( |
| Other income | 101,372 | |
| Equity in earnings of affiliates | 192,429 | |
| | 5,940 | ( |
| NET INCOME BEFORE INCOME TAXES | 1,023,991 | 9 |
| Income taxes | (5,993) | |
| NET INCOME | $ 1,017,998 | $ 9 |
| BASIC EARNINGS PER SHARE | $ 0.25 | $ |
| DILUTED EARNINGS PER SHARE | $ 0.24 | $ |
| DIVIDENDS DECLARED PER SHARE | $ 0.105 | $ |

WEIGHTED AVERAGE NUMBER OF COMMON STOCK USED IN THE DETERMINATION OF:

| | | |
|---|---|---|
| Basic earnings per share | 4,121,698 | 3,9 |
| Diluted earnings per share | 4,251,195 | 4,0 |

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



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

(Expressed in United States Dollars)

| | THREE MONTHS ENDED MARCH 31, 2003 | THREE ENDED MA |
|---|---|---|
| NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES | 1,174,341 | |
| CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (241,663) | (1, |
| Business combinations, net of cash acquired | (11,885,839) | |
| Investment in affiliate | (12,069,998) | |
| Collections from loans receivable | 178,759 | |
| Net cash used in investing activities | (24,018,741) | (1, |
| CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES | | |
| Proceeds from new credit facility | 28,056,126 | 1, |
| Deferred expenditures | (412,545) | |
| Dividends paid | (486,111) | ( |
| Proceeds from issuance of common stock | 530,100 | |
| Principal payments of long term debt | (1,687,500) | |
| Proceeds from bank loans | -- | |
| Net cash provided by financing activities | 26,000,070 | 1, |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 3,155,670 | |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 568,304 | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 3,723,974 | $ 1, |
| Interest paid in cash | $ 230,321 | $ |
| Interest received in cash | $ 5,522 | $ |

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



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

1. PRESENTATION OF FINANCIAL INFORMATION

The accompanying unaudited Condensed Consolidated Financial Statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. All adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair presentation of the interim financial statements, have been included. The results of operations for the period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

The accompanying consolidated financial statements of the Company should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

2. PRINCIPLES OF CONSOLIDATION

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Belize Water Limited, DesalCo Limited, its wholly owned subsidiary DesalCo (Barbados) Limited, and Ocean Conversion (Cayman) Limited. All significant intercompany balances and transactions have been eliminated in consolidation.

3. ACQUISITIONS

Effective February 1, 2003, the Company acquired 100% of the outstanding voting common shares of DesalCo Limited, its wholly owned subsidiary DesalCo (Barbados) Limited and Ocean Conversion (Cayman) Limited. The total consideration paid was $28,298,555, comprised of $25,500,000 in cash and 185,714 ordinary shares of the Company and $506,122 in cost related to the acquisitions.

These acquisitions provide the Company with a reverse osmosis plant design, construction and facility management and engineering services firm, as well as facilities and contracts to supply additional potable water services in the Cayman Islands, Bahamas and Barbados and investments in desalination companies in the British Virgin Islands.



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

3. ACQUISITIONS (CONTINUED)

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at February 1, 2003. The Company is in the process of finalizing the allocations of purchase price and is subject to refinement:

| | |
|---|---|
| Current assets | 4,940,343 |
| Property, plant and equipment | 949,800 |
| Investments in affiliates | 13,023,539 |
| Intangible assets | 4,868,861 |
| Goodwill | 2,673,733 |
| Other assets | 4,224,145 |
| Total assets acquired | 30,680,421 |
| Current liabilities | 1,201,870 |
| Long term debt and liabilities | 1,179,996 |
| Total liabilities assumed | 2,381,866 |
| Net assets acquired | $28,298,555 |

The goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and any intangible assets acquired in a business combination accounted for using the purchase method and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. Intangible assets with useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets".

The results of operations of the acquired companies are included in the consolidated statements of operations from February 1, 2003. Unaudited pro forma consolidated results of operations of Consolidated Water Co. Ltd., DesalCo Limited, DesalCo (Barbados) Limited, Ocean Conversion (Cayman) Limited, and an equity interest in Ocean Conversion (BVI) Ltd., had the companies been acquired at January 1, 2003 would be as follows:

| | THREE MONTHS ENDED MARCH 31, 2003 | THREE MONTHS ENDED MARCH 31, 2002 |
|---|---|---|
| Pro forma revenue | $ 4,450,629 | $ 4,591,160 |
| Pro forma net income | $ 1,185,041 | $ 1,147,888 |
| Pro forma earnings per share | | |
| Basic | $ 0.29 | $ 0.28 |
| Diluted | $ 0.28 | $ 0.27 |

(UNAUDITED)

4. INVESTMENTS IN AFFILIATES

As part of the acquisition described in Note 3, the Company also acquired 50% of the outstanding voting common shares of Ocean Conversion (BVI) Ltd, 12.7% of the outstanding voting common shares of Waterfields Company Limited ("Waterfields") and 100% of the non-voting shares of Ocean Conversion (BVI) Ltd.

The Company's investment in Ocean Conversion (BVI) Ltd. is accounted for by the equity method. The investment in Waterfields has been recorded at cost.

On May 9, 2003, the Company sold 100% of its non-voting shares in Ocean Conversion (BVI) Ltd., to Sage Water Holdings (BVI), Ltd. for approximately $2.1 million. The Company acquired these shares as part of the transactions described above.

The following table compares the carrying values and equity in net assets of our investments in affiliates at March 31, 2003:

| Investment | Carrying Value As at March 31, 2003 | Equity in Net Assets at 31 March 2003 | Diff |
|---|---|---|---|
| Ocean Conversion (BVI) Ltd. | 12,324,761 | 2,608,074 | 9,71 |
| Waterfields Company Limited | 1,012,501 | 972,631 | 3 |
| Belize Water Services Ltd. | 12,450 | 12,450 | |

Management believes that the difference between the carrying value and our interests in the net assets of affiliates represents goodwill. The Company will periodically evaluate the carrying value of its investment in Ocean Conversion (BVI) Ltd. by comparing it to the investment's fair value. If the carrying amount of the equity investment exceeds its fair value, an impairment charge is recognized by the difference by which the carrying amount exceeds the fair value of the asset.

The total assets, total liabilities and net income of investments accounted for by the equity method at March 31, 2003 and for the three months ended are $7,219,047, $2,600,585 and $340,760, respectively.

5. SEGMENT INFORMATION

Due to the recent acquisitions, management changed the Company's internal organizational structure to effectively assimilate the business activities of the acquired companies. Consequently, management no longer considers it appropriate to report separate business segments based on geographical location. Under the Statements of Financial Accounting Standards 131, "Disclosure about Segments of an Enterprise and Related Information", management now considers; (i) the operations to supply water to retail customers, (ii) the operations to supply water to bulk customers, and (iii) the provision of engineering and management services as separate business segments. Segmented financial information that was reported in previous periods for the Cayman Islands and the Bahamas has been reclassified to Retail Water, and financial information for Belize has been reclassified to Bulk Water. Services is a new business segment created as a result of the recent acquisition.

For purposes of segment information the accounts of Ocean Conversion (BVI) Ltd. have been proportionally consolidated into the Bulk water segment. An adjustment has been made in reconciling items to account for the investment under the equity method. Also included in reconciling items are corporate expenses including interest expense that do not relate to any specific operating segment.





5. SEGMENT INFORMATION (CONTINUED)

As at March 31 and for the three months then ended

| | Retail Water | | Bulk Water | | Services | | Reconciling |
|---|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 |
| Revenue | 2,818,953 | 2,858,899 | 1,491,926 | 325,906 | 194,632 | -- | (486,786) |
| Cost of sales | 1,219,878 | 1,421,687 | 914,628 | 244,765 | 117,692 | -- | (178,159) |
| Net income (loss) | 1,010,119 | 880,694 | 84,667 | 45,806 | (27,581) | -- | (49,207) |
| Property, plant and equipment | 18,663,008 | 18,289,008 | 4,402,610 | 1,500,375 | 32,917 | -- | (2,036,361) |





6. INTANGIBLE ASSETS

Effective February 1, 2003, the Company completed acquisitions of interests in companies described in Note 3 of these consolidated financial statements. The Company acquired the following identifiable intangible assets as part of these acquisitions:

(a) As part of the acquisition of DesalCo Limited the Company attributed $650,978 to intangible assets which represents the fair value of a Management Service Agreement dated December 4, 2000, under which DesalCo Limited provides management and engineering services to Ocean Conversion (BVI) Ltd. Management of the Company has determined the intangible has an indefinite life, and therefore is not being amortized.

(b) As part of the acquisition of DesalCo Limited the Company attributed $239,263 to intangible assets which represents the fair value of the DWEER(TM) Distribution Agreement between DesalCo Limited and DWEER Technology Limited dated September 24, 2002. Under this agreement DesalCo Limited was granted an exclusive right, within certain countries in the Caribbean, Central and South America, to distribute certain patented equipment, which can enhance the operational efficiency of reverse osmosis seawater desalination plants. The carrying amount of the DWEER(TM) Distribution Agreement is being amortized over the remaining term of the seven year agreement.

(c) As part of the acquisition of Ocean Conversion (Cayman) Limited the Company attributed $3,978,620 to intangible assets which represent the fair value of two Water Production and Supply Agreements between Ocean Conversion (Cayman) Limited and the Government of the Cayman Islands, dated April 25, 1994 and dated December 31, 2001. Under these agreements, Ocean Conversion (Cayman) Limited built reverse osmosis seawater desalination plants for the Government of the Cayman Islands. Ocean Conversion (Cayman) Limited operates the plants until the expiration of the agreement term, as extended, at which time the plant operations will be transferred to the Government of the Cayman Islands for no consideration. The carrying amount of the Water Production and Supply Agreements are being amortized over the remaining term of the agreements which are approximately 5 and 13 years, respectively.

7. LONG TERM DEBT

As of March 31, 2003, the Company has drawn down $28,056,126 from the following Scotiabank facilities:

$20,000,000 seven-year term loan bearing interest at an annually adjusted floating rate of LIBOR plus 1.5% to 3%, depending on the ratio of the Company's consolidated debt to its consolidated earnings before interest, taxes and depreciation. The average interest rate for the three months ended March 31, 2003 was 4.08%. The current interest rate is 4.06%.

$8,056,126 six-month bridge term loan bearing interest on the same basis as the seven-year term loan. The average interest rate for the three months ended March 31, 2003 was 4.08%. The present interest rate is 4.06%.

The Company has used the proceeds from these facilities to refinance its debt with Royal Bank of Canada and to finance its recent acquisitions.

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7. LONG TERM DEBT (CONTINUED)

Also at March 31, 2003 the Company had a $905,384 loan with the European Investment Bank bearing interest at 3.36%. This loan will be repaid in full on June 20, 2003 and has been classified as a current liability.

The Company is subject to certain restrictive covenants associated with its long term debt and is in compliance with all such covenants at March 31, 2003.

8. EARNINGS PER SHARE

Basic earnings per common share ("EPS") is calculated by dividing net income 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 dilutive-potential common shares outstanding during the reporting period. The dilutive effect of stock options is considered in earnings per common share calculations, if dilutive, using the treasury stock method.

The following summarizes information related to the computation of basic and diluted earnings per share for the three-month period ended March 31, 2003 and 2002.

| | THREE MONTHS ENDE MARCH 31 200 |
|---|---|
| Net income, as reported | $ 1,017,99 |
| Less: | |
| Dividends declared and earnings attributable on preference shares | (2,36 |
| Net income available to holders of ordinary shares in the determination of basic earnings per ordinary share | $ 1,015,63 |
| Weighted average number of ordinary shares in the determination of basic earnings per ordinary share | 4,121,69 |
| Plus: | |
| Weighted average number of preference shares outstanding during the period | 19,49 |
| Potential dilutive effect of unexercised options | 110,00 |
| Weighted average number of shares used for determining diluted earnings per ordinary share | 4,251,19 |

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9. STOCK BASED COMPENSATION

The Company currently has various stock option plans and an employee stock purchase plans. The Company accounts for stock-based compensation plans for employees and directors using the intrinsic value method. Under this method, the Company records no compensation expense for stock options granted when the exercise price of options granted is equal to or greater than the fair market value of the Company's common stock on the date of grant.

The following table presents the effect on net income and earnings per share if the Company had applied a fair value recognition method:

| | THREE MONTHS ENDED MARCH 31, 2003 |
|---|---|
| Net income, as reported | $ 1,017,998 |
| Add: Stock-based employee compensation expense included in reported net income | 27,870 |
| Deduct: Total stock-based compensation expense determined under fair value based method for all awards | (9,369) |

| | |
|---|---|
| Pro forma net income | $ 1,036,499 |
| Earnings per share | |
| Basic - as reported | $ 0.25 |
| Basic - pro forma | $ 0.25 |
| Diluted - as reported | $ 0.24 |
| Diluted - pro forma | $ 0.24 |

10. IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company also records a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company was required to adopt SFAS No. 143 on January 1, 2003. The Company adopted SFAS No. 143 early during the year ended December 31, 2002. The adoption did not have a material effect on the Company's consolidated financial statements.



10. IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statements No. 123". This Statement amends FASB Statement No. 123 "Accounting for Stock-Based Compensation", to provide alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition the Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. All of the disclosure modifications required for interim financial statements have been included in the notes to these condensed consolidated financial statements.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities". This interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interest in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For public enterprises with a variable interest entity created before February 1, 2003 the Interpretation applies to that enterprise no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The application of this Interpretation is not expected to have a material effect on the Company's financial statements.



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

RECENT ACQUISITIONS

Effective February 1, 2003, we acquired interests in five companies, which operate a total of seven plant facilities. Consideration for this acquisition was exchanged on February 7, 2003. These acquisitions increase our daily water production capacity in the Cayman Islands and the Commonwealth of the Bahamas and expand our geographic presence to include Barbados and the British Virgin Islands. As a result of these acquisitions, our daily capacity has more than tripled from approximately 2.9 to 10.9 million U.S. gallons per day. With one of these acquisitions, we obtained the exclusive right through 2009 to distribute the DWEER(TM) Energy Recovery System for use in reverse osmosis seawater desalination plants in the Caribbean basin. We believe the DWEER(TM) System gives us a distinct competitive advantage when bidding for new plant construction projects.

Financial results of the acquired businesses from February 1, 2003 have been included in the condensed consolidated financial statements in Item 1.

REVENUE

Revenue is comprised of retail water sales via pipeline to individual customers, bulk water sales to large commercial or municipal customers, and fees for management and engineering services.

EXPENSES

Expenses include the cost of sales ("direct expenses") and indirect, or general and administrative, expenses. Direct expenses include royalty payments to the Cayman Islands government; electricity and chemicals expenses; production equipment and facility depreciation costs; equipment maintenance expenses, operational staff costs and amortization of intangible assets. Indirect, or general and administrative, expenses consist primarily of salaries and employee benefits for administrative personnel, stock compensation expenses, office lease payments, depreciation on fixed assets used for administrative purposes and legal and professional fees. There are no income taxes in the Cayman Islands, and we are currently exempt from taxes in the British Virgin Islands and Belize. We may be liable for a business license fee in the Bahamas. We pay income tax in Barbados.

CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to trade accounts receivable, deferred expenditures, property, plant and equipment, intangible assets and goodwill. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. We believe the following critical accounting policies are the most important to the portrayal of our financial condition and results and require management's more significant judgments and estimates in the preparation of our consolidated financial statements.



Trade accounts receivable: We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Management continuously evaluates the collectibility of accounts receivable and records allowances for doubtful accounts based on estimates of the level of actual write-offs that might be experienced. These estimates are based on, among other things, comparisons of the relative age of accounts and consideration of actual write-off history.

Deferred expenditures: These costs were incurred in connection with the recent acquisitions and financing transactions. Costs relating to the acquisitions have been included as part of the purchase price allocation and we will seek to repay a portion of our existing debt with the net proceeds of our pending equity offering. If we do not proceed with an equity offering we may be required to expense the amounts relating to the financing transactions.

Intangible assets: Intangible assets with a determined useful life are amortized over their estimated useful lives and reviewed for impairment in accordance with SFAS No. 142. Management tests for impairment by evaluating the remaining useful life of an intangible asset that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. Impairment is tested based on projected discounted future cash flows using a discount rate reflecting our average cost of funds. If our estimated projections are greater than our actual results there may be an impairment that has not been reflected in the accounts. Intangible assets with indefinite useful lives are recorded at fair value and are not amortized. Management reevaluates the indefinite useful life of such intangible assets at each reporting period. In addition, intangible assets with indefinite lives are reviewed annually for impairment by comparing the fair value of the intangible asset with its carrying value.

Goodwill: We account for acquisitions under the purchase method using the accounting standards established in Statements of Financial Accounting Statements No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". These rules require us to assess goodwill which arises from the acquisition under the purchase method for impairment at least annually or more frequently if certain indicators are present. These statements require estimates in both the purchase price allocation and the fair value of our reporting units. Impairment of goodwill is tested based on projected discounted future cash flows of our reporting units using a discount rate reflecting our average cost of funds.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

REVENUE

Total revenue increased by 26.2% from $3,184,805 to $4,018,725 for the three months ended March 31, 2003 when compared to the same three-month period in 2002.

Revenue from our retail water ("Retail") operations decreased by 1.4% from $2,858,899 to $2,818,953 for the three months ended March 31, 2003 when compared to the same three-month period in 2002. This decrease was due to slightly lower sales in our primary market in the Cayman Islands.

Revenue from our bulk water ("Bulk") operations increased by 208.4% from $325,906 to $1,005,140 for the three months ended March 31, 2003 when compared to the same three-month period in 2002. This increase was due to our recent acquisition of Ocean Conversion (Cayman) Limited.



Revenue from services (Services") increased from nil to $194,632 for the three months ended March 31, 2003 when compared to the same three-month period in 2002. This increase was due to our recent acquisition of DesalCo Limited and its wholly-owned subsidiary DesalCo (Barbados) Ltd.

OTHER INCOME (EXPENSES)

Total other income (expenses) changed by 147.5% from expense of $12,497 to income of $5,940 for the three months ended March 31, 2003 when compared to the same three-month period in 2002. This increase was due primarily to income and profit sharing from our equity investment in Ocean Conversion (BVI) Ltd. which was offset by the increased interest expense related to the loan interest and bank fees incurred in connection with our recent acquisitions. We expect loan interest costs to decrease when we complete our pending equity offering, the proceeds of which we intend to use to repay a portion of our debt. We are also amortizing our bridge financing fees over a period of six months at which time it will be fully amortized.

COST OF SALES

Total cost of sales increased by 24.5% from $1,666,452 to $2,074,039 for the three months ended March 31, 2003 when compared to the same three-month period in 2002 for the reasons explained below, while our total revenue increased by 26.2% for the same period.

Cost of sales of our Retail operations decreased by 14.2% from $1,421,687 to $1,219,878 for the three months ended March 31, 2003 when compared to the same three-month period in 2002, while our Retail revenue decreased by 1.4% for the same period. This decrease in cost of sales resulted primarily from the cancellation of the Governor's Harbour plant operating contract on February 7, 2003, which decreased our water purchase expense. Due to our recent acquisitions and cancellation of the Governor's Harbour plant operating contract, we expect our Retail cost of sales going forward to remain at this lower percentage of Retail revenues.

Cost of sales of our Bulk operations increased by 200.9% from $244,765 to $736,469 for the three months ended March 31, 2003 when compared to the same three-month period in 2002, while our Bulk revenue increased by 208.4% for the same period. This increase in cost of sales resulted almost entirely from the operating costs of our recent acquisition of Ocean Conversion (Cayman) Limited which included the amortization costs of the intangible assets that was recognized in conjunction with our recent acquisition of Ocean Conversion (Cayman) Limited. We generally sell water to our Bulk customers at a lower profit margin than to our Retail customers.

Cost of sales of our Services reporting segment were $117,692 for the three months ended March 31, 2003 and relate to our recent acquisition of DesalCo Limited and its wholly-owned subsidiary DesalCo (Barbados) Ltd. which included the amortization cost of the intangible asset that was recognized in conjunction with our recent acquisition of DesalCo Limited.

GROSS PROFIT

Overall gross profit margin increased from 47.7% to 48.4% for the three months ended March 31, 2003 when compared to the same three-month period in 2002, for the reasons explained below.

Gross profit margin for our Retail operations increased from 50.3% to 56.7% for the three months ended March 31, 2003 when compared to the same three-month period in 2002. The primary reason for this increase is that our Retail cost of sales decreased as a result of the cancellation of the Governor's Harbour plant operating contract.



Gross profit margin for our Bulk operations increased from 24.9% to 26.7% for the three months ended March 31, 2003 when compared to the same three-month period in 2002. The primary reason for this increase is the inclusion of Ocean Conversion (Cayman) Limited, which produced a higher gross profit margin than our other Bulk operation.

Gross profit margin for our Services reporting segment was 39.5% for the three months ended March 31, 2003.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses increased by 59.9% from $579,356 to $926,635 for the three months ended March 31, 2003 when compared to the same three-month period in 2002. General and administrative expenses were at 18.2% and 21.3% of total revenue for the three months ended March 31, 2002 and 2003, respectively.

General and administrative expenses for our Retail operations increased by 5.4% from $537,981 to $567,077 for the three months ended March 31, 2003 when compared to the same three-month period in 2002. This increase is comprised primarily of higher insurance and rent costs.

General and administrative expenses for our Bulk operations increased by 578.0% from $41,375 to $280,536 for the three months ended March 31, 2003 when compared to the same three-month period in 2002. This increase is almost entirely the result of the inclusion of the general and administrative expenses of Ocean Conversion (Cayman) Limited. We expect to reduce general and administrative expenses as we assimilate the administrative functions of our recent acquisitions.

General and administrative expenses for our Services reporting segment were $79,022 for the three months ended March 31, 2003. This is entirely the result of our recent acquisitions of DesalCo Limited and its wholly-owned subsidiary DesalCo (Barbados) Ltd. We expect to reduce general and administrative expenses as we assimilate the administrative functions of our recent acquisitions.

NET INCOME

Net income increased by 9.9% from $926,500 to $1,017,998 for the three months ended March 31, 2003 when compared to the same three-month period in 2002 as the result of factors explained above. We expect net income to increase when we have repaid the acquisition bridge financing from Scotiabank using the proceeds from our pending equity offering, and have fully amortized the bank fees related to this bridge financing.

DIVIDENDS

On January 31, 2003, we paid a dividend of $0.105 to shareholders of record on December 31, 2002, and on April 30, 2003, we paid a dividend of $0.105 to shareholders of record on March 31, 2003. We have consistently paid dividends to owners of our ordinary and redeemable preferred shares since we began declaring dividends in 1985. Our board of directors has established a policy, but not a binding obligation, that we will seek to maintain a dividend pay out ratio in the range of 50% to 60% of net income. While this policy is subject to modification by our board of directors, we expect to continue increasing our dividends, if our earnings grow. Our payment of any future cash dividends, however, will depend upon our earnings, financial condition, capital demand and other factors, including the condition



in our new loan agreement effective February 7, 2003, with Scotiabank (Cayman Islands) Ltd. that dividends be paid only from current cash flows.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

Prior to our completion of the recent acquisitions, we generated cash primarily from our operations in the Cayman Islands, the Bahamas and Belize and, to a lesser extent, from the sale of our shares and through loans and credit facilities obtained from two banks. As a result of our recent acquisitions, we began to generate cash from our recently acquired operations in the Cayman Islands, the Bahamas and Barbados; and from our equity investment in the British Virgin Islands. Cash flow is affected by the timely receipt of customer payments, by operating expenses, the timeliness and adequacy of rate increases (excluding automatic adjustments to our rates for inflation and electricity costs), and various factors affecting tourism in the Cayman Islands, Belize, the British Virgin Islands, Barbados and the Bahamas, such as weather conditions and the economy. We use cash to fund our operations in the Cayman Islands, Belize, the British Virgin Islands, Barbados and the Bahamas, to fund capital projects, to expand our infrastructure, to pay dividends, to repay principal on our loans, to repurchase our shares when appropriate and to take advantage of new investment opportunities which expand our operations.

OPERATING ACTIVITIES

Cash generated from operating activities for the three months ended March 31, 2002 and 2003 was $652,299 and $1,174,341, respectively. We generate cash through the utilization of our existing plants, equipment and resources in all segments of the business, minimization of water losses and operating efficiencies created by our management team. Through our recent acquisitions, we expect our revenues to approximately double. We believe that our administrative staff will be able to manage all our combined operations so that our indirect costs will not increase in proportion to water sales.

INVESTING ACTIVITIES

Cash used in investing activities during the three months ended March 31, 2002 and 2003 was $1,681,993 and $24,018,741, respectively. Cash in the amount of $23,955,837 was used for our recent acquisitions. During the same period in 2002, our investing activities consisted of expenditures for new property, plant and equipment, including $1,500,000 on the purchase of the Britannia reverse osmosis plant. We also continued to expand our water distribution system in the Cayman Islands by constructing additional pipelines to service new developments within our exclusive licensed area.

FINANCING ACTIVITIES

On February 7, 2003, we utilized a credit facility with Scotiabank (Cayman Islands) Ltd. in order to exchange consideration for our recent acquisitions and refinance our existing debt. Cash provided by financing activities for the three months ended March 31, 2002 and 2003 was $1,690,541 and $26,000,070, respectively. During the three months ended March 31, 2003 our primary financing activity was to draw down $28,056,126 from our Scotiabank facilities from which we used $1,687,500 to repay our Royal Bank of Canada credit facility. We anticipate drawing down approximately $8,100,000 in additional funds to complete our acquisitions of Waterfields Company Limited. We intend to replace a portion of this debt with the proceeds of our pending equity offering. If we are unable to complete this offering by August 2003 we have the option of converting the bridge loan to a term loan and will continue to pay interest at our current level and incur additional bank fees. During the three months ended March 31, 2002, our primary financing activity was a draw down of our Royal Bank of Canada



credit facility for an additional $1,500,000 in order to finance our investment in the Britannia reverse osmosis plant, plus an increase in our short-term bank indebtedness.

MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES AND CONTINGENCIES

At March 31, 2003, we had committed approximately $1,080,000 for capital expenditures for the purchase, construction and site preparation of two water storage tanks at our Governors Harbour plant. We intend to finance these projects using cash from operations.

On February 7, 2003, we entered into a loan agreement with Scotiabank (Cayman Islands) Ltd. to finance the recent acquisitions and refinance our existing debt. The facilities are comprised of the following:

- $2 million revolving line of credit bearing interest at the floating base rate as established by Cayman Island Class A licensed banks from time to time. The present interest rate is 5.25%.

- $20 million seven-year term loan bearing interest at an annually adjusted floating rate of LIBOR plus 1.5% to 3%, depending on the ratio of our consolidated debt to our consolidated earnings before interest, taxes and depreciation. The average interest rate for the three months ended March 31, 2003 was 4.08%. The current interest rate is 4.06%.

- $17.1 million six-month term loan bearing interest on the same basis as the seven-year term loan. The average interest rate for the three months ended March 31, 2003 was 4.08%. The present interest rate is 4.06%.

We have used the proceeds from these facilities to refinance our debt with Royal Bank of Canada, for working capital and to finance our recent acquisitions.

The Company has committed to purchase an additional 13.5% equity interest in Waterfields Company Limited, a Bahamian company, from Bacardi and & Co. for approximately BAH$1.4 million. Completion of this purchase is subject to the fulfillment of certain conditions, including the receipt of government approvals and the commitment of holders of at least 51% of Waterfields' stock to sell their shares to the Company. In addition to the transaction with Bacardi, the Company also has an agreement to acquire an additional 64.7% of the shares of Waterfields Company Limited, as a price of BAH$690 per share, through a tender offer conducted outside of the United States to the remaining shareholders of Waterfields Company Limited. The completion of the tender offer is contingent on the completion of the Bacardi transaction and governmental approval. We expect to receive governmental approval and complete these transactions on or before May 30, 2003.

As of March 31, 2003, we have drawn down $28,056,126 from our Scotiabank facilities. We anticipate drawing down approximately $8,113,020 in additional funds to complete our acquisitions of Waterfields Company Limited. We intend to replace a portion of this debt with the proceeds of our share offering.

We will be required to make monthly payments of interest for all borrowings under the revolving line of credit and quarterly payments of interest for all amounts drawn down under the two term loans. We will be obligated to make 28 equal quarterly payments of principal under the seven-year term loan and all amounts borrowed under the six-month term loan must be repaid at the maturity date for this facility.



We have collateralized all borrowings under the three facilities by providing Scotiabank with a first lien on all of our assets, including the capital stock we acquired in our recent acquisitions.

The loan agreement for the three facilities contains standard terms and conditions for similar bank loans made in the Cayman Islands, including acceleration of the repayment of all borrowings either upon the demand of Scotiabank (Cayman Islands) Ltd. or in the event of default under the loan agreement.

As part of our acquisition of our interests in Ocean Conversion (Cayman) Limited, with the approval of Scotiabank (Cayman Islands) Ltd., we have guaranteed the performance of Ocean Conversion (Cayman) Limited to the Cayman Islands government, pursuant to the water supply contract with the Water Authority-Cayman dated April 25, 1994 as amended.

As part of the acquisition of our interests in Ocean Conversion (Cayman) Limited, we agreed to indemnify the seller in respect of a guarantee given by the seller to the bank of N. T. Butterfield & Son Ltd. for 100% of the borrowings of Ocean Conversion (Cayman) Limited totaling US$2.4 million. We are in the process of refinancing Ocean Conversion (Cayman) Limited's loan with Scotiabank (Cayman Islands) Ltd. and we will guarantee 100% thereof.

As part of the acquisition of our interests in Ocean Conversion (BVI) Ltd., we agreed to indemnify the seller in respect of a guarantee given by the seller to the bank of N. T. Butterfield & Son Ltd. for 55% of the borrowings of Ocean Conversion (BVI) Ltd. totaling US$1.25 million. We are in the process of refinancing Ocean Conversion (BVI) Ltd's loan with Scotiabank (Cayman Islands) Ltd. and we will guarantee 50% thereof.

As a result of our pending acquisition of a controlling interest in Waterfields Company Limited, we will be required to provide a performance guarantee to the Water and Sewerage Corporation of the Bahamas in relation to the water supply contract between Waterfields Company Limited and the Water & Sewerage Corporation.

IMPACT OF INFLATION

Under the terms of our Cayman Islands license, Belize, Bahamas, British Virgin Islands and Barbados water sales agreements, there is an automatic price adjustment for inflation on an annual basis, subject to temporary exceptions. We, therefore, believe that the impact of inflation on our net income, measured in consistent dollars, will not be material.

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ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for us. Such officers have concluded (based upon their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in this report is accumulated and communicated to management, including our principal executive officers as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired disclosure control objectives and are effective in reaching that level of reasonable assurance.

The Certifying Officers also have indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including each of the Certifying Officers, does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit

| Number | Exhibit Description |
| --- | --- |
| 99.1 | Section 906 Certification of Chief Executive Officer of the Company |
| 99.2 | Section 906 Certification of Chief Financial Officer of the Company |

(b) Reports on Form 8-K

A Current Report on Form 8-K was filed with the Securities and Exchange Commission ("SEC") on February 13, 2003 by the Company reporting the recent acquisitions described herein under Item 2. Acquisition or Disposition of Assets. The financial statements and pro forma financial information relating thereto were filed with the SEC by the Company on April 25, 2003 in an amendment to the Form 8-K under Item 7. Financial Statements and Exhibits.

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SIGNATURE

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 McTaggart

Frederick McTaggart
President, Chief Operating Officer and
Chief Financial Officer

Dated: June 11, 2003

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Consolidated Water Co. Ltd. (the "Company") on Form 10-Q/A for the quarter ended March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof, I, Jeffrey M. Parker, the Chief Executive Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-Q/A of the Company;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 12, 2003

By:/s/ Jeffrey M. Parker
Name: Jeffrey M. Parker
Title: Chief Executive Officer



CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Consolidated Water Co. Ltd. (the "Company") on Form 10-Q/A for the quarter ended March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof, I, Frederick McTaggart, the Chief Financial Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-Q/A of the Company;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material

weaknesses.

Date: June 12, 2003

By:/s/ Frederick McTaggart
Name: Frederick McTaggart
Title: Chief Financial Officer