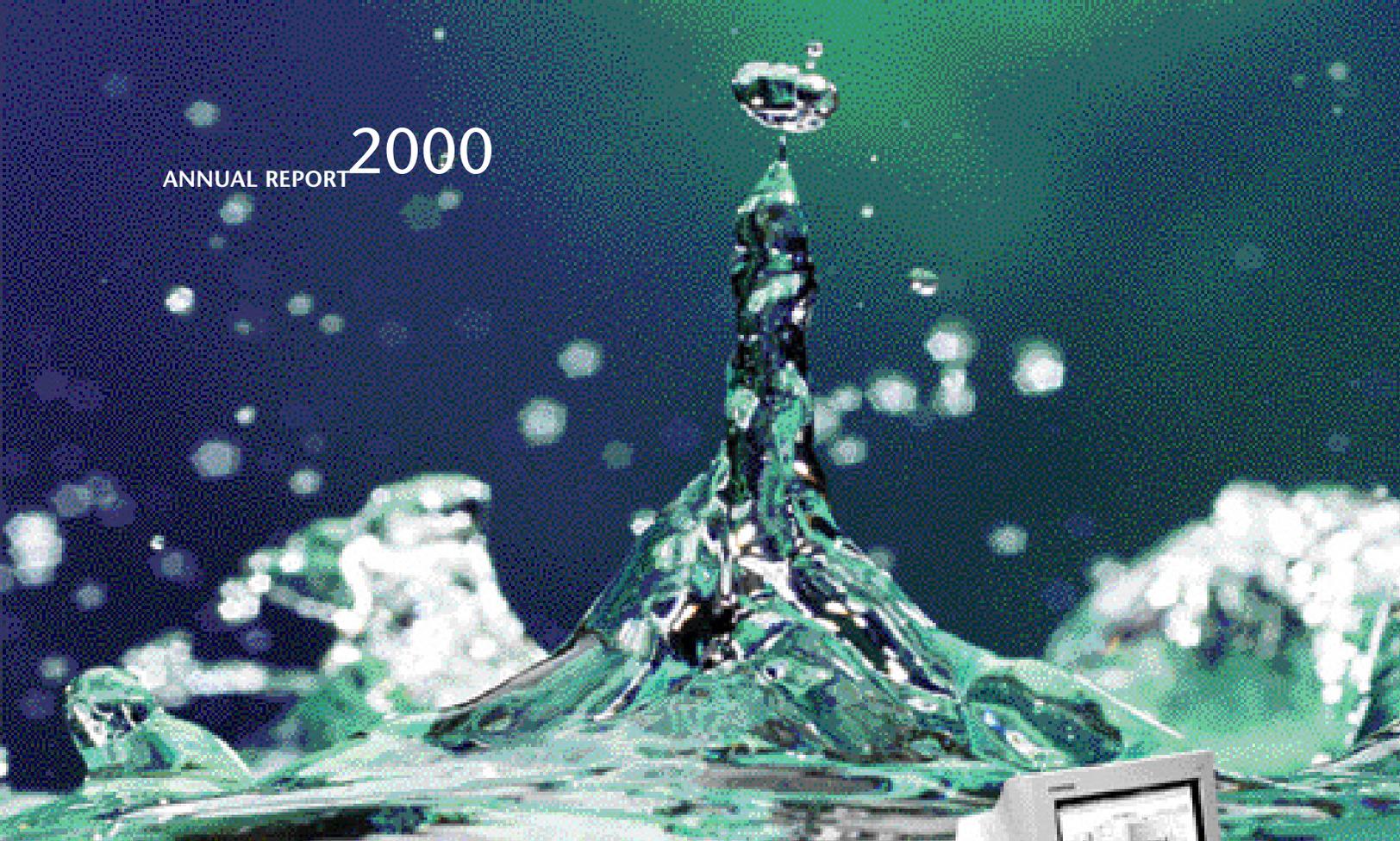


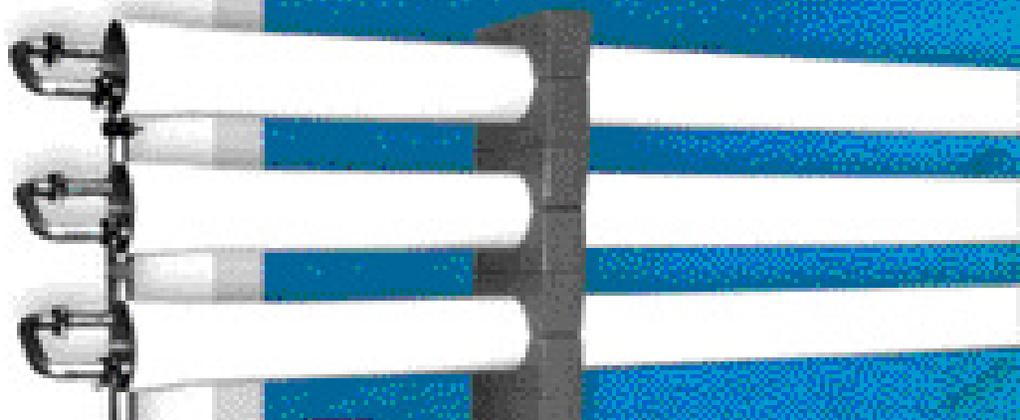
ANNUAL REPORT **2000**



## **Content**

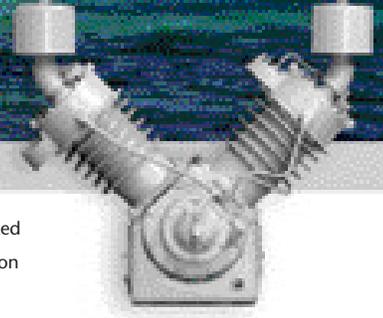
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Supply to South Bimini in the Bahamas is scheduled to start June 1st 2001.



During its 27 years of business, Consolidated Water has grown from a small locally-owned Caymanian company to a successful Nasdaq-listed international organisation with operations in three countries: the Cayman Islands, Belize and the Bahamas.





Operations on Ambergris Caye started on July 21st 2000 after the acquisition of Seatec Belize Limited.

### *The locations*

The Cayman Islands is situated in the Caribbean Sea, 480 miles south of Miami, and is made up of three islands: Cayman Brac, Little Cayman and the largest Grand Cayman, where the capital George Town is located. The population of the Cayman Islands is approximately 45,000, comprising a balanced mixture of residents and expatriates.

A British Overseas Territory, the Cayman Islands is one of the world's leading offshore financial centres. With a tropical climate averaging 80 degrees year round, it is no surprise that Cayman's other major industry is tourism. Last year over 1.4 million visitors were attracted to the Islands.

Ambergris Caye, population approximately 2000, represents the largest island in Belize and the main spot for travellers to this Caribbean nation. The island is located 36 miles north of Belize City and is serviced by regular twenty minute flights from the capital. In the last few decades the incredible scenery of Ambergris Caye has led to a large growth in both the Belize dive and scuba trade, and ecotourism.

Bimini is the closest Bahamian island to the United States, only 48 miles east of Miami. Bimini is actually two separate islands, North and South Bimini, separated by a shallow, narrow channel. The islands are renowned for their excellent fishing and diving.

### *The Company*

Cayman Water was established in 1973 and has grown at the same fast pace as development on Grand Cayman. In December 1998, Cayman Water changed its name to Consolidated Water but still continues to trade as Cayman Water in the Cayman Islands.

The Company serves both the major residential area of West Bay and the prime tourist area of Seven Mile Beach, which includes most of the Island's hotels, condominiums and restaurants, as well as the Cayman Island's only 18 hole USGA championship golf course.

A retrofit to the energy recovery system at the Company's West Bay production facility was completed recently. This has resulted in a 42% increase in water production capacity, and a 25% reduction in energy consumption by this leading-edge energy efficient seawater reverse osmosis plant. The Company also added a third one million gallon storage tank at West Bay, and is expanding its Governors Harbour plant's production capacity by 10% to meet increased demand for water.

In July 2000 Consolidated Water acquired Seatec Belize Limited. The name of the company was subsequently

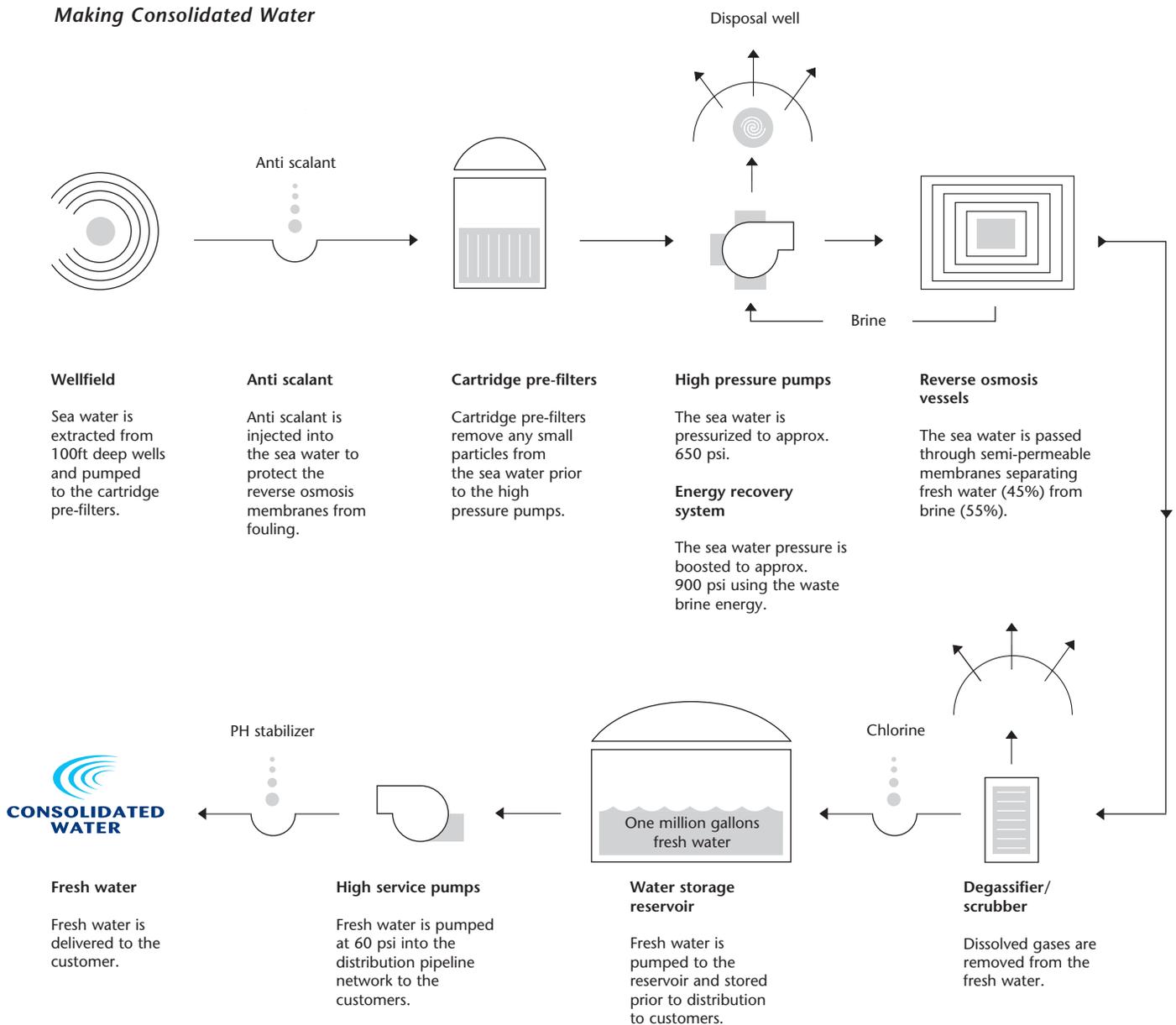
changed to Belize Water Limited. Belize Water operates a state-of-the-art 430,000 US gallons per day reverse osmosis plant on Ambergris Caye, a popular tourist destination off the main coast of Belize. The plant supplies in bulk to the Belize Water and Sewerage Authority who in turn supply the island's residents.

In December 2000 the Company signed a definitive agreement with Bimini Sands International Ltd to supply water to its resort on South Bimini, the Bahamas. Phase one of the resort is already complete and occupied, and the developers are working on

further phases as well as the refurbishment of a hotel and marina complex which it also owns. The new plant is scheduled to be operational on June 1st 2001 using a 100,000 US gallon per day containerized seawater reverse osmosis unit. Discussions continue with the Bahamian government to use excess production capacity from the plant to supply water to other residents in Bimini.

Consolidated Water continues to actively pursue plans for water projects in other parts of the Caribbean and Central America as part of its growth strategy.

### Making Consolidated Water





Our water is used not only to supply the public's needs but to irrigate our landscapes in areas deprived of adequate fresh water supply.

*The Chairman's Report*

Dear Fellow Shareholders

Consolidated Water's Revenue exceeded \$10 million for the first time in your Company's history during the year 2000. At first glance, this may seem a modest milestone, until one considers that five short years ago our Revenue totaled just \$5.9 million.

At \$10 million, the year's Revenues were 21.5% higher than the previous year's \$8.2 million. This increase reflects a resumption of growth in our Cayman market, where Revenue increased by 15.9%, and the inclusion of \$464,928 in Revenue from our operations in Belize, which were acquired in late July, 2000.

Net Income for the year ended December 31, 2000 increased 53.2% to a record \$2,404,820, when compared with net income of \$1,569,717 in 1999. We achieved this increase in several ways. Firstly, the increased volume of water sales in Cayman yielded higher dollar profits. Secondly, the first five months of operations in Belize contributed net income of \$181,154, despite a brief hiatus courtesy of Hurricane Keith. Even more worthy of note, the Gross Profit

Margin on that facility was a healthy 46.2%, compared with a very respectable Gross Profit Margin of 43.4% in our Cayman operations. Lastly, Indirect Expenses in 2000, including those of the Belize operation, increased in line with Revenue growth, and Other Income increased \$134,857 from 1999 levels.

Fully Diluted Earnings Per Share in 2000 rose 36.7% to a record \$0.67, compared with the previous record of \$0.49 achieved in 1999. The number of

*Trading in our Shares in 2000*

Volume of shares traded:	2,659,853	Year
Number of trades:	3,129	Year
Low Share Price:	\$ 6.00	Year – February 28, 2000
High Share Price:	\$ 9.125	Year – November 3, 2000
Low Share Price:	\$ 6.313	December Quarter
High Share Price:	\$ 9.125	December Quarter
Closing Share Price:	\$ 7.00	December 31, 2000

fully-diluted shares outstanding increased 13.5% to 3,616,271 last year, due to our secondary stock offering in May 2000.

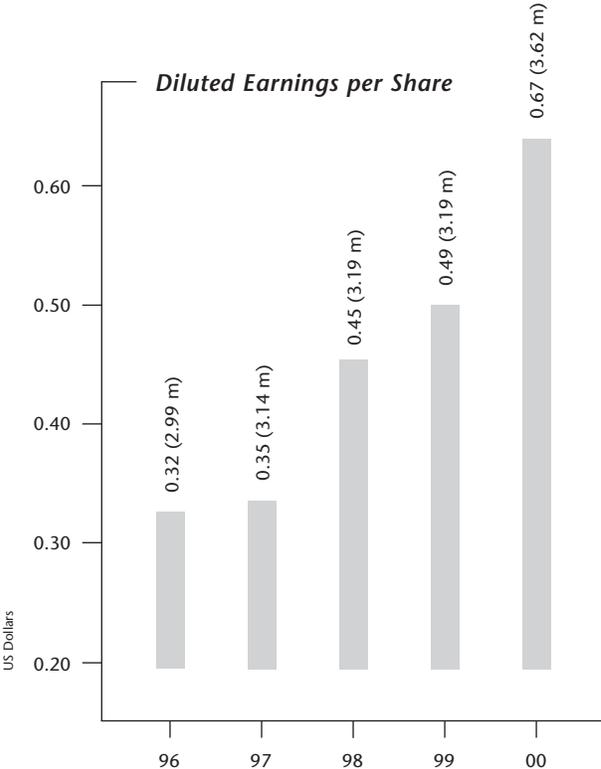
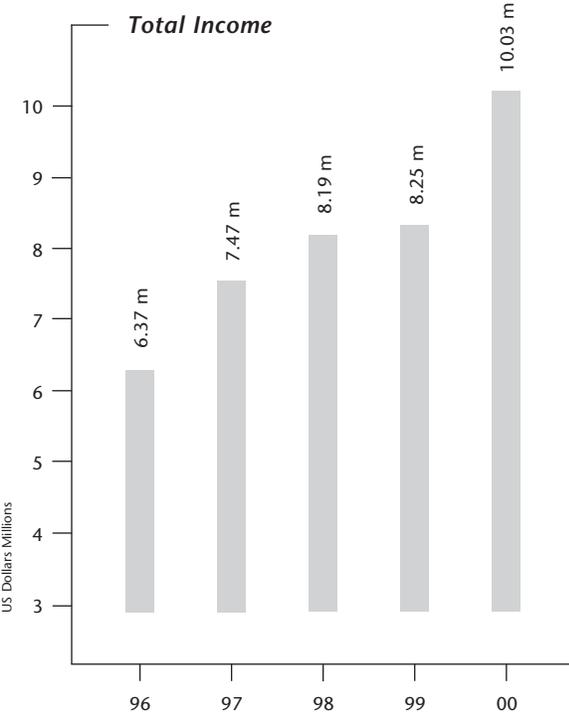
Operations generated \$4,043,155 or \$1.12 per fully diluted share in cash during 2000 compared to \$2,714,409 or \$0.85 per fully diluted share in cash generated in 1999. This increased level of cash generation will be carefully managed going forward to ensure a balance between borrowings, expansion and dividends paid.

Your Board firmly believes that shareholders should receive some tangible benefit from the Company's improving fortunes. For the four quarters of 1999 and 2000, respectively, cash dividends totaling \$0.20 and \$0.34 per share were declared. The annualized rate of dividend payments was increased by 25% in the fourth quarter of fiscal 2000, to \$0.40 per share, and we will keep this under review as the current year progresses.

Our Balance Sheet as of December 31, 2000 is exceptionally strong. Although Current Liabilities exceeded Current Assets at the end of the year,

investors should note that Current Liabilities include an obligation for Stock Compensation Expense that will be transferred to Stockholders' Equity when the underlying options are exercised or expire. Our banking facility from The Royal Bank of Canada appears adequate for the foreseeable future. The Cash in Hand and Bank Overdraft figures result from our dual currency operations and are balanced out at regular intervals using the fixed US\$/CI\$ exchange rate. At present, our only Long-Term Debt is owed to European Investment Bank and reflects a loan that is being retired in semi-annual installments through December 2006 and carries a fixed average annual interest rate of 3.4%.

We saw a resumption of historical growth rates in our Cayman market in 2000, reflecting increased tourism in the islands, the addition of several small hotels earlier in the year, and the opening of the new Holiday Inn in November. Construction on the huge Ritz Carlton project is proceeding slowly, but the entire development has recently cleared all planning approvals, and we expect the rate of construction to accelerate. Condominium development along Seven Mile Beach and private residential development in



West Bay are both continuing. We are awaiting the announcement of a 'start date' for the very large Dart commercial/residential/marina development but, in the meantime, we are supplying water for affiliated nursery operations. Taking all these factors into account, we look forward to further growth in Cayman during the year 2001 and beyond.

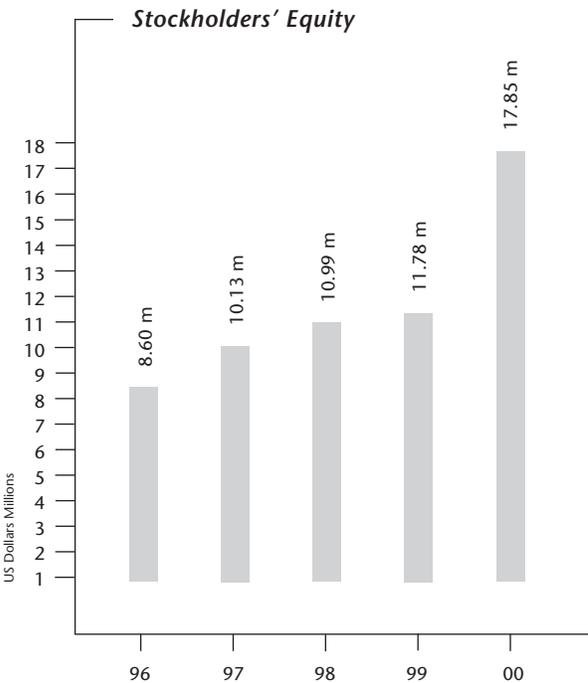
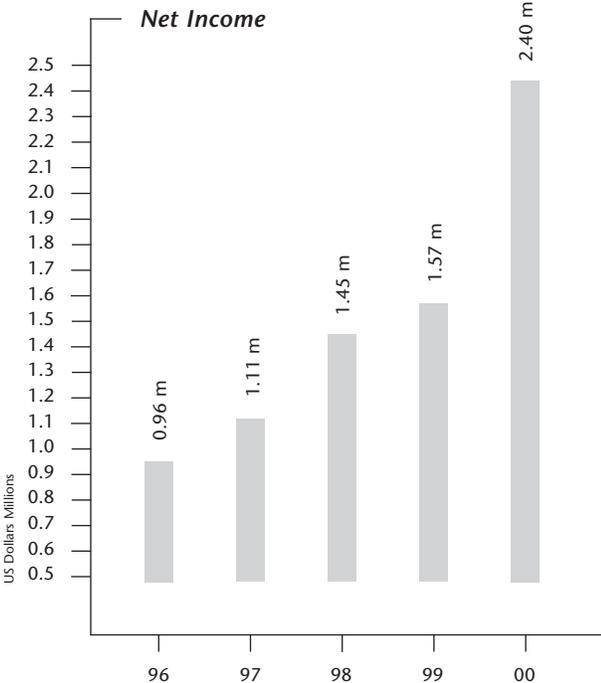
Our 2000 results benefited from slightly more than five months of operations in Belize, with a brief interruption due to the arrival of Hurricane Keith. Our plant was back in production, despite no public electricity or telephone supplies, within 72 hours. This reflects a truly remarkable performance by our staff and the durability of our plant that, at the height of the storm, was more than three feet under water!. Sales following the storm were curtailed for several weeks as hotels re-opened, but we are now achieving considerably higher water deliveries than before the storm. We expect an excellent full-year contribution from our Belize operations during 2001.

After several years of waiting for proposed developments in the Bahamas to materialize, we recently announced that production should commence around mid-year 2001 to supply a condominium/marina development in the Bimini Islands. Initial water deliveries will be

at a relatively low level but should accelerate as various phases of the project are completed. We are also in discussions with other developers and with the Government, which has indicated an interest in supplying the local population with fresh water generated by our plant.

Discussions are underway on a number of potential projects in other water-scarce countries. For a variety of reasons, three- to four-year lead times are common on water projects but, since this has been an ongoing process for at least that length of time, we expect to secure one or more of these projects as the year progresses and we move into 2002.

In 2000, the NASDAQ Composite Index was down 37% in a year that Barron's magazine has called "the worst small-cap bear market in history." Our stock price rose by 10% in the same period, and the inclusion of cash dividends provided a total return to our shareholders of close to 15%. I content myself with the belief that this represented a 'flight to quality' but remain frustrated that we still trade at a considerable P/E discount to comparable companies in the water industry. We did, however, make progress in narrowing that gap. Our secondary offering in May, completed despite atrocious market conditions,





Using the latest hand-held computer technology, our customers are assured of the most accurate and efficient billing systems.

enhanced Consolidated Water's visibility within the investment community. A new program of presentations to investors began to produce results, both in terms of share volumes traded and closing prices, toward the end of 2000. We intend to continue the program in 2001.

Although it may appear de rigeur, it is nonetheless sincere. I cannot close without paying tribute to our small but dedicated staff, which has continued to ably grow our Cayman operations whilst coping with new duties in new countries, and to our Board of Directors who, together, have, once again, delivered a record year on all fronts for Consolidated Water. Ladies and gentlemen, thank you. I would also like to recognize a significant management change that occurred last year. Pete Ribbins, after serving 17 years as President and Chief Operating Officer of the Company, stepped aside from line management. He remains on the Board and several of its committees

and now works on special projects. We were fortunate to recruit Frederick W. McTaggart, a Caymanian Georgia Tech engineering graduate who had occupied a similar post with the Cayman Government Water Authority, as President and Chief Operating Officer. Thank you, Pete, and welcome aboard, Rick.

Lastly, thank you, our shareholders, for your continued support of the Company. Together, I believe that we can look forward to a very exciting future.

Yours sincerely,  
CONSOLIDATED WATER CO. LTD.

Jeffrey M. Parker  
Chairman & C.E.O.



### *Report of Independent Accountants*

To the Board of Directors and Stockholders of Consolidated Water Co. Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Consolidated Water Co. Ltd. and its subsidiaries (the "Group") at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Group's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with

auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers*

PricewaterhouseCoopers  
Grand Cayman, Cayman Islands  
March 15, 2001

**CONSOLIDATED WATER CO. LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2000 & 1999**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**To the Board of Directors and Stockholders of  
Consolidated Water Co. Ltd.:**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Consolidated Water Co. Ltd. and its subsidiaries (the "Group") at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Group's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers*

March 15, 2001

Notes:

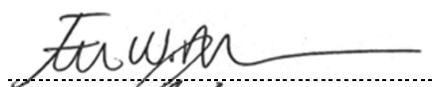
- (a) The maintenance and integrity of the Consolidated Water Company website is the responsibility of the Directors; the work carried out by the Independent Accountants does not involve consideration of these matters and, accordingly, the Independent Accountants accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the Cayman Islands governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**CONSOLIDATED WATER CO. LTD.**

**CONSOLIDATED BALANCE SHEETS**

(Expressed in United States dollars)

	<b>December 31,</b>	
	<b>2000</b>	<b>1999</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 7)	250,837	22,146
Accounts receivable (Note 4)	1,488,729	1,230,412
Spares inventory	120,014	94,303
Inventory of water	34,219	28,984
Prepaid expenses and other assets	<u>299,499</u>	<u>298,906</u>
Total current assets	2,193,298	1,674,751
<b>Property, plant and equipment</b> (Notes 5 and 14)	17,643,891	14,756,570
<b>Intangible asset</b> (Note 3)	<u>2,008,483</u>	<u>-</u>
Total assets	<u>\$ 21,845,672</u>	<u>\$ 16,431,321</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank overdrafts (Note 7)	703,331	651,606
Dividends payable (Note 6)	401,965	266,585
Accounts payable and other liabilities	1,448,364	1,079,922
Obligations under Water Purchase Agreement (Note 14)	-	320,141
Current portion of long term debt (Note 7)	<u>219,580</u>	<u>310,135</u>
Total current liabilities	2,773,240	2,628,389
<b>Long term debt</b> (Note 7)	1,131,986	1,926,786
<b>Security deposit</b> (Note 15)	52,763	52,763
<b>Advances in aid of construction</b>	<u>41,090</u>	<u>45,084</u>
Total liabilities	<u>3,999,079</u>	<u>4,653,022</u>
<b>Stockholders' equity</b>		
Common stock (Notes 8 and 16)	4,635,774	3,794,960
Additional paid-in capital (Note 8)	6,726,749	3,453,808
Treasury shares (Note 8)	-	( 821,303)
Vested redeemable preferred stock (Note 8)	11,983	1,121
Non-vested redeemable preferred stock (Notes 8 and 16)	28,378	48,149
Retained earnings	<u>6,443,709</u>	<u>5,301,564</u>
Total stockholders' equity	<u>17,846,593</u>	<u>11,778,299</u>
Total liabilities and stockholders' equity	<u>\$ 21,845,672</u>	<u>\$ 16,431,321</u>

  
 \_\_\_\_\_ )  
 \_\_\_\_\_ ) Directors  
 \_\_\_\_\_ ) Date: March 15, 2001

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

**CONSOLIDATED WATER CO. LTD.**

**CONSOLIDATED STATEMENTS OF INCOME**

(Expressed in United States dollars)

	For the year ended December 31,		
	2000	1999	1998
Water sales (Note 15)	9,576,959	7,936,118	7,925,232
Cost of water sales (Note 9)	( 5,423,297)	(4,770,179)	( 5,166,401)
Gross profit	<u>4,153,662</u>	<u>3,165,939</u>	<u>2,758,831</u>
Indirect expenses (Note 9)	( 2,197,569)	( 1,792,516)	( 1,569,380)
Income from operations	<u>1,956,093</u>	<u>1,373,423</u>	<u>1,189,451</u>
Other income:			
Interest income	32,314	594	28,062
Other income	<u>416,413</u>	<u>313,276</u>	<u>234,420</u>
	<u>448,727</u>	<u>313,870</u>	<u>262,482</u>
Income before accounting change	2,404,820	1,687,293	1,451,933
Cumulative effect of a change in accounting principle	-	( 117,576)	-
Net income	<u>\$ 2,404,820</u>	<u>\$ 1,569,717</u>	<u>\$ 1,451,933</u>
<b>Basic earnings per share (Note 10)</b>			
Income before accounting change	0.68	0.55	0.47
Accounting changes	-	( 0.04)	-
Net income	<u>\$ 0.68</u>	<u>\$ 0.51</u>	<u>\$ 0.47</u>
<b>Diluted earnings per share (Note 10)</b>			
Income before accounting change	0.67	0.53	0.45
Accounting changes	-	( 0.04)	-
Net income	<u>\$ 0.67</u>	<u>\$ 0.49</u>	<u>\$ 0.45</u>
Weighted average number of common shares used in the determination of:			
Basic earnings per share (Note 10)	<u>3,532,501</u>	<u>3,044,293</u>	<u>3,055,845</u>
Diluted earnings per share (Note 10)	<u>3,616,271</u>	<u>3,188,048</u>	<u>3,191,583</u>

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

**CONSOLIDATED WATER CO. LTD.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2000**

(Expressed in United States dollars)

	Common stock	Additional paid-in capital	Treasury shares	Vested redeemable preferred stock	Non-vested redeemable preferred stock	Retained earnings	Total stockholders' equity
Balance at December 31, 1997	3,667,214	2,914,889	-	-	40,906	3,505,813	10,128,822
Issue of share capital (net of issue costs) (Note 8)	252	50,532	-	8,486	3,294	-	62,564
Purchase of treasury shares (Note 8)	-	-	( 62,375)	-	-	-	( 62,375)
Net income for the year	-	-	-	-	-	1,451,933	1,451,933
Dividends	-	-	-	-	-	( 587,553)	( 587,553)
Balance at December 31, 1998	<u>3,667,466</u>	<u>2,965,421</u>	<u>( 62,375)</u>	<u>8,486</u>	<u>44,200</u>	<u>4,370,193</u>	<u>10,993,391</u>
Issue of share capital (net of issue costs) (Note 8)	127,494	488,387	-	( 7,365)	3,949	-	612,465
Purchase of treasury shares (Note 8)	-	-	( 758,928)	-	-	-	( 758,928)
Net income for the year	-	-	-	-	-	1,569,717	1,569,717
Dividends	-	-	-	-	-	( 638,346)	( 638,346)
Balance at December 31, 1999	<u>3,794,960</u>	<u>3,453,808</u>	<u>( 821,303)</u>	<u>1,121</u>	<u>48,149</u>	<u>5,301,564</u>	<u>11,778,299</u>
Issue of share capital (net of issue costs) (Note 8)	1,068,636	4,360,797	-	10,862	( 19,771)	-	5,420,524
Purchase of treasury shares (Note 8)	-	-	( 494,375)	-	-	-	( 494,375)
Cancellation of treasury shares (Note 8)	( 227,822)	( 1,087,856)	1,315,678	-	-	-	-
Net income for the year	-	-	-	-	-	2,404,820	2,404,820
Dividends	-	-	-	-	-	( 1,262,675)	( 1,262,675)
Balance at December 31, 2000	<u>\$ 4,635,774</u>	<u>\$ 6,726,749</u>	<u>\$ -</u>	<u>\$ 11,983</u>	<u>\$ 28,378</u>	<u>\$ 6,443,709</u>	<u>\$17,846,593</u>

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

**CONSOLIDATED WATER CO. LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

	For the year ended December 31,		
	2000	1999	1998
<b>Cash flows from operating activities</b>			
Cash receipts from customers	9,919,966	7,841,289	8,102,406
Cash paid to suppliers and employees	( 5,876,811)	( 5,127,240)	( 5,542,642)
Cash generated from operations	4,043,155	2,714,049	2,559,764
Interest received	32,314	594	28,062
Interest paid	( 152,757)	( 185,722)	( 267,084)
Net cash provided by operating activities	<u>3,922,712</u>	<u>2,528,921</u>	<u>2,320,742</u>
<b>Cash flows from investing activities</b>			
Purchase of subsidiary, net of cash acquired (Note 3)	( 3,966,979)	-	-
Purchase of property, plant and equipment	( 2,301,759)	( 1,543,368)	( 2,204,783)
Proceeds from sale of property, plant and equipment	<u>-</u>	<u>1,920</u>	<u>20,000</u>
Net cash used in investing activities	<u>( 6,268,738)</u>	<u>( 1,541,448)</u>	<u>( 2,184,783)</u>
<b>Cash flows from financing activities</b>			
Net proceeds from issuance of ordinary shares of common stock	5,368,945	146,060	12,958
Repurchase of ordinary shares of common stock	( 494,375)	( 758,928)	( 62,375)
Proceeds from term loan	-	-	1,000,000
Increase/(decrease) in bank overdraft	32,938	591,359	( 54,345)
Repayment of principal on long term debt	( 885,355)	( 533,353)	( 190,111)
Principal payments under Water Purchase Agreement	( 320,141)	( 344,304)	( 1,027,567)
Dividends paid	( 1,127,295)	( 505,193)	( 457,912)
Net cash provided by/(used in) financing activities	<u>2,574,717</u>	<u>( 1,404,359)</u>	<u>( 779,352)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	228,691	( 416,886)	( 643,393)
<b>Cash and cash equivalents at beginning of year</b>	<u>22,146</u>	<u>439,032</u>	<u>1,082,425</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 250,837</u>	<u>\$ 22,146</u>	<u>\$ 439,032</u>

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

**CONSOLIDATED WATER CO. LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

**Footnotes to the consolidated statements of cash flows:**

	For the year ended December 31,		
	2000	1999	1998
<b>Reconciliation of net cash from operating activities to net income from operations:</b>			
Net income	2,404,820	1,569,717	1,451,933
<b>Adjustments to reconcile net income to net cash from operating activities</b>			
Depreciation (Notes 5 and 9)	1,071,455	816,960	768,745
Gain on sale of fixed assets	-	( 1,920)	( 20,000)
Amortization of intangible asset (Note 3)	64,979	-	-
Amortization of deferred costs	-	-	1,688
Share issue costs deferred	-	89,145	-
Stock compensation (Note 21)	51,579	377,260	49,606
Cumulative effect of a change in accounting principle	-	117,576	-
<b>Change in assets and liabilities</b>			
Decrease/(increase) in spares inventory	25,278	( 25,662)	( 60,176)
(Increase)/decrease in inventory of water	( 5,235)	1,677	( 14,352)
Increase in accounts receivable	( 56,259)	( 401,926)	( 13,578)
Decrease/(increase) in prepaid expenses and other assets	1,647	( 111,213)	13,137
Increase in accounts payable and other liabilities	368,442	101,807	179,907
Decrease in advances in aid of construction	( 3,994)	( 4,500)	( 36,168)
<b>Net cash from operating activities</b>	<b><u>\$ 3,922,712</u></b>	<b><u>\$ 2,528,921</u></b>	<b><u>\$ 2,320,742</u></b>

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

# CONSOLIDATED WATER CO. LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

### 1. Principal activity and status

Consolidated Water Co. Ltd. (the "Company") and its wholly-owned subsidiaries (together the "Group") use reverse osmosis technology to produce fresh water from seawater. The Group processes and supplies water to its customers in Grand Cayman, Cayman Islands as well as Ambergris Caye, Belize. The Company's exclusive license in Grand Cayman allows it to process and supply water to certain areas of Grand Cayman for a period of twenty years from July 11, 1990 in addition to having a right of first refusal on the extension or renewal thereof. The Group also has a contract with the Water and Sewerage Authority of Belize (the "Water Authority") to supply water to the Water Authority in Ambergris Caye expiring in 2011. At the expiry of the contract, the Water Authority may at its option extend the term of the agreement or purchase the plant outright. The base price of water supplied by the Group, and adjustments thereto, are determined by the terms of the license and contract, which provide for adjustments based upon the movement in the government price indices specified in the license and contract respectively as well as monthly adjustments for changes in the cost of fuel.

### 2. Accounting policies

#### Basis of preparation

As a result of a management decision the Group has voluntarily adopted accounting principles generally accepted in the United States of America ("US-GAAP") effective January 1, 2000. Previously, annual financial statements were prepared in accordance with International Accounting Standards ("IAS"). As a result all prior periods' financial statements presented in these financial statements have been prepared in accordance with "US-GAAP". The following income statement and balance sheet captions contain certain items, the accounting for which has changed as a result of the change from IAS to US-GAAP:

INCOME STATEMENT: Administrative costs include: i) recognition of stock option compensation expenses and ii) start up costs expensed following the change in accounting policy to effect the application of Statement of Position 98-5 "Reporting on the Costs of Start Up Activities."

BALANCE SHEET: Accounts payable and accrued expenses are affected by: stock compensation relating to unexercised options. Fixed assets are affected by: reversal of recognition of unrealized capital gains arising on the revaluation of land. Additional paid in capital is affected by: stock compensation relating to exercised options. Retained earnings and other reserves are affected by: i) stock option compensation expense, ii) start up costs and iii) reversal of recognition of unrealized capital gains. Cash and cash equivalents: As a result of the application of US-GAAP, cash and cash equivalents now represents cash, and highly liquid bank deposits with original maturity of three months or less. Detailed information on accounting principles for the above items under US-GAAP, as well as the value of the reconciling items between US-GAAP and IAS at December 31, 1999 and 1998 and other dates and for other periods can be found in Note 20 of the Group's previous financial statements filed on Form 20-F.

#### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Group's significant accounting policies are:

**Basis of consolidation:** The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries Belize Water Ltd. and Commonwealth Water Limited. The operating results of Belize Water Ltd. have been included in the financial statements since the date of the acquisition (July 21, 2000). All inter-company balances and transactions have been eliminated. There are no operating results for Commonwealth Water Limited as the Company has been dormant since inception.

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

#### 2. Accounting policies (continued)

**Reporting currency:** The functional currency of the Company and its foreign subsidiaries are their respective local currencies. The consolidated operations are reported using United States dollars. It is the intention of the Company to declare and pay dividends in United States dollars.

The exchange rate between the Cayman Islands dollar and the United States dollar has been fixed during all periods presented at CI\$1.00 to US\$1.20. In addition, the exchange rate between the Belize Dollar and the United States dollar has been fixed during all periods presented at Bel\$1.00 to US\$0.50. Accordingly, no foreign currency gain or losses arise on the translation of the foreign subsidiary's operations due to the fixed exchange rate.

**Foreign currency:** Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign currency transactions are translated at the rate ruling on the date of the transaction. Net exchange gains of \$3,812 (1999: \$36,512; 1998: \$31,846) are included in other income.

**Cash and cash equivalents:** Cash and cash equivalents comprise cash at bank on call and highly liquid deposits with an original maturity of three months or less.

**Spares inventory:** Spares inventory, which consists primarily of replacement spares and parts, are valued at the lower of cost and net realizable value on a first-in, first-out basis.

**Inventory of water:** Inventory of water represents the cost of desalinated potable water produced and purchased by the Company and held in the Company's reservoirs at year end. The value of the inventory of water is based on the lower of average cost of producing and purchasing water during the year and the volume of water on hand at year end or net realizable value.

**Property, plant and equipment:** Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using a straight line method with allowance being made for estimated residual values. Rates are determined based on the shorter of the license expiry date or the estimated useful lives of the assets as follows:

Buildings	5 to 40 years
Plant and equipment	5 to 15 years
Office furniture, fixtures and equipment	3 to 10 years
Vehicles	3 to 10 years
Leasehold improvements	Shorter of 5 years and operating lease term outstanding
Distribution system	3 to 40 years

Additions to property, plant and equipment comprise of the cost of the contracted services, direct labour and materials.

**Intangible asset:** The intangible asset consists of the contract acquired on the acquisition of Belize Water Ltd. (Note 3) on July 21, 2000 and is being amortised on a straight line basis over the remaining period of the license, which expires in April 2011.

**Obligations under Water Purchase Agreement:** The Company assumed substantially all the benefits and risks of the plant and equipment under the Water Purchase Agreement (Note 14). The assets have been capitalized at the amount specified in the agreement and the related obligation is recorded as a liability of the Company. Interest expense is calculated based on the outstanding balance of the obligation.

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

#### 2. Accounting policies (continued)

**Advances in aid of construction:** The Company recognizes a liability in respect of advances in aid of construction when such advances are received from certain condominium developers in the licensed area to help defray the capital expenditure costs of the Company. These advances do not represent a loan to the Company and are interest free. However, the Company allows a discount of 10% on future supplies of water to these developments until the aggregate discounts allowed are equivalent to advances received. Such discounts are charged against advances received.

**Treasury shares:** Treasury shares are recorded at cost as a deduction from stockholders' equity. Any profit or loss on the re-issue of these shares is recorded directly as a movement in stockholders' equity.

**Stock and stock option incentive plans:** The Company issues stock under incentive plans that form part of employees and non-executive Directors' remuneration and grants options to purchase ordinary shares as part of remuneration for executive Directors.

The Company has elected to account for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS 123, "Accounting for Stock-Based Compensation." In accordance with APB No. 25, compensation expense is not recognized for stock options that have no intrinsic value on the date of grant. Compensation expense is recognized immediately for restricted stock for which future service is not required as a condition to the delivery of the underlying shares of common stock. For restricted stock with future service requirements, compensation expense is recognized over the relevant vesting period. Stock compensation expenses are recorded within employee costs.

The liability for unexercised stock option compensation expense is recorded as other liabilities. On exercise of options, proceeds up to the par value of the stock issued are credited to ordinary share capital, any proceeds in excess of the par value of the stock issued are credited to additional paid in capital in the period in which the options are exercised.

**Water sales and cost of water sales:** The Group bills customers monthly for water delivered based on meter readings performed at or near each month end. An accrual, where necessary, is made for water delivered but unbilled at year end where readings are not performed at the year end date. This accrual is matched with the associated direct costs of producing and purchasing water.

**Other income:** Foreign exchange gains, water meter and fire hydrant rental and recurring income from a dispute settlement agreement with a customer within the Company's license area are recorded as other income.

**Repairs and maintenance:** All repair and maintenance costs are expensed as incurred.

#### 3. Business combination

On July 21, 2000, the Company acquired all of the issued and outstanding capital stock of Seatec Belize Ltd., a company organized under the laws of Belize. Seatec Belize Ltd., now renamed Belize Water Ltd., owns and operates a reverse osmosis plant in Ambergris Caye, Belize, which was acquired upon closing of this transaction. This acquisition has been accounted for by the purchase method.

The total purchase price of \$3,971,730 was paid in cash including direct external costs incurred in the acquisition amounting to \$29,734. The purchase price was allocated among the identifiable tangible and intangible assets and liabilities based on their respective fair values as detailed below. Of this purchase price \$2,073,462 has been attributed to intangible assets and represents the value of the water purveyor contract (the "contract") that the acquired company has with the Water and Sewerage Authority of Belize. This intangible asset is being amortised on a straight line basis over the remaining period of the contract.

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**3. Business combination (continued)**

The fair values of assets and liabilities acquired as at July 21, 2000 are as follows:

Cash and cash equivalents	4,751
Accounts receivable	202,058
Spares inventory	50,989
Prepayments	2,240
Property, plant and equipment	1,657,017
Bank overdrafts	<u>( 18,787)</u>
Fair value of net assets acquired	\$1,898,268
Intangible asset - contract	<u>2,073,462</u>
Total purchase consideration	\$3,971,730
Less: cash and cash equivalents of the subsidiary acquired	<u>( 4,751)</u>
Cash outflow on acquisition	<u>\$3,966,979</u>

	<b>December 31,</b>	
	<b>2000</b>	<b>1999</b>
Intangible asset - contract	2,073,462	-
Amortisation charge for the period	<u>( 64,979)</u>	<u>-</u>
Net book value	<u>\$2,008,483</u>	<u>-</u>

The results of operations of Belize Water Ltd. are included in the consolidated statements of operations from the date of acquisition. Unaudited proforma combined results of operations of Consolidated Water Co. Ltd. and Belize Water Ltd. would be as follows:

	<b>(Unaudited)</b>	
	<b>Year Ended December 31,</b>	
	<b>2000</b>	<b>1999</b>
Revenue	\$10,139,450	\$ 8,814,971
Income before accounting change	\$ 2,516,041	\$ 1,927,522
Cumulative effect of a change in accounting principle	-	\$( 117,576)
Net income	\$ 2,516,041	\$ 1,809,946
Basic earnings per ordinary share of common stock:		
Income before accounting change	0.71	0.67
Accounting change	<u>-</u>	<u>( 0.04)</u>
Net income	<u>\$ 0.71</u>	<u>\$ 0.63</u>

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**3. Business combination (continued)**

The above proforma results of operations are for comparative purposes only and reflect increased amortisation expenses resulting from the acquisition but do not include any potential cost savings from combining the acquired business. Consequently, the proforma results do not reflect the actual results of operations had the acquisition occurred on January 1, 1999 and are not intended to be projections of future results or trends.

**4. Accounts receivable**

Accounts receivable comprise receivables from customers and are shown net of an allowance for doubtful accounts of \$12,000 (1999: \$12,000). Significant concentrations of credit risk are disclosed in Note 20.

**5. Property, plant and equipment**

Certain fixed assets are pledged as collateral for certain obligations of the Company, as more fully described in Note 7.

	<b>January 1, 2000</b>	<b>Acquisition of subsidiary</b>	<b>Disposals/ transfers from assets under Additions construction</b>	<b>December 31, 2000</b>
<b>Cost</b>				
Land	475,679		-	475,679
Buildings	1,990,446	110,289	164,290	( 150,000) 2,115,025
Plant and equipment	6,227,267	1,540,839	1,200,082	( 155,477) 8,812,711
Distribution	10,240,274	-	1,146,603	-
Office furniture, fixtures and equipment	447,880	1,071	187,563	-
Vehicles	588,450	4,818	104,908	-
Leasehold improvements	17,658	-	8,374	-
Lab equipment	32,218	-	2,106	-
Assets under construction	<u>1,179,736</u>	<u>-</u>	<u>1,858,722</u>	<u>( 2,337,207) 701,251</u>
	<u>\$21,199,608</u>	<u>\$1,657,017</u>	<u>\$ 4,672,648</u>	<u>\$( 2,642,684) \$24,886,589</u>
<b>Accumulated depreciation</b>		<b>January 1, 2000</b>	<b>Charge for the year</b>	<b>Disposals</b>
Buildings		685,598	74,579	( 150,000)
Plant and equipment		2,835,964	416,716	( 155,477)
Distribution		2,368,084	468,920	-
Office furniture, fixtures and equipment		240,811	70,402	-
Vehicles		266,113	71,022	-
Leasehold improvements		17,658	2,442	-
Lab equipment		<u>28,810</u>	<u>1,056</u>	<u>-</u>
		<u>\$ 6,443,038</u>	<u>\$ 1,105,137</u>	<u>\$( 305,477) \$ 7,242,698</u>
Net book value		<u>\$14,756,570</u>		<u>\$17,643,891</u>

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

#### 5. Property, plant and equipment (continued)

Included in plant and equipment is the reverse osmosis water production plant, which has been acquired under the Water Purchase Agreement (see Note 14). Included within additions for the year are transfers of completed projects from assets under construction comprising of buildings \$159,506, plant and equipment \$1,122,350, distribution \$939,751 and office furniture, fixtures and equipment \$115,600.

During the year the Company capitalized \$33,682 (1999: \$35,749; 1998: \$30,319) of depreciation charges in relation to plant and equipment specifically purchased to continue further development of the distribution system.

At December 31, 2000, the Group had outstanding capital commitments of \$570,000 (1999: \$512,000). It is Company policy to maintain adequate insurance for loss or damage to all fixed assets except for the underground distribution system and assets insured by third parties under agreement.

#### 6. Dividends paid/payable

Quarterly interim dividends per share were declared in respect of both classes of shareholders on record as follows:

Dividend per share:	2000	1999	1998
March 31 (1998: semi annual dividend)	\$0.08	\$0.04	\$0.07
June 30	\$0.08	\$0.04	\$0.04
September 30	\$0.08	\$0.04	\$0.04
December 31	\$0.10	\$0.08	\$0.04

Interim dividends for the first three quarters were paid during each respective year. The interim dividend for the fourth quarter was declared by the Board of Directors in October of each respective year. These quarterly interim dividends are subject to no further ratification and consequently the fourth quarter interim dividends have been recorded as a liability in each respective year. Included in dividends payable at December 31, 2000 are unclaimed dividends of \$10,051 (1999: \$10,303).

#### 7. Bank balances and loans

	2000	1999
Cash on hand and in current account	\$ <u>250,837</u>	\$ <u>22,146</u>
Cash on hand and in current account is not restricted as to withdrawal or use.		
Bank overdrafts - Royal Bank of Canada	\$ <u>703,331</u>	\$ <u>651,606</u>
European Investment Bank:		
Long term debt	\$ <u>1,351,566</u>	\$ <u>1,568,126</u>
Royal Bank of Canada:		
Long term debt	\$ <u>-</u>	\$ <u>668,795</u>

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**7. Bank balances and loans (continued)**

As at December 31, 2000, the total lending facility made available by the Royal Bank of Canada comprises a revolving line of credit with a limit of \$1,000,000, bearing interest at New York Prime plus 1%, and term loans with a limit of \$4,000,000, bearing interest at LIBOR plus 1.5%. Any amounts drawn down under the line of credit and any term loans are collateralised by a fixed and floating charge ("the first charge") of \$2,500,000 (to be increased to maximum of \$5,500,000). The fixed charge covers land owned by the Company and the floating charge covers all other assets of the Company, except those assets charged in connection with the Water Purchase Agreement (see Note 14). Of this facility, a bank overdraft of \$703,331 was outstanding at December 31, 2000 (1999: \$651,606).

During 1991, in order to fund an extension to the water distribution system, the European Investment Bank, Luxembourg (the "bank"), agreed to loan the US\$ equivalent of 2 million European Currency Units (approximately US\$2.5 million at that time). The loan is guaranteed by the Overseas Development Administration ("ODA") of the Foreign and Commonwealth Office of the Government of the United Kingdom and is repayable in 24 semi annual installments, which commenced on December 20, 1994. The interest rate for the entire term is fixed at the bank's prevailing lending rate, less a subsidy of 4% per annum, at the date each tranche is drawn down.

The rates of interest applicable to, and the amounts of each tranche at the current year end exchange rates are:

	<b>Date of Drawdown</b>		<b>Interest Rate</b>
Tranche 1	April 11, 1991	\$ 322,814	4.25%
Tranche 2	September 8, 1992	1,018,895	3.15%
Tranche 3	February 12, 1992	847,727	3.45%
Tranche 4	March 17, 1993	<u>362,736</u>	3.00%
		2,552,172	
Capital repayments to December 31, 2000		( <u>1,200,606</u> )	
Total debt obligation as at December 31, 2000		<u>\$ 1,351,566</u>	

Of the final tranche, at December 31, 2000 the equivalent of \$60,034 (1999: \$76,726) is repayable in pounds sterling, all other obligations under this loan are repayable in United States dollars.

The Government of the Cayman Islands have, for a fee of 1% per annum, provided a counter guarantee to the ODA. The Company, with the approval of the Royal Bank of Canada, the holder of the first charge, has agreed to secure the counter guarantee by a second charge over all assets of the Company.

	<b>2000</b>
<b>Current portion of long term debt obligation:</b>	
Royal Bank of Canada	-
European Investment Bank	<u>219,580</u>
	<u>\$ 219,580</u>
<b>Long term debt obligation:</b>	
Royal Bank of Canada	-
European Investment Bank	<u>1,131,986</u>
	<u>\$ 1,131,986</u>

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**7. Bank balances and loans (continued)**

The aggregate capital repayment obligations for the next six years are as follows:

2001	219,580
2002	230,519
2003	242,224
2004	254,182
2005	266,905
2006 and thereafter	<u>138,156</u>
	<u>\$ 1,351,566</u>

**8. Share capital and additional paid in capital**

	2000	1999	1998
<b>Capital stock authorized:</b>			
9,900,000 ordinary shares of common stock CI\$1.00 each	11,880,000	11,880,000	11,880,000
100,000 redeemable preferred stock of CI\$1.00 each	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>
	<u>\$12,000,000</u>	<u>\$12,000,000</u>	<u>\$12,000,000</u>

**Ordinary shares of common**

**stock of CI\$1.00 each issued and fully paid:**

Balance of ordinary shares at beginning of year 3,162,467 (1999: 3,056,222; 1998: 3,056,012)	3,794,960	3,667,466	3,667,214
Ordinary shares issued under public offering 773,000 (1999: nil; 1998: nil)	927,600	-	-
Cancellation of treasury shares 189,852 (1999: nil; 1998: nil)	( 227,822)	-	-
Ordinary shares issued on exercise of options (1999: 89,010; 1998: nil)	-	106,812	-
Ordinary shares issued on exercise of warrants 100,000 (1999: nil; 1998: nil)	120,000	-	-
Ordinary shares issued under Directors' Share Plan 6,890 (1999: 2,400; 1998: nil)	8,269	2,880	-
Ordinary shares issued on redemption of preferred stock 10,639 (1999: 14,835; 1998: 210)	<u>12,767</u>	<u>17,802</u>	<u>252</u>
Balance of ordinary shares at end of year 3,863,144 (1999: 3,162,467; 1998: 3,056,222)	<u>\$ 4,635,774</u>	<u>\$ 3,794,960</u>	<u>\$ 3,667,466</u>

**Treasury shares:**

Balance of treasury shares at beginning of year 110,752 (1999: 8,000; 1998: nil)	821,303	62,375	-
Shares acquired at cost 79,100 (1999: 102,752; 1998: 8000)	494,375	758,928	62,375
Treasury shares cancelled during the year 189,852 (1999: nil; 1998: nil)	( 1,315,678)	-	-
Balance of treasury shares at end of year nil (1999: 110,752; 1998: 8,000)	<u>\$ -</u>	<u>\$ 821,303</u>	<u>\$ 62,375</u>

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**8. Share capital and additional paid in capital (continued)**

	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Additional paid in capital:</b>			
Balance at beginning of year	3,453,808	2,965,421	2,914,889
Additional paid in capital from ordinary shares of common stock issued under public offering	4,825,800	-	-
Share issue costs arising on ordinary shares of common stock issued under public offering	( 790,669)	-	-
Reduction in additional paid in capital from cancellation of treasury shares	( 1,087,856)	-	-
Additional paid in shares issued under Directors' Share Plan (see Note 16)	40,815	11,970	-
Additional paid in capital on stock options (see Note 16)	-	466,401	40,498
Additional paid in capital from exercise of warrants (see Note 16)	280,000	-	-
Additional paid in capital on preferred stock issued under employee share plan (see Note 16)	4,851	10,016	10,034
	<hr/>	<hr/>	<hr/>
Balance at end of year	<u>\$ 6,726,749</u>	<u>\$ 3,453,808</u>	<u>\$ 2,965,421</u>
<b>Vested redeemable preferred stock of CI\$1.00 each issued and fully paid (Note 16):</b>			
Balance of vested redeemable preferred stock at beginning of year 934 (1999: 7,072; 1998: nil)	1,121	8,486	-
Preferred stock vested during the year 11,400 (1999: 7,036; 1998: 7,072)	13,680	8,444	8,486
Vested preferred stock redeemed and issued as ordinary shares 2,348 (1999: 13,174; 1998: nil)	( 2,818)	( 15,809)	-
Balance of vested redeemable preferred stock at end of year 9,986 (1999: 934; 1998: 7,072)	<u>\$ 11,983</u>	<u>\$ 1,121</u>	<u>\$ 8,486</u>
<b>Non-vested redeemable preferred stock of CI\$1.00 each issued and fully paid (Note 16):</b>			
Balance of non-vested redeemable preferred stock at beginning of year 40,124 (1999: 36,833; 1998: 34,088)	48,149	44,200	40,906
Preferred stock vested during the year 11,400 (1999: 7,036; 1998: 7,072)	( 13,680)	( 8,444)	( 8,486)
Non-vested preferred stock issued 3,415 (1999: 11,988; 1998: 10,027)	4,098	14,386	12,032
Non-vested preferred stock redeemed 200 (1999: nil; 1998: nil)	( 240)	-	-
Non-vested preferred stock redeemed and issued as Ordinary shares 8,291 (1999: 1,661; 1998: 210)	( 9,949)	( 1,993)	( 252)
Balance of non-vested redeemable preferred stock at end of year 23,648 (1999: 40,124; 1998: 36,833)	<u>\$ 28,378</u>	<u>\$ 48,149</u>	<u>\$ 44,200</u>

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**8. Share capital and additional paid in capital (continued)**

The redeemable preferred stock are issued under the Company's employee share plan (Note 16) and carry the same voting and dividend rights as ordinary shares. The redeemable preferred stock are only redeemable with the Company's agreement. In consideration for redeemed vested preferred stock, ordinary share capital is issued on a share for share basis. Upon liquidation of the Company, the redeemable preferred stock rank in preference to the common stock to the extent of the par value of the redeemable preferred stock and any related additional paid in capital.

Outstanding non-vested preferred stock currently redeemable are as follows:

	<b>No. of shares redeemable</b>	<b>Redemption price</b>	<b>Redemption value</b>
Up to the year ended December 31, 2001	19,439	-	-
	1,120	\$4.0680	4,556
	872	\$5.3175	4,637
	1,081	\$5.7120	6,175
	<u>1,136</u>	\$5.4720	<u>6,216</u>
	<u>23,648</u>		<u>\$21,584</u>
Up to the year ended December 31, 2002	15,201	-	-
	872	\$5.3175	4,637
	1,081	\$5.7120	6,175
	<u>1,136</u>	\$5.4720	<u>6,216</u>
	<u>18,290</u>		<u>\$17,028</u>
Up to the year ended December 31, 2003	9,769	-	-
	1,081	\$5.7120	6,175
	<u>1,136</u>	\$5.4720	<u>6,216</u>
	<u>11,986</u>		<u>\$12,391</u>
Up to the year ended December 31, 2004	2,279	-	-
	<u>1,136</u>	\$5.4720	<u>6,216</u>
	<u>3,415</u>		<u>\$ 6,216</u>

In April 1996 the Company filed a Form F-1 registration statement with the SEC in connection with the issue of 575,000 ordinary shares of common stock at \$5.25 per share. Under the terms of the related underwriting agreement, the underwriter was issued a warrant to purchase 50,000 ordinary shares of common stock at \$6.30 per share. Consideration of \$500 was paid for the warrant which management considered to approximate fair value. The warrants are exercisable during the four year period commencing April 3, 1997. As at December 31, 2000, no warrants have been exercised under this agreement and the underwriter is no longer in business.

In conjunction with the private placement of ordinary shares of common stock that took place in August 1995, the Company issued warrants to purchase 100,000 ordinary shares of common stock at a price of \$4.00 per share. The warrants were exercised in January and February 2000.

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**8. Share capital and additional paid in capital (continued)**

Stockholders are advised that under the provisions of the Land Holding Companies Share Transfer Tax Law of the Cayman Islands, transfer tax is payable on the transfer of shares in the Company. The amount of transfer tax payable under the provisions of this Law is computed by reference to the proportion of the total market value of land, as valued by the Government, attributable to each share in issue ("the taxable value"). The tax payable by the transferor per share transferred is at the rate of 7.5% to 9.0% of the taxable value.

In August 1997 the Company established a Class 'B' stock option plan designed to deter coercive takeover tactics. Pursuant to this plan, holders of ordinary shares of common stock and redeemable preferred stock were granted options which entitle them to purchase 1/100 of a share of Class 'B' stock at an exercise price of \$37.50 if a person or group acquires or commences a tender offer for 20% or more of the Company's ordinary shares of common stock. Option holders (other than the acquiring person or group) will also be entitled to buy, for the \$37.50 exercise price, ordinary shares of the Company's common stock with a then market value of \$75.00 in the event a person or group actually acquires 20% or more of the Company's ordinary shares of common stock. Options may be redeemed at \$0.01 under certain circumstances. 30,000 of the Company's authorized but unissued ordinary shares have been reserved for issue as Class 'B' stock. The Class 'B' stock rank pari passu with the ordinary shares of common stock for dividend and voting rights. As at December 31, 2000, no Class 'B' stock options have been exercised or redeemed.

**9. Expenses**

	<b>Year Ended December 31</b>		
	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Cost of water sales comprise the following:</b>			
Water purchases	2,257,532	2,091,322	2,579,279
Depreciation	992,410	760,901	714,830
Amortisation of intangible asset (Note 3)	64,979	-	-
Employee costs	741,789	601,678	550,499
Fuel oil	81,102	-	-
Royalties (Note 18)	641,428	560,441	570,416
Water Purchase Agreement obligation interest (Note 14)	16,910	58,042	193,589
Electricity	121,185	134,623	121,645
Insurance	64,160	56,308	37,555
Other direct costs	441,802	506,864	398,588
	<u>\$ 5,423,297</u>	<u>\$ 4,770,179</u>	<u>\$ 5,166,401</u>
<b>Indirect expenses comprise the following:</b>			
Employee costs	1,057,900	921,593	721,547
Interest	135,847	127,680	73,495
Depreciation	79,045	56,059	53,915
Professional fees	275,589	131,366	231,739
Insurance	34,829	41,083	29,890
Directors' fees and expenses	104,149	99,760	77,011
Other indirect costs	510,210	414,975	381,783
	<u>\$ 2,197,569</u>	<u>\$ 1,792,516</u>	<u>\$ 1,569,380</u>

Direct expenses relate to the production and distribution of water, indirect expenses represent the administrative costs of the Company.

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**10. Earnings per share**

Basic earnings per share is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary shares of common stock in issue during the year, excluding the average number of ordinary shares of common stock purchased by the Company and held as treasury shares (see Note 8).

The net income and weighted average number of ordinary shares of common stock and potential ordinary shares figures used in the determination of the basic and diluted earnings per ordinary share of common stock are summarized as follows:

	<b>2000</b>	<b>1999</b>	<b>1998</b>
Net income used in determination of diluted earnings per ordinary share of common stock	\$ 2,404,820	\$ 1,569,717	\$ 1,451,933
Less:			
Dividends paid on non-vested redeemable preferred stock	( 8,040)	( 8,025)	( 6,998)
Earnings attributable to vested redeemable preferred stock	( <u>6,180</u> )	( <u>461</u> )	( <u>3,336</u> )
Net income available to holders of ordinary shares of common stock in the determination of basic earnings per ordinary share of common stock	<u>\$2,390,600</u>	<u>\$1,561,231</u>	<u>\$1,441,599</u>
Weighted average number of ordinary shares of common stock in the determination of basic earnings per ordinary share of common stock	3,532,501	3,044,293	3,055,845
Plus:			
Weighted average number of redeemable preferred stock outstanding during the year	37,145	44,707	40,231
Potential dilutive effect of unexercised options	41,147	48,954	56,596
Potential dilutive effect of unexercised warrants	<u>5,478</u>	<u>50,094</u>	<u>38,911</u>
Weighted average number of shares used for determining diluted earnings per ordinary share of common stock	<u>3,616,271</u>	<u>3,188,048</u>	<u>3,191,583</u>

As detailed in Note 16, 30,000 options were granted to an investment company on December 15, 1998 with an exercise price of \$7.88. In addition, 85,259 options were granted to executive directors and senior management of the Company on December 31, 2000 with an exercise price of \$7.10. At December 31, 2000, these options were antidilutive for the purpose of determining diluted earnings per share.

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

#### 11. Segmented information

During the year ended December 31, 2000, the Company acquired a 100% stake in Belize Water Ltd. (Note 3 and 15) that has been consolidated in these financial statements. In addition, during the year ended December 31, 2000, the Company entered into an agreement with South Bimini International Ltd., a Bahamian company, to provide water to property in South Bimini Island, Bahamas (Note 15). Though operations have not begun at December 31, 2000, equipment presently located in the United States, with a carrying value of \$307,395, will be transferred to the Bahamas for use on this project.

Under FAS 131 "Disclosure about Segments of an Enterprise and Related Information" the supply of water to Belize and Bahamas are considered by management as separate business segments. Previously the Group's operations in the Cayman Islands was the only reportable business segment and as such, segmented information for the years ended December 31, 1999 and 1998 has not been reproduced below. The basis of measurement of segment information is similar to that adopted for the financial statements.

	As at December 31, 2000 and for the year then ended			
	Cayman Islands	Belize	Bahamas	Total
Water sales	9,112,031	464,928	-	9,576,959
Other income	448,727	-	-	448,727
Cost of water sales	5,172,945	250,352	-	5,423,297
Indirect expenses	2,164,147	33,422	-	2,197,569
Cost of water sales and indirect expenses include:				
Interest	152,757	-	-	152,757
Depreciation	1,009,420	62,035	-	1,071,455
Net income	2,223,666	181,154	-	2,404,820
Segment assets	19,421,195	2,117,082	307,395	21,845,672

#### 12. Related party transactions

In the year ended December 31, 1998, the professional services of a Director were made available to the Company through a company owned by that Director. During 1998 the Company paid \$88,699 for such services. During the years ended December 31, 2000 and 1999, such compensation was paid directly to the Director. In addition, the company owned by that Director provided professional services during the year ended December 31, 2000 for which it charged \$13,369 (1999: nil; 1998: nil); an amount of \$4,290 is outstanding and unpaid at December 31, 2000.

The Company sells water to a company in which a Director has a significant interest. During 2000 sales totaling \$5,647 (1999: \$11,621; 1998: \$30,593) were made to that company. Accounts receivable for such sales at year end total \$411 (1999: \$286).

During the year ended December 31, 1998 the Company purchased a Seawater Reverse Osmosis Unit ("RO Unit") from a company in which a Director is a member of senior management. The RO Unit was acquired at a cost of \$307,395 which has been included in plant and equipment in Note 5.

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

#### 13. Commitments and contingencies

##### Commitments:

The Company has committed to lease premises in the Cayman Islands for a period of two years from February 1, 2000 at approximately \$75,000 per annum.

The Company is subject to an ongoing obligation to supply water to new customers in the Cayman Islands within the areas in which it is licensed to operate and where the supply of such water is considered commercially feasible.

The Company is subject to a commitment in the Cayman Islands under the Water Purchase Agreement (Note 14).

The Group is subject to a commitment to supply water to the Water and Sewerage Authority of Belize and property in South Bimini Island, Bahamas (Note 15).

##### Contingencies:

The license that the Company has with the government of the Cayman Islands (the "Government") requires it to obtain approval from the Government for the issuance or transfer of shares which a) exceeds 5% of the issued share capital of the Company, or b) would, upon registration, result in any shareholder owning more than 5% of the issued share capital of the Company.

More than 5% of the ordinary shares of common stock are registered in the name of Cede and Co., the nominee for Depository Trust Company, which is a clearing agency for shares held by participating banks and brokers. The Company does not believe that these shareholdings by Cede and Co. constitute a breach of the intent of the license. The Company believes that the purpose of this clause of the license is to allow the Government to approve significant shareholders of the Company. Cede and Co. and Depository Trust Company, however, act solely as the nominee for banks and brokers, and have no beneficial ownership in the ordinary shares of common stock. Nevertheless, the Company's Cayman Islands legal counsel ("Legal Counsel") has advised it that the shareholdings by Cede and Co. are probably a technical breach of its license.

In August and September 1994, the Company completed an offering of 400,000 ordinary shares of common stock under rule 504 of Regulation D of the Securities Act of 1933. In September 1995, the Company completed a private placement of 100,000 ordinary shares of common stock plus warrants to subscribe for an additional 100,000 ordinary shares of common stock under Regulation S of the Securities Act of 1933. In April 1996 and May 2000, the Company completed a public offering of 515,000 and 773,000 ordinary shares, respectively. Based upon the advice of Legal Counsel, the Company determined that the license did not require the Government's approval to complete these offerings. However, if a court determined that the Government's approval of these offerings was required under the license, the Company would be in breach of the license. Legal Counsel has advised the Company that in order to make this determination, a court would have to disagree with the Company's interpretation of the license and dismiss several defenses that would be available to the Company. These defenses include acquiescence and waiver on the part of the Government with respect to these offerings.

Further, the Company received a letter dated June 1, 2000, from an official in the Government, stating that the public offering of the ordinary shares of common stock that was completed in 1996 was a breach of the license. The letter is not clear as to whether the Government views the public offering completed in 2000 as a breach of the license. The Company responded to this letter and stated that it does not believe that it is in breach of the license. A meeting with officials of the Government, to discuss this matter, was held on June 16, 2000 in accordance with the Government's suggestion in the June 1st letter. Discussion of the matter is ongoing as of December 31, 2000. The Company has been advised by Legal Counsel that the June 1st letter from the Government does not constitute a formal "notice of breach of the license" as contemplated in the license. Accordingly, other than pursuing discussions of this matter with the Government, no other actions are presently being pursued by the Company to "cure" any such alleged breaches.

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

#### 14. Water Purchase Agreement

The Company is party to a water purchase agreement (the "Water Purchase Agreement") with Ocean Conversion (Cayman) Limited ("OCL"), which expires on December 31, 2004. The Water Purchase Agreement effectively transferred the possession of a reverse osmosis ("RO") plant to the Company in 2000, although the operation and maintenance of the plant will be the responsibility of OCL until the termination of the agreement on December 31, 2004. On January 1, 2005 responsibility for the operation and maintenance of the plant will be assumed by the Company. Under the terms of the agreement, the Company must purchase a fixed minimum amount of water annually with a portion of the monthly payments to be applied toward the purchase of the plant. Implicit in the agreement are financing charges relating to the purchase of the plant, based on the Company's cost of capital at the inception of the agreement.

As at December 31, 2000 minimum future payments are as follows:

2001	1,350,704
2002	1,350,704
2003	1,350,704
2004	<u>1,350,704</u>
Total minimum payments	<u>\$ 5,402,816</u>

The RO plant acquired under the Water Purchase Agreement is included in plant and equipment in Note 5 at a gross amount of \$3,550,897 and at December 31, 2000 had a net book value of \$1,059,239 (1999: \$1,253,718). Amortization of this plant is included in the depreciation charge for each of the three years ended December 31, 2000. During the year ended December 31, 2000 the Company fulfilled the equipment purchase obligation as calculated under the Water Purchase Agreement. Accounts payable includes \$204,076 (1999: \$223,213) outstanding under the Water Purchase Agreement.

#### 15. Customer supply agreements

During 1993 the Company entered into a five year agreement to supply non-potable water to Safe Haven Limited, the developers of a golf course in the Cayman Islands. On November 1, 1997 this agreement was renegotiated and renewed for a further five year period. Under the terms of the renewed supply agreement, the Company must supply a minimum of 4 million US Gallons per month (48 million US Gallons per year). The price of the water supplied is adjusted annually based on Government Price Indices. Water sales for the year ended December 31, 2000 resulting from the supply agreement amounted to \$571,969 (1999: \$444,098; 1998: \$422,641). At December 31, 2000 the Company holds a security deposit of \$52,763 (1999: \$52,763) under the terms of the supply agreement.

From 15 October, 1995 the Company entered into a ten year agreement to supply a minimum of 30,000 US Gallons per day (10.95 million US Gallons per year) of potable water to Galleon Beach Resort Limited, the operator of the Westin Hotel in the Cayman Islands which initially opened in December 1995. The price of the water supplied is adjusted annually based on Government Price Indices, and water supplied in excess of the monthly maximum of 60,000 US Gallons per day is invoiced at the Company's standard tariff rate. Water sales for the year ended December 31, 2000 resulting from this agreement amounted to \$299,333 (1999: \$314,884; 1998: \$343,800).

From the acquisition of Belize Water Co, Ltd. in 2000, the Company is under contract to supply a minimum of 135,000 US Gallons per day (49.27 million US Gallons per year) to the Water and Sewerage Authority of Belize. The price of water supplied is adjusted annually based on Government indices. Post acquisition water sales for the period ended December 31, 2000 resulting from this agreement amounted to \$464,928 (Note 11).

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

#### 15. Customer supply agreements (continued)

During the year ended December 31, 2000 the Company entered into a Water Supply Agreement with South Bimini International Ltd., a company incorporated in the Commonwealth of Bahamas. Under the agreement South Bimini International Ltd. is committed to pay for a minimum of 3,000 US Gallons of water per residential unit per month (36,000 US Gallons residential unit per year) on a take or pay basis in relation to the Bimini Sands Resort property in South Bimini Island, Bahamas. The price of water supplied is adjusted annually based on Government indices. The agreement is subject to approval by certain regulatory bodies, which is expected by May 2001. No water sales resulted from this agreement for the year ended December 31, 2000.

There are no other individually significant supply agreements.

#### 16. Stock Compensation

The Company operates various stock compensation plans (described below) that form part of employee's remuneration. Stock compensation expenses of \$124,772 are recorded in accordance with APB 25 and included within employee costs (1999: \$245,117; 1998: \$244,171).

##### Employee Share Plan:

The Company awards redeemable preferred stock (restricted stock) for nil consideration under the Employee Share Plan as part of compensation for eligible employee services (excluding Directors) that require future services as a condition to the delivery of the underlying shares of common stock. In addition options are granted to purchase preferred stock at a fixed price, determined annually, which will typically represent a discount to the market value of the underlying shares of common stock. In consideration for redeemed vested preferred stock, the Company issues common stock on a share for share basis. Under the plan the conversion is conditional on the grantee's satisfying requirements outlined in the award agreements. The redeemable preferred stock is only redeemable with the Company's agreement. See Note 8 for the vesting schedule of outstanding preferred stock currently redeemable. The details of preferred stock and stock options granted and exercised under the Employee Share Plan is as follows:

	Year of <u>Grant</u>	<u>Granted</u>	Strike <u>Price</u>	Options <u>Exercised</u>	Options <u>Expired</u>
Preferred stock granted	1998	7,590	\$nil	N/A	N/A
	1999	9,768	\$nil	N/A	N/A
	2000	2,279	\$nil	N/A	N/A
Preferred stock options granted	1998	7,590	\$5.32	2,437	5,153
	1999	9,768	\$5.71	2,220	7,548
	2000	2,279	\$5.47	1,136	1,143

Each employee's option to purchase preference shares must be exercised within 40 days of the annual general meeting of the Company following the date of grant.

##### Non-Executive Directors' Share Plan:

In 1999, the Company introduced a share grant plan which forms part of Directors' remuneration. Under the plan Directors receive a combination of cash and common stock in consideration of remuneration for their participation in Board meetings. All Directors are eligible except Executive Officers (who are covered by individual employment contracts) and the Government elected board member. Common stock granted is calculated with reference to a strike price that is set by the Board of Directors on October 1 of the year preceding the grant. Stock granted on September 30, 2000 totaled 6,890 (1999: 2,400). The strike price set on October 1, 2000 was \$7.25 (October 1, 1999 \$6.75).

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**16. Stock Compensation (continued)**

**Directors and Senior Management stock compensation:**

The Chairman and Chief Executive Officer ("CEO"), the President and Chief Operating Officer ("COO"), the Vice President – Finance, the Vice President – Operations, and two senior managers are entitled to receive, as part of the compensation for their services to the Company, options to purchase common stock. Two other directors were granted options as remuneration for services rendered to the Company. Details of the options granted to and exercised by these directors and senior management are included in the table below. In addition, another member of senior manager is entitled to receive, as part of compensation for services to the Company, common stock of the Company. In March 2001 1,086 shares of common stock were issued to this employee.

**Non-employee:**

As part of an agreement for market representation, the Company issued options to purchase common stock to an investment company for nil consideration. These options had an original expiry date of December 1, 2000. During the year ended December 31, 2000 the Company extended this expiry date to March 31, 2002. The fair value of these options was determined by management to be \$30,000, based on the fair value of the services to be received. Stock compensation expenses arising on these options are included within other indirect costs.

Grant Date	Options Granted	Strike Price	Expiry Date	Options Exercised	Date Exercised
<b>Chairman and CEO:</b>					
December 31, 1998	16,570	US\$2.50	01-Jun-99	16,570	31-Mar-99
December 31, 1999	7,786	US\$2.50	20-Mar-03	-	-
December 31, 2000	26,924	US\$7.10	15-Mar-04	-	-
<b>President and COO:</b>					
December 31, 2000	5,609	US\$7.10	15-Mar-04	-	-
<b>Other Directors:</b>					
December 31, 1997	20,000	US\$2.50	24-Feb-01	-	-
December 31, 1998	20,000	US\$2.50	01-Mar-02	-	-
July 20, 1999	30,000	US\$6.00	01-May-02	-	-
December 31, 1999	20,000	US\$2.50	20-Mar-03	-	-
May 1, 2000	30,000	US\$6.75	01-May-03	-	-
December 31, 2000	5,609	US\$7.10	15-Mar-04	-	-
<b>Senior Management:</b>					
December 31, 2000	47,117	US\$7.10	15-Mar-04	-	-
<b>Non-Employee:</b>					
December 15, 1998	30,000	US\$7.88	31-Mar-02	-	-

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**16. Stock Compensation (continued)**

**Weighted average number and exercise price of options (all schemes):**

	2000		1999		1998	
	Number of Options	Weighted average exercise price per share US\$	Number of options	Weighted average exercise price per share US\$	Number of options	Weighted average exercise price per share US\$
Outstanding at beginning of year	127,786	\$4.58	159,010	\$3.51	92,440	\$2.50
Granted	117,538	\$6.98	67,554	\$4.96	74,160	\$2.78
Exercised	(1,136)	\$5.47	(91,230)	\$5.32	(2,437)	\$1.58
Forfeited	(1,143)	\$5.47	(7,548)	\$5.32	(5,153)	\$4.07
Outstanding and exercisable at end of year	<u>243,045</u>	\$5.73	<u>127,786</u>	\$4.58	<u>159,010</u>	\$3.51

The Company determines stock compensation costs according to the methodology outlined in APB Opinion No. 25. The table below summarizes the proforma effect if FASB Statement No. 123, the alternative applicable standard, was adopted:

	For the year ended December 31,		
	2000	1999	1998
Net income	\$2,111,755	\$1,498,105	\$1,451,975
Basic earnings per ordinary share	\$0.59	\$0.48	\$0.48
Diluted earnings per ordinary share	\$0.58	\$0.47	\$0.45

Weighted average fair value per share under FAS 123 for options granted during the year:

Options granted with an exercise price below market price on the date of grant:

Chairman and CEO	-	\$4.07	\$4.48
President and COO	-	\$4.07	\$4.48
Non-executive directors	\$2.69	\$3.69	-
Senior Management	-	\$1.84	\$2.07
Other employees	\$2.66		
Overall weighted average	\$2.69	\$3.80	\$4.33

Options granted with an exercise price above market price on the date of grant:

Chairman and CEO	\$2.57	-	-
President and COO	\$2.57	-	-
Non-executive directors	-	-	-
Senior Management	\$2.57	-	-
Other employees	-	-	-
Overall weighted average	\$2.57	-	-

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**16. Stock Compensation (continued)**

In calculating the fair value for these options under FAS 123 the Black-Scholes model was used with the following weighted average assumptions:

Options granted with an exercise price below market price on the date of grant:

	<b>2000</b>	<b>1999</b>	<b>1998</b>
Exercise price	\$6.70	\$4.37	\$2.68
Grant date market value	\$6.97	\$6.98	\$7.02
Risk free interest rate	6.56%	5.75%	4.75%
Expected life	3.0 years	2.8 years	0.4 years
Expected volatility	62.64%	72.55%	29.32%
Expected dividend yield	4.59%	3.46%	2.28%

Options granted with an exercise price above market price on the date of grant:

	<b>2000</b>	<b>1999</b>	<b>1998</b>
Exercise price	\$7.1	-	-
Grant date market value	\$7.0	-	-
Risk free interest rate	5.0%	-	-
Expected life	3.2 years	-	-
Expected volatility	62.57%	-	-
Expected dividend yield	4.57%	-	-

Weighted average fair value per share under FAS 123 for shares issued during the year below market price on the date of grant:

	<b>2000</b>		<b>1999</b>		<b>1998</b>	
	<b>Number of shares</b>	<b>Weighted average fair value per share US\$</b>	<b>Number of shares</b>	<b>Weighted average fair value per share US\$</b>	<b>Number of shares</b>	<b>Weighted average fair value per share US\$</b>
Employee Share Plan	2,279	\$7.00	9,768	\$5.83	7,590	\$4.58
Directors Share Plan	6,889	\$7.13	2,400	\$6.75	-	-
Overall weighted average	9,168	\$7.09	12,168	\$6.01	7,590	\$4.58

**17. Taxation**

Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company has received a tax exemption with respect to their Belize operations. The exemption expires in 2006 and is renewable in accordance with the provisions of the license (Note 3).

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

#### 18. Government royalties

Royalty expenses incurred during the year under the terms of the license to process and supply potable water, granted by the Government, amounted to \$641,428 (1999: \$560,441; 1998: \$570,416). In accordance with the terms of the license, royalties are payable at the rate of 7.5% of gross water sales. Payments are made monthly in arrears.

#### 19. Pension benefits

A staff pension scheme commenced during June 1995 and was offered to all employees, both full and part-time. The scheme is administered by the Cayman Islands Chamber of Commerce and is a defined contribution plan, whereby the Company matches the contribution of the first 5% of each participating employee's salary. The total amount recognized as an expense under the scheme during 2000 was \$67,760 (1999: \$48,554 1998: \$45,537).

#### 20. Financial instruments

##### **Credit risk:**

Financial assets that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The majority of the Company's cash balances are placed with high credit quality financial institutions. With respect to accounts receivable, the Company's operations in Belize as described in Note 1 are concentrated with one customer. As a result, the Company is subject to credit risk to the extent of any non-performance by this customer. As at December 31, 2000 the Company was owed \$348,959 from this customer. Credit risk with respect to the remainder of the accounts receivable balance is limited due to the large number of customers comprising the Company's customer base and the ability of the Company to withdraw supply in the event of non-payment.

##### **Interest rate risk:**

The interest rates and terms of the Company's loans and Water Purchase Agreement are presented in Notes 7 and 14 respectively.

##### **Fair values:**

At December 31, 2000 and 1999 the carrying amounts of cash and short term bank deposits and bank overdrafts, accounts receivable, accounts payable and accrued expenses approximated their fair values due to the short term maturities of these assets and liabilities. The Directors consider that the carrying amount for long term debt (Note 7) due to Royal Bank of Canada approximates fair value due to the characteristics of this debt. The fair value for long term debt due to European Investment Bank is approximately \$1,207,000 (1999: \$1,400,000) although this does not necessarily indicate that the Company could extinguish this debt for an amount lower than the carrying value. Fair value of this long term debt for which no market value is readily available is determined by the Company using predetermined future cash flows discounted at an estimated current incremental rate of borrowing for a similar liability. In establishing an estimated incremental rate, the Company has evaluated the existing transactions, as well as comparable industry and economic data and other relevant factors such as pending transactions, subsequent events and the amount the Company would have to pay a credit worthy third party to assume the liability, with the creditors legal consent.

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

**21. Non-cash transactions**

The Company made the following non-cash transactions:

	2000	1999	1998
Redemption of preferred stock and issue of replacement ordinary shares of common stock at \$Nil consideration (10,639, 14,835, and 210 shares respectively) (Note 8)	\$ <u>12,767</u>	\$ <u>17,802</u>	\$ <u>252</u>
Preferred stock issued to employees at \$Nil consideration (2,279, 9,768, and 7,590 shares respectively) (Note 8 and 16)	\$ 2,735	\$ 11,722	\$ 9,108
Redemption of preferred stock at \$Nil consideration (200, nil, and nil shares respectively) (Note 8)	( 240)	-	-
Ordinary shares of common stock issued under the Directors Share Plan at \$Nil consideration (6,890, 2,400, and nil respectively) (Note 16)	49,084	14,850	-
Additional paid in capital from stock options	<u>-</u>	<u>350,688</u>	<u>40,498</u>
	<u>\$ 51,579</u>	<u>\$ 377,260</u>	<u>\$ 49,606</u>
Reduction in additional paid in capital from cancellation of treasury shares (Note 8)	<u>\$ 1,315,678</u>	<u>-</u>	<u>-</u>
Dividends declared but not paid (Note 6)	<u>\$ 401,965</u>	<u>\$ 266,585</u>	<u>\$ 257,117</u>
Depreciation charges capitalized (Note 5)	<u>\$ 33,682</u>	<u>\$ 35,749</u>	<u>\$ 30,319</u>

### **Board of Directors**

Jeffrey M. Parker  
Chairman and Chief Executive Officer  
Grand Cayman, Cayman Islands

Frederick W. McTaggart  
President and Chief Operating Officer  
Grand Cayman, Cayman Islands

J. Bruce Bugg, Jr.  
Argyle Partners Ltd  
Chairman and Chief Executive Officer of  
Argyle Investment Co., LLC

Brian E. Butler  
Property Developer, Columbus Developments Ltd  
Grand Cayman, Cayman Islands

Steven A. Carr  
President, Carr & Associates  
Director, First National Bank of Bryan  
Bryan, Texas, USA

Richard L. Finlay  
Attorney at Law, Partner  
Charles Adams, Ritchie and Duckworth  
Grand Cayman, Cayman Islands

Clarence B. Flowers, Jr.  
Real Estate Developer, Orchid Development  
Company Ltd and Director of concrete block  
manufacturers C.L. Flowers & Sons  
Grand Cayman, Cayman Islands

Peter D. Ribbins  
Director, Special Projects  
Grand Cayman, Cayman Islands

Wilmer F. Pergande  
Vice President Special Projects  
Osmonics Inc, USA

Raymond Whittaker  
Banker  
Grand Cayman, Cayman Islands

### **Corporate Officers**

Jeffrey M. Parker  
Chairman and Chief Executive Officer

Frederick W. McTaggart  
President and Chief Operating Officer

Alexander S. Bodden  
Vice President Finance and Company Secretary

Gregory S. McTaggart  
Vice President Operations

J. Bruce Bugg, Jr.  
Vice Chairman

Peter D. Ribbins  
Director, Special Projects

Design and production by BB&P Grand Cayman

### **Independent Accountants**

PricewaterhouseCoopers  
PO Box 258 GT  
British American Centre  
Grand Cayman

### **Legal Counsel**

Myers and Alberga  
PO Box 472 GT  
Grand Cayman

Steel Hector & Davis LLP  
200 South Biscayne Boulevard  
Miami, Florida 33131, USA

### **Principal Bankers**

Royal Bank of Canada  
George Town, Grand Cayman

European Investment Bank  
Luxembourg

### **Transfer Agents & Registrar**

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038, USA

### **Stock Exchange Listing**

The Company's ordinary shares trade on the Nasdaq National Market. The trading symbol is 'CWCO'.

"The Nasdaq Stock Market" or "Nasdaq" is a highly-regulated electronic securities market comprised of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting, and execution systems.



### **Form 10Q and 10K**

The Company files Quarterly and Annual Reports with the US Securities and Exchange Commission on Form 10Q and 10K, pursuant to the Securities Exchange Act of 1934. A copy of this report may be obtained by calling or writing to the Company's principal offices at the address shown overleaf, attention: Investor Relations Department, or alternatively online at the Nasdaq website [www.nasdaq.com](http://www.nasdaq.com)

### **Investor Information**

R.J. Falkner & Company, Inc.  
214 Sixth Street #12  
Crested Butte  
CO 81224, USA  
(800) 377-9893  
(970) 349-0846  
[www.rjfalkner.com](http://www.rjfalkner.com)