



CONSOLIDATED WATER



2020 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED DECEMBER 31,

(IN U.S. DOLLARS)

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| Total revenue | \$ 72,628,126 | \$ 68,793,651 |
| Net income from continuing operations | \$ 8,613,771 | \$ 10,888,178 |
| Total income (loss) from discontinued operations | \$ (4,902,243) | \$ 1,287,915 |
| Income from operations | \$ 8,347,554 | \$ 11,718,225 |
| Net cash provided by operating activities - continuing operations | \$ 18,970,938 | \$ 17,419,394 |
| Net cash used in operating activities - discontinued operations | \$ (1,635,646) | \$ (2,215,736) |
| Total assets | \$ 179,555,552 | \$ 192,017,374 |
| Total equity | \$ 169,012,549 | \$ 177,952,874 |
| Dividends declared per common and redeemable preferred shares | \$ 0.34 | \$ 0.34 |
| Basic earnings per share - continuing operations | \$ 0.56 | \$ 0.72 |
| Basic earnings (loss) per share - discontinued operations | \$ (0.32) | \$ 0.09 |
| Diluted earnings per share - continuing operations | \$ 0.56 | \$ 0.72 |
| Diluted earnings (loss) per share - discontinued operations | \$ (0.32) | \$ 0.08 |
| Net income from continuing operations as a % of total revenues | 11.86 % | 15.83 % |
| Income from operations as a % of total revenues | 11.49 % | 17.03 % |
| Net cash provided by operating activities - continuing operations as a % of total revenues | 26.12 % | 25.32 % |

TRADING IN SHARES

| | 2020 | 2019 |
|--|---------------|---------------|
| Class A common stock outstanding at year end | \$ 15,143,683 | \$ 15,049,608 |
| Low closing share price during year | \$ 10.06 | \$ 11.32 |
| High closing share price during year | \$ 18.64 | \$ 17.58 |
| Closing share price at year end | \$ 12.05 | \$ 16.30 |

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CONSOLIDATED WATER CO. LTD. (THE "COMPANY") WAS INCORPORATED AS CAYMAN WATER IN 1973. THE COMPANY OPERATES DESALINATION PLANTS THAT PRODUCE SUBSTANTIALLY ALL OF THE PIPED POTABLE WATER ON GRAND CAYMAN AND SERVES AS A MAJOR SOURCE OF POTABLE WATER IN THE BAHAMAS. THE COMPANY HAS EXPANDED ITS BUSINESS INTO THE U.S. THROUGH THE MANUFACTURE OF SPECIALTY WATER-RELATED PRODUCTS AND THE DEVELOPMENT AND MANAGEMENT OF WASTEWATER AND WATER REUSE INFRASTRUCTURE.

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ABOUT THE COMPANY

The Company installed its first seawater distillers in 1973 and its first seawater reverse osmosis (SWRO) plant in 1989 in Grand Cayman and, therefore, has more than 47 years of experience desalinating seawater with specifically more than 30 years of design, development and operational experience with SWRO technology. SWRO is used in all the Company's operations.

In 1990, the Company's exclusive retail water license to supply the famed Seven Mile Beach tourist area was expanded to include the residential district of West Bay.

In February 2003, Consolidated Water expanded its operations in the Cayman Islands through the acquisition of Ocean Conversion (Cayman) Limited and DesalCo Limited and also acquired affiliate operations in the British Virgin Islands.

Consolidated Water also acquired in February 2003, through private transactions and a tender offer, approximately 91% of the issued shares of Consolidated Water (Bahamas) Ltd., which produces and supplies water to the Water and Sewerage Corporation of The Bahamas to distribute to Nassau and the remainder of New Providence Island. In 2011, the Company completed the expansion of its Blue Hills plant in the Bahamas to make it the world's largest desalination plant utilizing diesel-driven high-pressure pumps to economically produce water without relying on the local electrical grid.

In February 2016, the Company acquired 51% of Aerex Industries, Inc., an original equipment manufacturer and service provider of a wide range of products and services applicable to desalination, municipal water treatment and industrial water and wastewater treatment. Aerex is located in Fort Pierce, Florida, and its products include reverse osmosis desalination equipment, membrane separation equipment, filtration equipment, piping systems, vessels and custom fabricated components. The Company acquired the remaining 49% ownership of Aerex in January 2020.

In October 2019, the Company acquired 51% of PERC Water Corporation, a U.S. company headquartered in Fountain Valley, California. PERC develops, builds, sells, operates and manages wastewater and water reuse infrastructure and has won numerous industry awards for its innovative designs and highly efficient project delivery model. The Company increased its ownership of PERC to 61% in August 2020.

The Company's desalination plants have small environmental footprints as a result of its extensive experience in the utilization of seawater well fields and its leadership in the reduction of energy consumption (driven by the necessity of operating in high energy cost locations). The Company is proud of its operating record in environmentally sensitive and high energy cost locations as these factors are often cited as barriers to desalination in potential new markets.



Dear Shareholders,

As we are all too aware, the COVID-19 pandemic presented unprecedented challenges for all of us in 2020. We are appreciative of the opportunities we have had to continue to serve our customers while they met the challenges they faced and will continue our contributions to help those in our service areas. Throughout the year, our Board of Directors and executive management collaborated closely to ensure that our company met its commitments to a broad range of stakeholders, including our employees, customers, and suppliers, the communities in which we operate, and of course, our shareholders.

Despite the substantial economic disruption created by the pandemic, we delivered positive financial results in 2020. Specifically:

- Consolidated revenue increased 6% to a record \$72.6 million.
- Services segment revenue increased to \$12.9 million, with \$12.5 million of the revenue due to acquiring a 51% controlling interest in PERC Water Corporation (“PERC”) in October 2019.
- Services segment gross profit was \$3.2 million versus \$0.5 million in 2019.
- Net income from continuing operations attributable to stockholders was \$8.6 million or \$0.56 per diluted share.
- Cash and cash equivalents totaled \$43.8 million as of December 31, 2020.
- We paid \$5.1 million in dividends.
- We acquired an additional 10% of PERC in October 2020, increasing our ownership to 61%.
- We acquired the remaining 49% interest in Aerex Industries, our specialty manufacturer of water treatment-related systems and products, in January 2020.

Our services segment, which is comprised principally of PERC, performed well despite the economic weakness in its marketplace. We are excited and encouraged about the possibilities for this segment of our business. We continue discussions with existing and potential new clients in California that are seeking cost-effective solutions to their wastewater treatment and potable water challenges. We believe that the pandemic has adversely affected the finances of many communities across our service areas, and they are increasingly looking for innovative public-private partnership arrangements to address their water issues. PERC’s excellent reputation and strong track record of successfully delivering projects through a wide range of project delivery models, including public-private partnerships, is very attractive to resource-conscious municipalities and private operators. We believe that conditions in the design-build market are also improving and that project activity will increase in 2021, which should prove quite positive for our PERC business.

Our retail segment’s revenue and operating income declined substantially due to a 13% decrease in the volume of water sold by Cayman Water as a result of the tourism restrictions enacted by the Cayman Islands government in response to the pandemic that were in effect for the last nine months of 2020. We believe that our retail business will eventually return to normal once the COVID-19 vaccines become more widely administered and tourism resumes in its Grand Cayman retail service area.

The decrease in our bulk segment revenue and operating income was due to two new water supply contracts that commenced in February and July of 2019 with the Water Authority-Cayman at lower per gallon rates than the contracts they replaced, as well as a decline in revenue of approximately \$1.5 million from our company’s Bahamas operations arising from lower energy prices which correspondingly reduced the energy pass-through component of CW-Bahamas’ rates.

From an operating income standpoint, our manufacturing segment’s performance improved in 2020. However, for inventory management purposes, Aerex’s largest customer has temporarily suspended its orders to Aerex through at least early 2022. We are therefore focusing on diversifying Aerex’s revenue by increasing sales of the other products it presently manufactures and new products it can manufacture for existing and new customers, an initiative we believe will prove beneficial well beyond 2021.

From an operational and financial perspective our company remains in very good shape. We have essentially no debt and more than ample liquidity and capital resources to pursue our strategic initiatives while continuing to be a valued partner for the customers we already have the privilege to serve.

Over the course of 2021, we plan to continue expanding our business through organic growth, acquisitions, and new projects, as we further develop and broaden our water solution offerings. Above all, we will continue to focus on business that will provide increasing value for our shareholders. I am confident that we will emerge from the pandemic better than ever.

Let me express once again that it is an honor and pleasure to serve as your Chairman. On behalf of our Board of Directors, executive management, and other employees I would like to thank you for your investment and confidence in our company.

Yours truly,



Wilmer F. Pergande
Chairman of the Board
March 31, 2021

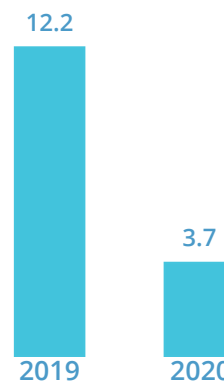
Total Revenue

(\$ in millions)



Net Income

(\$ in millions)



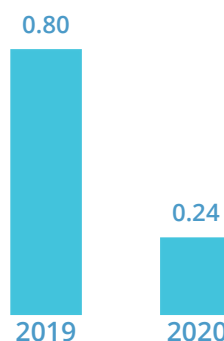
Stockholders' Equity At Year End

(\$ in millions)



Diluted Earnings Per Share


(in \$)





#OURWATER #WORKERS

SERVICE LOCATIONS



Fountain Valley, California

Fort Pierce, Florida

Bahamas

Grand Cayman

Jost Van Dyke
Tortola

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CONSOLIDATED WATER



2020
FORM
10-K

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

(Mark One)



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

For the fiscal year ended December 31, 2020

OR



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

For the transaction period from _____ to _____

Commission File Number: 0-25248

CONSOLIDATED WATER CO. LTD.

(Exact name of Registrant as specified in its charter)

CAYMAN ISLANDS
(State or other jurisdiction of
incorporation or organization)

98-0619652
(I.R.S. Employer
Identification No.)

Regatta Office Park
Windward Three, 4th Floor, West Bay Road
P.O. Box 1114
Grand Cayman, KY1-1102, Cayman Islands
(Address of principal executive offices)

N/A
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class: | Trading Symbol | Name of each exchange on which registered |
|--------------------------------|----------------|---|
| Common Stock, \$0.60 Par Value | CWCO | The NASDAQ Stock Market LLC (NASDAQ Global Select Market) |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Sec. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing sales price for the registrant's common shares, as reported on the NASDAQ Global Select Market on June 30, 2020, was \$207,036,890.

As of March 26, 2021, 15,169,687 shares of the registrant's common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Proxy Statement related to its 2021 Annual Shareholders' Meeting will be subsequently filed with the Securities and Exchange Commission and are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- tourism and weather conditions in the areas we serve;
- the impacts of the COVID-19 pandemic;
- the economic, political and social stability of each country in which we conduct or plan to conduct business;
- our relationships with the government entities and other customers we serve;
- regulatory matters, including resolution of the negotiations for the renewal of our retail license on Grand Cayman;
- our ability to successfully enter new markets; and
- other factors, including those “Risk Factors” set forth under Part I, Item 1A. “Risk Factors” in this Annual Report.

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

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

Note Regarding Currency and Exchange Rates

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

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

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

The official currency of the British Virgin Islands is the US\$.

PART I

ITEM 1. BUSINESS

Overview

Through our subsidiaries and affiliate, we provide the following services to our customers in the Cayman Islands, The Bahamas, the United States and British Virgin Islands:

- *Retail Water Operations.* We produce potable water from seawater utilizing reverse osmosis technology and supply this water to end-users, including residential, commercial and government customers in the Cayman Islands under an exclusive retail license issued by the Cayman Islands government to provide water in two of the three most populated areas on Grand Cayman. In 2020, our retail water operations generated approximately 32% of our consolidated revenue.
- *Bulk Water Operations.* We produce potable water from seawater utilizing reverse osmosis technology and supply this water to government-owned distributors in the Cayman Islands and The Bahamas. In 2020, our bulk water operations generated approximately 33% of our consolidated revenue.
- *Services Operations.* We design, construct and sell water production and water treatment plants, and we manage and operate water production plants and water treatment and reuse infrastructure for third parties. We also provide water related consulting services. In 2020, our services operations generated approximately 18% of our consolidated revenue.
- *Manufacturing Operations.* We manufacture and service a wide range of specialized and custom water-related products and systems applicable to commercial, municipal and industrial water production, supply and treatment. In 2020, our manufacturing operations generated approximately 17% of our consolidated revenue.
- *Affiliate Operations.* We own 50% of the voting rights and 43.53% of the equity rights of Ocean Conversion (BVI) Ltd., which produces and supplies bulk water to the British Virgin Islands Water and Sewerage Department.

As of December 31, 2020, the number of water production and water treatment plants we and our affiliate operated in each country, and the production capacities of these plants, were as follows:

| <u>Water Production Plant Location</u> | <u>Plants</u> | <u>Capacity⁽¹⁾</u> |
|--|---------------|-------------------------------|
| Cayman Islands | 7 | 9.9 |
| Bahamas | 2 | 14.8 |
| British Virgin Islands | 2 | 0.8 |
| Total | <u>11</u> | <u>25.5</u> |

(1) In millions of gallons per day.

| <u>Water Treatment Plant Location</u> | <u>Plants</u> | <u>Capacity⁽¹⁾</u> |
|---------------------------------------|---------------|-------------------------------|
| USA | 27 | 45.0 |
| Total | <u>27</u> | <u>45.0</u> |

(1) In estimated millions of gallons per day.

Strategy

We are a multifaceted water solutions company that serves a variety of customers through multiple product and service offerings. Presently, we:

- produce and sell potable water through the development and operation of water infrastructure that employs reverse osmosis technology to produce potable water from seawater;

- develop, sell and manage water treatment and water reuse system infrastructure that meets regulatory, environmental and commercial needs and requirements;
- fabricate/manufacture specialized and custom equipment and products employed in the production and treatment of water for municipal, commercial and industrial purposes; and
- provide water-related management and consulting services.

We expect to continue to expand and diversify our products, services and markets to meet the ever-expanding global demand for water.

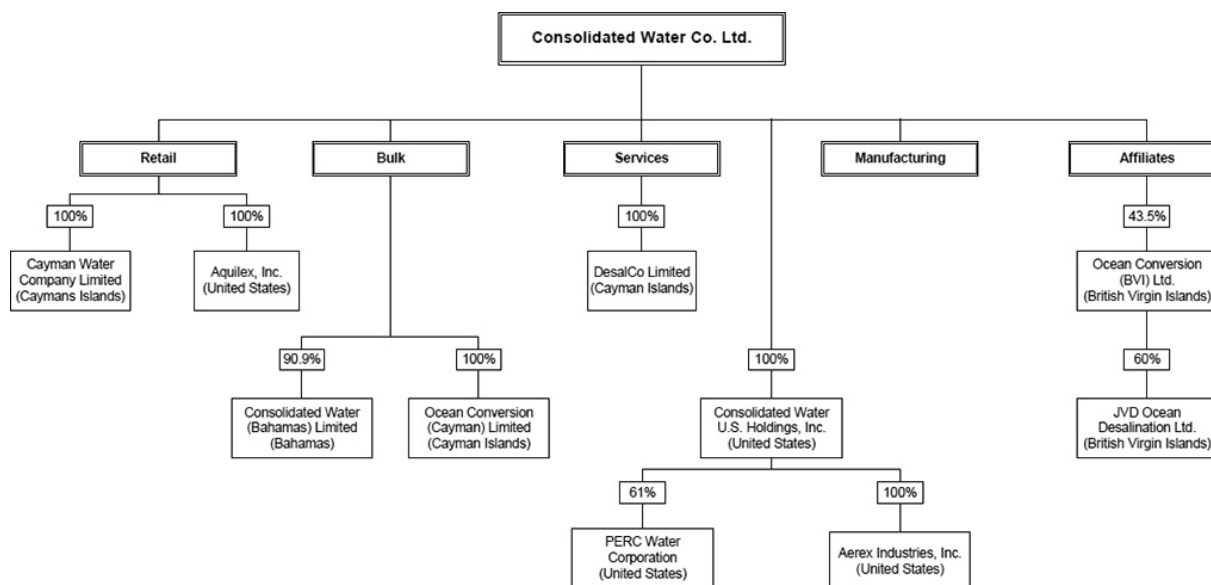
Key elements of our strategy include:

Market expansion. We continue to seek to expand our existing operations in the markets we believe have significant unfulfilled demands for desalinated potable water, water treatment and reuse systems and our other products and services. These markets include the Caribbean and the United States. We may also pursue business in other markets where we believe we can be successful.

Complementary products, services and businesses. We continue to aggressively pursue acquisitions or joint ventures that (i) complement and enhance our existing businesses; (ii) expand our product and service offerings and markets; and (iv) support our objective to be a multi-faceted water solution provider.

Our Company

We conduct our operations in the Cayman Islands, The Bahamas, the United States, and the British Virgin Islands through our subsidiaries and our affiliate. Our corporate organizational structure is as follows.



Retail Segment

Cayman Water Company Limited (“Cayman Water”). Cayman Water operates under an exclusive retail license granted by the Cayman Islands government to provide water to customers within a prescribed service area on Grand Cayman that includes the Seven Mile Beach and West Bay areas, two of the three most populated areas in the Cayman Islands. Cayman Water owns and operates four seawater reverse osmosis desalination plants. Cayman Water and the Water Authority-Cayman (“WAC”) (which is owned by the government) are Grand Cayman’s only water utilities.

Aquilex, Inc. (“Aquilex”). Aquilex, a U.S. company, provides financial, engineering, information technology, administrative and supply chain management support services to our subsidiaries and affiliate. We include Aquilex in our retail segment for financial segment reporting purposes; however, it provides services to all four of our business segments.

Bulk Segment

Consolidated Water (Bahamas) Limited (“CW-Bahamas”). We own 90.9% of CW-Bahamas, which provides bulk water under long-term contracts to the Water and Sewerage Corporation of The Bahamas (“WSC”), a government agency. CW-Bahamas owns and operates our largest desalination plant and one other desalination plant.

Ocean Conversion (Cayman) Limited (“OC-Cayman”). OC-Cayman provides bulk water under long-term contracts to the WAC, a government-owned utility and regulatory agency, which distributes the water to properties located outside our exclusive retail license service area on Grand Cayman. OC-Cayman built, sold and operates three seawater reverse osmosis desalination plants owned by the WAC.

Services Segment

DesalCo Limited (“DesalCo”). A Cayman Islands company, DesalCo provides design, management, engineering and construction services for desalination projects as well as management and engineering services relating to municipal water distribution and treatment.

PERC Water Corporation (“PERC”). On October 24, 2019, we purchased, through our wholly-owned U.S. subsidiary, Consolidated Water U.S. Holdings, Inc. (“CW-Holdings”), 51% of the equity in PERC, a U.S. company headquartered in Fountain Valley, California. PERC develops, builds, sells, operates and manages water, wastewater and water reuse infrastructure. In August 2020, we purchased an additional 10% ownership interest of PERC, increasing our ownership of this subsidiary to 61%.

Manufacturing Segment

Aerex Industries, Inc. (“Aerex”). In 2016, we purchased, through CW-Holdings, 51% of the equity in Aerex, a U.S. company located in Fort Pierce, Florida. Aerex is an original equipment manufacturer of a wide range of specialized and custom products and systems applicable to desalination, municipal water treatment and industrial water and wastewater treatment. Aerex’s products include reverse osmosis desalination equipment, membrane separation equipment, filtration equipment, piping systems, vessels and custom fabricated components. Aerex also offers engineering, design, consulting, inspection, training and equipment maintenance services to its customers. In January 2020, we acquired the remaining 49% equity interest in Aerex for \$8.5 million.

Affiliate

Ocean Conversion (BVI) Ltd. (“OC-BVI”). We own 50% of the voting stock of OC-BVI, a British Virgin Islands company, which sells bulk water to the Government of the British Virgin Islands Water and Sewerage Department. We own an overall 43.53% equity interest in OC-BVI’s profits and certain profit-sharing rights that raise our effective interest in OC-BVI’s profits to approximately 45%. OC-BVI also pays our subsidiary, DesalCo Limited, fees for certain engineering and administrative services. We account for our investment in OC-BVI under the equity method of accounting.

Discontinued Operations

Mexico project development

Consolidated Water Cooperatief, U.A. (“CW-Cooperatief”), N.S.C. Agua, S.A. de C.V. (“NSC”) and Aguas de Rosarito S.A.P.I. de C.V. (“AdR”). CW-Cooperatief is a wholly-owned Netherlands subsidiary incorporated in 2010. CW-Cooperatief owns 99.9% of NSC, a Mexican company. NSC was formed to pursue a project encompassing the design, construction, ownership and operation of a 100 million gallon per day seawater reverse osmosis desalination plant which was to be located in northern Baja California, Mexico and accompanying pipeline to deliver water to the Mexican potable water system (the “Project”).

On August 22, 2016, the Public Private Partnership Agreement for the Project (the “APP Contract”) was executed between AdR, the Comisión Estatal del Agua de Baja California (“CEA”), the Government of Baja California as represented by the Secretary of Planning and Finance and the Public Utilities Commission of Tijuana (“CESPT”).

On June 29, 2020, the Director General of CEA and the Director General of CESPT terminated the APP Contract. As a result of the cancellation of the APP Contract, we discontinued all development activities associated with the Project and commenced active marketing efforts to sell the land NSC purchased for the Project. Accordingly, the assets and liabilities of CW-Cooperatief, NSC and AdR, as well as all Project development expenses and the impairment loss these subsidiaries incurred, have been reclassified from the services segment to discontinued operations in the accompanying consolidated financial statements as of and for the year ended December 31, 2020.

CW-Belize

As of and through December 31, 2018, we sold bulk water in Belize through our wholly-owned subsidiary, Consolidated Water Belize Ltd. (“CW-Belize”), which is the exclusive provider of water in Ambergris Caye to Belize Water Services Ltd. (“BWSL”), a government-controlled entity which distributes the water through its own pipeline system to residential, commercial and tourist properties. BWSL distributes water primarily to residential properties, small hotels, and businesses that serve the tourist market. CW-Belize was included in our bulk segment.

In February 2019, we completed the sale (which was effective as of January 1, 2019) of CW-Belize to BWSL. See further discussion of this sale at Note 8 of the Notes to the Consolidated Financial Statements at ITEM 8 of this Annual Report.

Our Operations

For fiscal year 2020, our retail water, bulk water, services and manufacturing segments generated approximately 32%, 33%, 18% and 17%, respectively, of our consolidated revenue. For additional information about our business segments and geographical information about our operating revenue and long-lived assets, see Note 14 to our consolidated financial statements at ITEM 8 of this Annual Report.

Retail Water Operations

For fiscal years 2020 and 2019, our retail water operations accounted for approximately 32%, and 38%, respectively, of our consolidated revenue. This business produces and supplies water to end-users, including residential, commercial and government customers in the Cayman Islands.

Retail Operations in the Cayman Islands

We sell water through our retail operations under a license issued in July 1990 by the Cayman Islands government (the “1990 license”) that granted Cayman Water the exclusive right to provide potable water to customers within its licensed service area. Although the 1990 license was not expressly extended after January 2018, we continue to supply water under the terms of the 1990 license, as further discussed in the following paragraph. Pursuant to the 1990 license, Cayman Water has the exclusive right to produce potable water and distribute it by pipeline to its licensed service area, which consists of two of the three most populated areas of Grand Cayman: Seven Mile Beach and West Bay.

The 1990 license was originally scheduled to expire in July 2010 but was extended several times by the Cayman Islands government in order to provide the parties with additional time to negotiate the terms of a new license agreement. The most recent express extension of the license expired on January 31, 2018. We continue to operate under the terms of the 1990 license, providing water services to the level and quality specified in the 1990 license and in accordance with our understanding of its legal obligations, treating those obligations set forth in the 1990 license as operative notwithstanding the expiration of the express extension. We continue to pay the royalty required under the 1990 license.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office (“OfReg”). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and

regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for economic regulation of the water utility sector and the negotiations with us for a new retail license from the WAC to OfReg in May 2017. We began license negotiations with OfReg in July 2017 and such negotiations are ongoing. We have been informed during our retail license negotiations, both by OfReg and its predecessor in these negotiations, that the Cayman Islands government seeks to restructure the terms of our license in a manner that could significantly reduce the operating income and cash flows we have historically generated from our retail license.

See also ITEM 1.A. RISK FACTORS and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Material Commitments, Expenditures and Contingencies — *Cayman Water Retail License*.

Our retail operations in the Cayman Islands produce potable water at four seawater reverse osmosis desalination plants in Grand Cayman located at our Abel Castillo Water Works ("ACWW"), Britannia and West Bay sites. We own the land for our ACWW and West Bay plants and have entered into a lease for the land for our Britannia plant that expires January 1, 2027. The current aggregate production capacity of the two plants located at ACWW is 3.0 million gallons of water per day. The production capacity of the Britannia plant is 715,000 gallons of water per day. The production capacity of the West Bay plant is 885,000 gallons of water per day.

Electricity to our plants is supplied by Caribbean Utilities Co. Ltd., a publicly traded utility company. We maintain diesel engine-driven standby generators at all three retail plant sites with sufficient capacity to operate our distribution pumps and other essential equipment during any temporary interruptions in electricity supply. Standby generation capacity is available at our ACWW plants and West Bay plant to operate a portion of the water production capacity as well.

In the event of an emergency, our distribution system is connected to the distribution system of the WAC. In prior years, we have purchased water from the WAC for brief periods of time and have also sold potable water to the WAC from our retail plants.

Our pipeline system on Grand Cayman covers the Seven Mile Beach and West Bay areas and consists of approximately 90 miles of potable water pipeline. We extend our distribution system periodically as demand warrants. We have a main pipe loop covering the Seven Mile Beach and West Bay areas. We place extensions of smaller diameter pipe off our main pipe to service new developments in our service area. This system of building branches from the main pipe keeps construction costs low and allows us to provide service to new areas in a timely manner. Developers are responsible for laying the pipeline within their developments at their own cost, but in accordance with our specifications. When a development is completed, the developer then transfers operation and maintenance of the pipeline to us.

We bill our customers on a monthly basis based on metered consumption and bills are typically collected within 30 to 35 days after the billing date. Receivables not collected within 45 days subject the customer to disconnection from water service. In 2020 and 2019, bad debts represented less than 1% of our total annual retail sales. In addition to their past due invoice balance, customers that have had their service disconnected must pay re-connection charges.

Historically, demand on our water production and pipeline distribution has varied throughout the year. Demand depends upon various factors, most notably rainfall amounts and the number of tourists during any particular time of the year. In general, the majority of tourists come from the United States during the winter which is also the dry season in the Cayman Islands. The COVID-19 pandemic and the resulting cessation of tourism to the Cayman Islands have significantly reduced demand for our water. We are unable at this time to determine if or when demand for our water in the Cayman Islands will return to pre-pandemic levels.

Bulk Water Operations

For fiscal years 2020 and 2019, our bulk water operations accounted for approximately 33% and 39%, respectively, of our consolidated revenue. These operations produce potable water from seawater and sell this water to governments in the Cayman Islands and The Bahamas.

Bulk Water Operations in the Cayman Islands

Through our wholly-owned subsidiary OC-Cayman we provide bulk water to the WAC, a government-owned utility and regulatory agency, under two agreements. The WAC in turn distributes that water to properties in Grand Cayman outside of our retail license area.

The water we provide to the WAC is produced at three seawater reverse osmosis desalination plants in Grand Cayman owned by the WAC but designed, built and operated by OC-Cayman: the North Sound, Red Gate and North Side Water Works (“NSWW”) plants, which have production capacities of approximately 1.6 million, 1.3 million and 2.4 million gallons of water per day, respectively. The plants we operate for the WAC are located on land owned by the WAC.

In response to a public bidding process for a new operations and maintenance agreement encompassing both the North Sound and Red Gate plants, OC-Cayman submitted a bid for the new agreement. In August 2018, the WAC accepted OC-Cayman’s bid for the new agreement, and the WAC and OC-Cayman entered into a new five-year contract commencing on February 1, 2019 for the operation of the North Sound and Red Gate plants. The terms of the new agreement are substantially consistent with those of the prior North Sound and Red Gate water supply agreements, except that (i) we have decreased the price we charge for the water supplied; and (ii) under the new agreement the WAC pays the energy costs for the operation of these plants directly to the utility company rather than paying OC-Cayman pass-through energy charges for these costs. The per gallon price we charged for the water supplied under the new agreement in February 2019, excluding the effect of the pass-through energy component, was approximately 25% less than the per gallon rate we charged in February 2018 under the prior agreements which expired contemporaneously with the new agreements coming into force. As a result of this price reduction (and assuming comparable sales volumes), the revenues and operating income we generate from the North Sound and Red Gate plants commencing February 1, 2019 is less than the revenues and operating income we generated from these plants under the previous agreements.

Pursuant to a public bidding process, in February 2019 we submitted our bid to operate and maintain the third plant operated by OC-Cayman for the WAC, the North Side Water Works (“NSWW”) plant, for a period of seven years after the then current contract expired. In April 2019, the WAC accepted OC-Cayman’s bid for the new agreement, and the WAC and OC-Cayman entered into a new seven-year contract commencing on July 1, 2019 for the operation of the NSWW plant. The previous operating agreement for the NSWW plant expired in June 2019. The per gallon price for the water supplied under the new agreement, excluding the pass-through energy component, is approximately 29% less than the price in effect as of June 30, 2019 and December 31, 2018. The remaining terms of the new agreement are substantially consistent with those of the prior NSWW water supply agreement, except that under the new agreement the WAC will pay the energy costs for the operation of this plant directly to the utility company rather than reimburse OC-Cayman for these costs.

Bulk Water Operations in The Bahamas

We sell bulk water in The Bahamas through our majority-owned subsidiary, CW-Bahamas, to the WSC, which distributes the water through its own pipeline system to residential, commercial and tourist properties on the Island of New Providence. We also sold water to a private resort on Bimini through December 18, 2020.

We supply bulk water in The Bahamas from our Windsor and Blue Hills plants.

Our water supply agreement with the WSC for our Windsor plant, which has a capacity of 2.8 million gallons per day, expires in August 2033 and requires us to deliver and requires the WSC to purchase a minimum of 16.8 million gallons per week. Pursuant to this agreement, CW-Bahamas was required to complete capital improvements to the Windsor plant to ensure that the plant can meet its performance guarantees during the agreement period. These improvements were completed during the fourth quarter of 2018.

We supply water from the Blue Hills plant, our largest seawater reverse osmosis desalination facility with a capacity of 12.0 million gallons per day, under the terms of a water supply agreement with the WSC that expires in March 2032 that requires us to deliver and requires the WSC to purchase a minimum of 63.0 million gallons of water each week.

The Bimini plant supplied water to a private resort under a water supply agreement that expired on December 18, 2020. This plant ceased operations on that date and the plant’s remaining assets were sold to one of our former customers in Bimini.

The high-pressure pumps at our Windsor and Blue Hills plants in The Bahamas are diesel engine-driven. Electricity for the remainder of our plant operations is supplied by Bahamas Power and Light (“BPL”). We maintain a standby generator with sufficient capacity to operate essential equipment at our Windsor and Blue Hills plants and are able to produce 100% of the production capacity with these plants during temporary interruptions in the electricity supply from BPL.

Services Operations

For fiscal years 2020 and 2019, our services operations accounted for approximately 18% and 3%, respectively, of our consolidated revenue.

We provide design, engineering and construction services for desalination infrastructure projects through DesalCo, an original equipment manufacturer of seawater reverse osmosis desalination plants. DesalCo also provides management and procurement services for desalination plants and engineering services relating to municipal water production, distribution and treatment. DesalCo also conducts research and development. DesalCo sometimes tests new components and technology offered by suppliers in our business and, at times, collaborates with suppliers in the development of their products. Presently, DesalCo is providing management and purchasing services to our affiliate OC-BVI in the British Virgin Islands. In the past, DesalCo has provided consulting services to the WSC and constructed and sold desalination plants to the WAC.

On October 24, 2019, we acquired 51% of the common stock of PERC, a U.S. company headquartered in Fountain Valley, California, which commenced operations in 2004. In August 2020, we acquired an additional 10% of PERC, increasing our ownership of this subsidiary to 61%. PERC develops, builds, and sells wastewater and water reuse infrastructure. PERC also provides management services for wastewater and water reuse infrastructure under long term operations and maintenance contracts. PERC’s primary markets are California and the Southwest U.S., but it conducts business in other areas of the U.S.

Manufacturing Operations

For fiscal years 2020 and 2019, our manufacturing operations accounted for approximately 17% and 20%, respectively, of our consolidated revenue. Our manufacturing operations consists of Aerex, an original equipment manufacturer and service provider of a wide range of specialized and custom products applicable to desalination, municipal water treatment and industrial water and wastewater treatment. Aerex’s products include reverse osmosis desalination equipment, membrane separation equipment, filtration equipment, piping systems, vessels and custom fabricated components. Aerex’s manufacturing facility and headquarters are located in Fort Pierce, Florida and substantially all of its customers are U.S. companies. We acquired a 51% ownership interest in Aerex in 2016, and in January 2020 we acquired the remaining 49% ownership of Aerex.

Affiliate Operations

Our affiliate, OC-BVI, sells water to the Government of the British Virgin Islands Water and Sewerage Department (“BVIW&S”). We own 50% of the voting shares of OC-BVI and have an overall 43.53% equity interest in the profits of OC-BVI. We also own separate profit-sharing rights in OC-BVI that raise our effective interest in OC-BVI’s profits from 43.53% to approximately 45%. Sage Water Holdings (BVI) Limited (“Sage”) owns the remaining 50% of the voting shares of OC-BVI and the remaining 55% interest in its profits. Under the Articles of Association of OC-BVI, we have the right to appoint three of the six Directors of OC-BVI. Sage is entitled to appoint the remaining three Directors. In the event of a tied vote of the Directors, the President of the Caribbean Water and Wastewater Association, a regional trade association comprised primarily of government representatives, is entitled to appoint a junior director to cast a deciding vote.

Through DesalCo, we provide certain engineering and administrative services to OC-BVI for a monthly fee and a bonus arrangement which provides for payment of 4% of the net operating income of OC-BVI.

We account for our investment in OC-BVI using the equity method of accounting.

OC-BVI sells bulk water to BVIW&S, which distributes the water through its own pipeline system to residential, commercial and tourist properties on the islands of Tortola and Jost Van Dyke in the British Virgin Islands.

OC-BVI owns and operates a desalination plant located at Bar Bay, Tortola with a capacity of 720,000 gallons per day. Pursuant to a water supply agreement with the BVI government, OC-BVI is required to supply up to 600,000 gallons per day to the BVI government. This water supply agreement expires March 2031.

OC-BVI purchases electrical power to operate this plant from BVI Electric Co. and operates diesel engine driven emergency power generators which can produce 100% of the plant's production capacity when BVI Electric Co. is unable to provide power to the plant.

OC-BVI's plant on the island of Jost Van Dyke has a capacity of 60,000 gallons per day. This plant operates under a 10-year contract with the BVI government that expired July 8, 2013. Pursuant to the contract, OC-BVI is operating the plant on a year-to-year basis until the BVI government informs OC-BVI of its intention to extend the existing contract or enter into a new agreement. We purchase electrical power to operate this plant from BVI Electric Co.

Reverse Osmosis Technology

The conversion of seawater to potable water is called desalination. The primary method of seawater desalination used throughout the world is reverse osmosis. Reverse osmosis is a fluid separation process in which the saline water (i.e. seawater) is pressurized and the fresh water is separated from the saline water by passing through a semi-permeable membrane which rejects the salts. The saline water is first passed through a pretreatment system, which generally consists of fine filtration and treatment chemicals, if required. Pretreatment removes suspended solids and organics which could cause fouling of the membrane surface. Next, a high-pressure pump pressurizes the saline water thus enabling approximately 40% conversion of the saline water to fresh water as it passes through the membrane, while more than 99% of the dissolved salts are rejected and remain in the now concentrated saline water. This concentrate is discharged without passing through the membrane, and the remaining hydraulic energy in the concentrate is transferred to the initial saline feed water with an energy recovery device thus reducing the total energy requirement for the reverse osmosis system. The final step is post-treatment, which consists of stabilizing the produced fresh water and/or removing undesirable dissolved gases, adjusting the pH and (if necessary) the mineral content, and providing chlorination to prepare it for distribution.

We use reverse osmosis technology to convert seawater to potable water at all of the desalination plants we construct and operate. We believe that this technology is the most effective and efficient conversion process for our markets. However, we are always seeking ways to maximize efficiencies in our current processes and investigating new, more efficient processes to convert seawater to potable water. The equipment at our desalination plants is among the most energy efficient available and we monitor and maintain the equipment in an efficient manner. As a result of our decades of experience in seawater desalination, we believe our expertise and experience with respect to the development and operation of desalination plants and similar facilities is easily transferable to locations outside of our current operating areas.

Wastewater Treatment Technology

Our wastewater treatment comprises various technologies which rely on the action of microorganisms to treat wastewater. The sequential batch reactor ("SBR") technology we typically use is a conventional, proven method which has been used to treat organic wastewater for many years. More than 1,000 SBR treatment facilities are in use in the United States ranging in size from 10,000 gallons per day to 22 million gallons per day. Increasingly, we utilize Membrane Bioreactor ("MBR") technology which utilizes micro or ultra-filtration membranes to enhance biological wastewater treatment. The improvements offered by MBR technology include a reduced physical footprint for the facility, higher quality treated effluent and the ability to treat more challenging influent.

PERC has improved upon the standard SBR and MBR processes and strives to locate its equipment underground and concealed below aesthetically pleasing buildings.

Raw Materials and Sources of Supply

All materials, parts and supplies essential to our business operations are obtained from multiple sources and we use the latest industry technology. Prior to our acquisition of Aerex, we did not manufacture any parts or components for equipment essential to our business. Aerex has manufactured some of the key components for

some of our desalination plants in the past and we expect Aerex to continue to do so from time to time, however, our other businesses are not dependent on Aerex.

Our access to seawater for processing into potable water is granted through our licenses and contracts with governments of the various jurisdictions in which we have our operations.

Seasonal Variations in Our Business

Demand for our water in the Cayman Islands, The Bahamas and the British Virgin Islands is affected by variations in the level of tourism and rainfall. Tourism in our service areas is affected by the economies of the tourists' home countries, primarily the United States and Europe, terrorist activity and perceived threats thereof, global health concerns such as COVID-19, and increased costs of fuel and airfares. In the Cayman Islands, we normally sell more water during the first and second quarters of the year, when the number of tourists is greater and local rainfall is less than in the third and fourth quarters. The COVID-19 pandemic and the resulting cessation of tourism to the Cayman Islands have significantly reduced demand for our water. We are unable at this time to determine if or when demand for our water in the Cayman Islands will return to pre-pandemic levels. Demand in The Bahamas has not been affected to the same degree by the recent drop in tourism resulting from the COVID-19 pandemic.

The business conducted by Aerex and PERC is generally not subject to seasonal variations.

Government Regulations, Custom Duties and Taxes

Our operations and activities are subject to the governmental regulations and taxes of the countries in which we operate. The following summary of regulatory developments and legislation does not purport to describe all present and proposed regulation and legislation that may affect our businesses. Legislative or regulatory requirements currently applicable to our businesses may change in the future. Any such changes could impose new obligations on us that may adversely affect our businesses and operating results. The following paragraphs set forth some of the key governmental regulations in the jurisdictions in which we operate outside of the United States.

The Cayman Islands

The Cayman Islands are a British Overseas Territory and has had a stable political climate since 1670, when the Treaty of Madrid ceded the Cayman Islands to England. The Queen of England appoints the Governor of the Cayman Islands to make laws with the advice and consent of the Parliament of the Cayman Islands. The Parliament of the Cayman Islands consists of 19 elected members and two members appointed by the Governor from the Civil Service. The Cabinet is responsible for day-to-day government operations. The Cabinet consists of the Premier and six other ministers who are chosen by the Premier from its 19 popularly elected members, and the two Civil Service members. The elected members choose from among themselves a leader, who is designated the Premier, and is in effect the leader of the elected government. The Governor has reserved powers and the United Kingdom retains full control over foreign affairs and defense. The Cayman Islands are a common law jurisdiction and have adopted a legal system similar to that of the United Kingdom.

The Cayman Islands have no taxes on profits, income, distributions, capital gains or appreciation. We have exemptions from, or receive concessionary rates of customs duties on, certain capital expenditures for plant and major consumable spare parts and supplies imported into the Cayman Islands under our retail water license. We do not pay import duty or taxes on reverse osmosis membranes, electric pumps and motors, and chemicals, but we do pay duty at the rate of 10% of the cost, including insurance and transportation to the Cayman Islands, of other plant and associated materials and equipment to manufacture or supply water in the Seven Mile Beach or West Bay areas. We have been advised by the Government of the Cayman Islands that we will not receive any duty concessions in any new retail water license signed with the government.

The Bahamas

The Commonwealth of The Bahamas is an independent nation and a constitutional parliamentary democracy with the Queen of England as the constitutional head of state. The basis of the Bahamian law and legal system is the English common law tradition with a Supreme Court, Court of Appeals, and a Magistrates court.

Under the current laws of the Commonwealth of The Bahamas, no income, corporation, capital gains or similar taxes are payable by us. We are required to pay an annual business license fee (the calculation of which

is based on our preceding year's financial statements) which to date has not been material to the results of our Bahamas operations. We are also required to pay a value added tax on materials and services we purchase.

The British Virgin Islands

The British Virgin Islands (the "BVI") is a British Overseas Territory, with the Queen of England as the Head of State and Her Majesty's representative, the Governor, responsible for external affairs, defense and internal security, the Civil Service and administration of the courts. Since 1967, the BVI has held responsibility for its own internal affairs.

The BVI Constitution provides for the people of the BVI to be represented by a ministerial system of government, led by an elected Premier, a Cabinet of Ministers and the House of Assembly. The House of Assembly consists of 13 elected representatives, the Attorney General, and the Speaker.

The judicial system, based on English law, is under the direction of the Eastern Caribbean Supreme Court, which includes the High Court of Justice and the Court of Appeal. The ultimate appellate court is the Privy Council in London.

Markets and Service Areas

We operate in the Cayman Islands, The Bahamas, the United States and the British Virgin Islands. We believe that potential new markets for us include (i) any location where a need for potable water exists and reverse osmosis desalination of seawater or brackish water is an economically viable means of meeting such need; (ii) any location with a need for the water treatment and water reuse infrastructure development and management services we provide; and (iii) those new customers that require specialized water production and treatment products and systems such as those we manufacture.

Cayman Islands. The Cayman Islands government, through the WAC, supplies water to the areas of Grand Cayman that are not within our licensed area, as well as to Cayman Brac. We operate all but one of the reverse osmosis desalination plants owned by the WAC on Grand Cayman and supply water under two agreements held by OC-Cayman with the WAC.

According to the most recent information published by the Economics and Statistics Office of the Cayman Islands Government, the population of the Cayman Islands was estimated in December 2019 to be 69,914. According to the figures published by the Department of Tourism Statistics Information Center, in 2020 as compared to 2019, tourist air arrivals decreased by 71% to approximately 145,000 and cruise ship tourist arrivals decreased by 71% to approximately 530,000.

We believe that our water sales in the Cayman Islands are more positively impacted by stay-over tourists that arrive by air than by those arriving by cruise ship, since cruise ship tourists generally only visit the island for one day or less and do not remain on the island overnight. Our water sales in the Cayman Islands are also greatly impacted by rainfall patterns and amounts on Grand Cayman. The COVID-19 pandemic and the resulting cessation of tourism to the Cayman Islands have significantly reduced demand for our water. We are unable at this time to determine if or when demand for our water in the Cayman Islands will return to pre-pandemic levels.

The Bahamas. The Bahamas government, through the WSC, supplies all of the piped water on the island of New Providence, Bahamas, which includes Nassau, the largest city, political capital and commercial hub of The Bahamas. We supply water to the WSC through the water supply agreements for our Blue Hills and Windsor plants, which are located in Nassau. New Providence is the most populous island in The Bahamas, with more than 70% of the country's population. A 2010 census placed the population of New Providence at approximately 246,000; more recent estimates suggest it is approximately 275,000. According to statistics published by the Bahamas Ministry of Tourism, the number of cruise ship arrival and air arrival tourists to New Providence exceeded 2.8 million and 1.3 million, respectively, in 2019 and are estimated to have dropped by more than 70% in each case in 2020.

British Virgin Islands. The British Virgin Islands are a British Overseas Territory and are situated east of Puerto Rico. They consist of 16 inhabited and more than 20 uninhabited islands, of which Tortola is the largest and most populated. The British Virgin Islands serve as a hub for many large yacht-chartering businesses.

Competition

Cayman Islands. Pursuant to our license granted by the Cayman Islands government, we have the exclusive right to provide potable, piped water within our licensed service area on Grand Cayman. The last express extension of this license expired on January 31, 2018. However, we continue to operate under the terms of this license, providing water services to the level and quality specified in the 1990 license and in accordance with its legal obligations, treating those obligations set forth in the license as operative notwithstanding the expiration of the express extension. Negotiations for a new license are on-going.

We are the only non-government-owned public water utility on Grand Cayman. The Cayman Islands government, through the WAC, supplies water to parts of Grand Cayman located outside of our licensed service area. Although we have no competition within our exclusive retail license service area for potable water, our ability to expand our service area is at the discretion of the Cayman Islands government. We have competed with such companies as SUEZ (formerly GE Water), Veolia, IDE Technologies and small local contractors for bulk water supply contracts with the WAC and expect to compete with these and other companies for any new water supply contracts awarded by the WAC.

The Bahamas. We have competed with companies such as SUEZ (formerly GE Water), Veolia, IDE Technologies, and TSG for the contracts with The Bahamas government to build and operate seawater desalination plants in the past. We expect to compete with these companies and others for any future water supply contracts in The Bahamas.

British Virgin Islands. In the British Virgin Islands, SUEZ (formerly GE Water) operates seawater reverse osmosis desalination plants in West End, Tortola, and on Virgin Gorda and generally bids against OC-BVI for projects. Seven Seas Water owns and operates a 2.75 million gallon per day desalination plant in Parakeeta Bay, Tortola for the British Virgin Islands government. We expect that OC-BVI will be required to compete against SUEZ (formerly GE Water), Seven Seas Water and other parties for any future business opportunities that may arise in the British Virgin Islands.

United States. Aerex competes in the highly fragmented industry for manufactured water production and treatment equipment and systems against a large number of manufacturers, fabricators and service providers, many of which have greater resources than Aerex.

Similar to Aerex, PERC competes in the highly fragmented industry for water treatment and water reuse infrastructure development and management against a large number of companies, many of which have greater resources than PERC.

Environmental and Health Regulatory Matters

Cayman Islands. With respect to our Cayman Islands operations, we operate our water plants in accordance with Cayman Islands laws and regulations. We are licensed by the WAC to extract seawater from wells and discharge concentrated seawater, which is a byproduct of our desalination process, into deep disposal wells.

Our Cayman Islands retail water license and bulk water operating contracts require our potable water to meet the World Health Organization's Guidelines for Drinking Water Quality and contain less than 200 mg/l of total dissolved solids.

The Bahamas and British Virgin Islands. With respect to our Bahamian operations and OC-BVI's British Virgin Islands operations, we and OC-BVI are required by our water supply contracts to take all reasonable measures to prevent pollution of the environment. We are licensed by the Bahamian government to discharge concentrated seawater, which is a by-product of our desalination process, into deep disposal wells. OC-BVI is licensed by the British Virgin Islands government to discharge concentrated seawater into the sea.

At several of our locations, hydrogen sulfide gas is present in the seawater and we are contractually obligated to operate our plants in a manner designed to prevent the emission of airborne gas into the environment.

United States. Consistent with other U.S. companies, Aerex and PERC must comply with various federal laws and regulations, such as those administered by the U.S. Environmental Protection Agency and the Occupational Safety and Health Administration, as well as state and local laws and regulations.

We are not aware of any existing or pending environmental legislation which may negatively affect our operations. Presently, we do not have any outstanding issues with any regulatory authority.

Human Capital

We are committed to a work environment that is welcoming, inclusive and encouraging. To achieve our plans and goals, it is imperative that we attract and retain top talent. In order to do so, we aim to have a safe and encouraging workplace, with opportunities for our employees to grow and develop professionally, supported by strong compensation, benefits, and other incentives. Historically, we have experienced a low turnover of employees.

As of March 26, 2021, we employed a total of 102 persons, 60 in the Cayman Islands, 22 in the United States, and 20 in The Bahamas. We also leased 20 employees for Aerex's manufacturing activities in the United States, leased 71 employees for PERC's activities in the United States and managed the five employees of OC-BVI in the British Virgin Islands. We have 15 management employees and 40 administrative and clerical employees. The remaining employees are engaged in engineering, purchasing, plant maintenance and operations, pipe laying and repair, leak detection, new customer connections, meter reading and laboratory analysis of water quality. We have no collective bargaining agreements with our employees, and none are represented by labor unions. We consider our relationships with our employees to be good.

Throughout the COVID-19 pandemic, some of our employees have been working remotely. We implemented a number of significant safety measures based on current guidelines recommended by the Centers for Disease Control for employees who work at our facilities. These include, but are not limited to, social distancing, capacity limitations, mask requirements in common areas, weekly deep cleaning and daily sanitation procedures.

Available Information

Our website address is <http://www.cwco.com>. Information contained on our website is not incorporated by reference into this Annual Report, and you should not consider information contained on our website as part of this Annual Report.

We have adopted a written code of conduct and ethics that applies to all of our employees and Directors, including, but not limited to, our principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions. The Code of Business Conduct and Ethics, the charters of the Audit Committee, Compensation Committee, Nominations and Corporate Governance Committee and the Corporate Governance Guidelines of our Board of Directors are available at the Investors section of our website.

You may access, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, plus amendments to such reports as filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, on our website and on the website of the Securities and Exchange Commission (the "SEC") as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition, paper copies of these documents may be obtained free of charge by writing us at the following address: Consolidated Water Co. Ltd., Regatta Office Park, Windward Three, 4th Floor, West Bay Road, P.O. Box 1114, Grand Cayman, KY1-1102, Cayman Islands, Attention: Investor Relations; or by calling us at (345) 945-4277.

ITEM 1A. RISK FACTORS

Investing in our common stock involves risks. Before investing in our common stock, you should consider carefully the factors discussed below and the information contained in this Annual Report. Each of these risks, as well as other risks and uncertainties not presently known to us or that we currently deem immaterial, could adversely affect our business, results of operations, cash flows and financial condition, and cause the value of our common stock to decline, which may result in the loss of part, or all, of your investment.

The COVID-19 pandemic will likely continue to have a material adverse impact on our financial performance and financial condition in the future, to an extent and for a period of time that cannot presently be determined.

The worldwide coronavirus (COVID-19) pandemic was formally recognized by the World Health Organization on March 11, 2020. In response to this pandemic, the governments of the countries in which we operate — the Cayman Islands, The Bahamas, and the United States — implemented preventative measures to slow the spread of COVID-19, measures which have had profound adverse consequences for the economies of those countries. Tourism, a major economic driver for the Cayman Islands, has temporarily ceased due to closing of the country to tourist arrivals by air and sea travel. Tourists arrivals to The Bahamas by air and sea have declined significantly due to the pandemic and continue to be only a small fraction of pre-pandemic numbers due to travel restrictions within and outside of The Bahamas, as well the continued reluctance of people to travel internationally. Overall economic activity in the United States has also declined precipitously.

As a result of the impact of the COVID-19 pandemic on the economies of the countries in which we operate, we have experienced, and will continue to experience, decreases in our consolidated revenue, cash flows generated from operations, and overall liquidity as compared to comparable prior periods.

Furthermore, the economic downturn created by the COVID-19 pandemic is adversely impacting our customers. Such adverse impacts, should they continue for a prolonged period of time, could require us to reassess the expected future cash flows from our four reporting units and could require us to record impairment losses to reduce the carrying values of one or more of these reporting units due to a decline in their fair values.

Although we cannot presently quantify the future financial impacts of the COVID-19 pandemic on our company, we believe such impacts will likely continue to have a material adverse impact on our consolidated financial condition, results of operations, and cash flows. Given the uncertainty associated with the resolution of this pandemic, we cannot presently determine how long such adverse financial impacts may last.

Our exclusive license to provide water to retail customers in the Cayman Islands has not been expressly extended and we are presently unable to predict the outcome of our on-going negotiations relating to this license.

We sell water through our retail operations under a license issued in July 1990 by the Cayman Islands government (the “1990 license”) that granted Cayman Water the exclusive right to provide potable water to customers within its licensed service area. Although the 1990 license was not expressly extended after January 2018, we continue to supply water under the terms of the 1990 license, as further discussed in the following paragraph. Pursuant to the 1990 license, Cayman Water has the exclusive right to produce potable water and distribute it by pipeline to its licensed service area, which consists of two of the three most populated areas of Grand Cayman Island: Seven Mile Beach and West Bay. In 2020 and 2019, we generated approximately 32% and 38%, respectively, of our consolidated revenue and 44% and 53%, respectively, of our consolidated gross profit from the retail water operations conducted under the 1990 license.

The 1990 license was originally scheduled to expire in July 2010 but was extended several times by the Cayman Islands government in order to provide the parties with additional time to negotiate the terms of a new license agreement. The most recent express extension of the license expired on January 31, 2018. We continue to operate under the terms of the 1990 license, providing water services to the level and quality specified in the 1990 license and in accordance with our understanding of its legal obligations, treating those obligations set forth in the 1990 license as operative notwithstanding the expiration of the express extension. We continue to pay the royalty required under the 1990 license.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office (“OfReg”). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services, and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and

regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for economic regulation of the water utility sector and the negotiations with us for a new retail license from the Water Authority-Cayman to OfReg in May 2017. We began license negotiations with OfReg in July 2017 and such negotiations are ongoing. We have been informed during our retail license negotiations, both by OfReg and its predecessor in these negotiations, that the Cayman Islands government seeks to restructure the terms of our license in a manner that could significantly reduce the operating income and cash flows we have historically generated from our retail license.

We are presently unable to determine what impact the resolution of our retail license negotiations will have on our cash flows, financial condition or results of operations but such resolution could result in a material reduction (or the loss) of the operating income and cash flows we have historically generated from our retail operations and could require us to record impairment losses to reduce the carrying values of our retail segment assets. Such impairment losses could have a material adverse impact on our consolidated financial condition, results of operations, and cash flows.

Periodically, our Bahamas subsidiary experiences substantial delays in the collection of its accounts receivable. As a result, our Bahamas subsidiary could have insufficient liquidity to continue operations, and our consolidated results of operations could be materially adversely affected.

CW-Bahamas' accounts receivable balances (which include accrued interest) due from the WSC amounted to \$16.8 million and \$18.4 million as of December 31, 2020 and 2019, respectively. Approximately 76% of the December 31, 2020 accounts receivable balance was delinquent as of that date. The delay in collecting these accounts receivable has adversely impacted the liquidity of this subsidiary.

Historically, CW-Bahamas has experienced delays in collecting its accounts receivable from the WSC. When these delays occur, we hold discussions and meetings with representatives of the WSC and The Bahamas government, and as a result, payment schedules are developed for WSC's delinquent accounts receivable. All previous delinquent accounts receivable from the WSC were eventually paid in full. Based upon this payment history, CW-Bahamas has never been required to provide an allowance for doubtful accounts for any of its accounts receivable, despite the periodic accumulation of significant delinquent balances. As of December 31, 2020, we have not provided an allowance for doubtful accounts for CW-Bahamas' accounts receivable from the WSC.

We believe the delays we have experienced in collecting CW-Bahamas' receivables have been further extended by the impact of the COVID-19 pandemic on the economy of The Bahamas.

If CW-Bahamas continues to be unable to collect a significant portion of its delinquent accounts receivable, one or more of the following events may occur: (i) CW-Bahamas may not have sufficient liquidity to meet its obligations; (ii) we may be required to cease the recognition of revenue on CW-Bahamas' water supply agreements with the WSC; and (iii) we may be required to provide an allowance for doubtful accounts for CW-Bahamas' accounts receivable. Any of these events could have a material adverse impact on our consolidated financial condition, results of operations, and cash flows.

Most of our services segment revenue is generated under short term contracts. An inability to obtain extensions of these contracts or to obtain new contracts to replace the revenue that is lost from contracts that are not extended could adversely impact our financial results.

PERC, our principal services segment subsidiary, generates most of its revenue from contracts ("O&M contracts") to operate and maintain water treatment and reuse facilities owned by third parties. For the year ended December 31, 2020, we generated revenue of approximately \$9.2 million under these O&M contracts. PERC's O&M contracts have terms ranging from one to five years, with varying renewal options exercisable solely at the discretion of the customer. Approximately 19% of PERC's revenue for the year ended December 31, 2020 was generated under O&M contracts that expire at various dates through December 31, 2021. If we are unable to obtain extensions of these expiring O&M contracts, or are unable to replace the revenue lost from contracts that expire with revenue from new O&M contracts, our consolidated financial condition, results of operations, and cash flows could be adversely affected.

If Aerex's future financial performance falls short of our most recent financial projections for this subsidiary, we may be required to record an impairment loss to reduce the carrying value of the goodwill recorded for our manufacturing reporting unit.

In February 2016, we acquired a 51% ownership interest in Aerex. In connection with this acquisition, we recorded initial goodwill of \$8,035,211. Aerex's actual results of operations in the six months following our acquisition of this company fell significantly short of the projected results that were included in the overall cash flow projections we utilized to determine the purchase price for Aerex and the fair values of its assets and liabilities. Due to this shortfall in Aerex's results of operations, we updated our projections for Aerex's future cash flows and tested Aerex's goodwill for possible impairment as of September 30, 2016 by estimating its fair value using the discounted cash flow method. As a result of this impairment testing, we determined that the carrying value of our Aerex goodwill exceeded its fair value and recorded an impairment loss of \$1,750,000 for the three months ended September 30, 2016 to reduce the carrying value of this goodwill to \$6,285,211. As part of our annual impairment testing of goodwill performed during the fourth quarter of each year, we updated our projections for Aerex's future cash flows, determined that the carrying value of our Aerex goodwill exceeded its fair value, and recorded an impairment loss of \$1,400,000 for the three months ended December 31, 2017 to further reduce the carrying value of this goodwill to \$4,885,211.

Approximately 80% and 68% of Aerex's revenue, and 89% and 68% of Aerex's gross profit, for the years ended December 31, 2020 and 2019, respectively, were generated from sales to one customer. In October 2020, this customer verbally informed Aerex that, for inventory management purposes, it was suspending its purchases from Aerex following 2020 for a period of approximately one year. This customer has verbally informed Aerex that it presently expects to recommence its purchases from Aerex beginning with the first quarter of 2022. However, we can offer no assurances that this customer will recommence its purchases from Aerex at that time. Furthermore, any such future purchases (should they occur) may not generate as much revenue and gross profit as Aerex has historically earned from this customer. We are seeking to replace the anticipated loss in revenue and gross profit from this customer by increasing sales of other products that we manufacture to new and existing customers, however, we may not be able to do so.

As a result of this anticipated loss of revenue for Aerex, we updated our projections for our manufacturing reporting unit's future cash flows. Such projections assume, in part, that Aerex's major customer will recommence its purchases from Aerex in 2022 but at a reduced aggregate amount, as compared to 2020 and 2019. Based upon these updated projections, we tested our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020. As a result of this impairment testing, we determined that the estimated fair value of our manufacturing reporting unit exceeded its carrying value as of December 31, 2020. However, we may be required to record an impairment loss in the future to reduce the carrying value of our manufacturing reporting unit's goodwill should we determine that Aerex's future net cash inflows will be less than our most current expectations. Any such impairment loss could have a material adverse impact on our consolidated financial condition and results of operations.

The profitability of our contracts is dependent upon our ability to accurately estimate construction and operating costs.

The cost estimates we prepare in connection with the construction and operation of our plants are subject to inherent uncertainties. Additionally, the terms of our water supply contracts may require us to guarantee the price of water on a per unit basis, subject to certain annual inflation and monthly energy cost adjustments, and to assume the risk that the costs associated with producing this water may be greater than anticipated. Because we base our contract prices in part on our estimation of future construction and operating costs, the profitability of our plants and management contracts is dependent on our ability to estimate these costs accurately. The cost of materials and services and the cost of the delivery of such services may increase significantly after we submit our bid for a plant, which could cause the gross profit for a plant to be less than we anticipated when the bid was made. The profit margins we initially expect to generate from a plant could be further reduced if future operating costs for that plant exceed our estimates of such costs. These future operating costs could be affected by a variety of factors, including lower than anticipated production or treatment efficiencies and geo-hydrological conditions at the plant site that differ materially from those we believed would exist at the time we submitted our bid. Any construction and operating costs for our plants that significantly exceed our initial estimates could adversely impact our results of operations, financial condition and cash flows.

A significant portion of our consolidated revenue is derived from our water supply agreements with the WSC. The loss of the WSC as a customer would adversely affect us.

One bulk water customer, the WSC, accounted for approximately 30% of our consolidated revenue for the year ended December 31, 2020. If, for financial or other reasons, the WSC does not comply with the terms of our water supply agreements our consolidated financial condition, results of operations, and cash flows could be materially adversely affected.

Our operations are affected by tourism and are subject to seasonal fluctuations and other factors beyond our control that could affect the demand for our water.

Demand for our water in the Cayman Islands and The Bahamas is affected by variations in the level of tourism and local weather, primarily rainfall. Tourism in our service areas is affected by the economies of the tourists' home countries, primarily the United States and Europe, terrorist activity and perceived threats thereof, global health concerns (such as COVID-19), and increased costs of fuel and airfare. In the Cayman Islands, we normally sell more water during the first and second quarters of the year, when the number of tourists is greater and local rainfall is less than in the third and fourth quarters. A downturn in tourism or greater than expected rainfall in the locations we serve could adversely impact our results of operations and cash flows. The COVID-19 pandemic and the resulting cessation of tourism to the Cayman Islands have significantly reduced demand for our water. We are unable at this time to determine if or when demand for our water in the Cayman Islands will return to pre-pandemic levels. Demand in The Bahamas has not been affected to the same degree by the recent drop in tourism resulting from the COVID-19 pandemic.

Performance shortfalls under any of our bulk supply contracts could result in penalties or cancellation of the contract.

Our bulk water supply agreements require us to meet specified minimum quality, quantity and energy consumption guarantees. Membrane fouling or other technical problems could occur at any of our plants, and if we are unable to meet the guarantees due to such technical problems, we could be in default of the supply agreement and subject to various adverse consequences, including financial penalties or cancellation of the agreement.

Our operations could be harmed by natural disasters such as hurricanes, tropical storms or earthquakes.

A natural disaster could cause major damage to our equipment and properties and the properties of our customers, including the large tourist properties in our areas of operation. For example, in January 2020, Grand Cayman experienced an earthquake which damaged our storage tanks. Any future disaster could cause us to lose use of our equipment and properties and incur additional repair costs. Damage to our customers' properties and the adverse impact on tourism could result in a decrease in water demand. A natural disaster could also disrupt the delivery of equipment and supplies, including electricity, necessary to our operations. These and other possible effects of natural disasters could have a material adverse impact on our consolidated financial condition, results of operations, and cash flows.

Contamination of our water may cause disruption in our services and adversely affect our revenue.

Our feed water and/or processed water may become contaminated by natural occurrences and by inadvertent or intentional human interference, including acts of terrorism. If our feed water and/or processed water becomes contaminated, we may have to interrupt our supply of potable water until we are able to install treatment equipment or substitute the flow of water from an uncontaminated water source. In addition, we may incur significant costs in order to treat contaminated feed or processed water through expansion of our current treatment facilities, or development of new treatment methods. An inability by us to substitute feed water from an uncontaminated water source or to adequately treat the contaminated plant feed water or our processed water in a cost-effective manner may have an adverse effect on our results of operations, cash flows and financial condition.

Potential government decisions, actions and regulations could negatively affect our operations.

We are subject to the local regulations of the Cayman Islands, The Bahamas and the British Virgin Islands, all of which are subject to change. Any government that regulates our operations may issue legislation or adopt new regulations, including but not limited to:

- restricting foreign ownership (by us);
- providing for the expropriation of our assets by the government;
- providing for nationalization of public utilities by the government;
- providing for different water quality standards;
- unilaterally changing or renegotiating our license and agreements;
- restricting the transfer of U.S. currency; or
- causing currency exchange fluctuations/devaluations or enacting changes in tax laws.

As new laws and regulations are issued, we may be required to modify our operations and business strategy, which we may be unable to do in a cost-effective manner. Failure by us to comply with applicable regulations could result in the loss of our authorizations to operate, the assessment of penalties or fines, or otherwise may have a material adverse impact on our consolidated financial condition, results of operations and cash flows.

Unforeseen environmental costs could adversely affect our business and results of operations.

We are subject to various federal, state, local and foreign laws and regulations concerning environmental protection, including laws addressing water quality and contamination, the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. In particular, we face increasing complexity in our operations as we adjust to new and future requirements relating to water quality, the composition of our other products, their safe use, the energy consumption associated with our operations, and climate change laws and regulations. If we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws, we could incur substantial costs or face other sanctions, which may include restrictions on operating in certain jurisdictions. Our potential exposure includes fines and civil or criminal sanctions, third-party property damage, personal injury claims and clean-up costs. Further, liability under some environmental laws relating to contaminated sites can be imposed retroactively, on a joint and several basis, and without any finding of noncompliance or fault. The amount and timing of costs to comply with environmental laws are difficult to predict. In addition, any complaints or lawsuits against us based on water quality and contamination may receive negative publicity that can damage our reputation and adversely affect our business and trading price of our common stock.

If we fail to abide by laws, rules and regulations relating to human and workers' rights, we could be subject to suit and our reputation could be harmed, which could result in losses in our business and financial results.

We are subject to various federal, state, local and foreign laws and regulations concerning human rights, including laws prohibiting discrimination, harassment, and forced or child labor, and establishing wage and hour standards. If we were to violate or become liable under human or workers' laws, we could incur substantial costs or face other sanctions. Our potential exposure includes fines and civil or criminal sanctions or liability. The amount and timing of costs to comply with human and workers' rights laws are difficult to predict. Additionally, the success of our business depends on earning and maintaining the trust and confidence of our customers, suppliers, stockholders and the communities in which we operate, our ability to compete for future opportunities, and our reputation among existing and potential clients and partners. Our reputation is critical to our business and could be impacted by events that may be difficult or impossible to control, and costly or impossible to remediate. For example, alleged or actual failures by us or our employees to comply with applicable human or workers' rights laws, rules or regulations, expectations and perceptions of our employment and environmental, social and governance practices, threatened or actual litigation against us or our employees, or the public announcement and potential publicity surrounding any of these issues, even if inaccurate, satisfactorily addressed, or if no violation or wrongdoing actually occurred, could adversely impact our reputation and relationships with customers, suppliers, stockholders and the communities in which we operate, and our ability to renew or negotiate new agreements for projects. Any such failure or reputational harm could have an adverse effect on our financial condition and results of operations.

We rely on the efforts of key employees. Our failure to retain these employees could adversely affect our results of operations.

Our success depends upon the abilities of our Executive Officers. In particular, the loss of the services of Frederick W. McTaggart, our President and Chief Executive Officer, could be detrimental to our operations

and our continued success. Mr. McTaggart has an employment agreement expiring on December 31, 2023. Each year, the term of this agreement may be extended for an additional year. However, we cannot guarantee that Mr. McTaggart will continue to work for us during the term of his agreement or will extend his employment agreement with us.

Our business could be adversely affected by cyber threats or other interruptions in information technology, communications networks and operations.

As part of our operations, we rely on computer systems to process transactions and communicate with our suppliers and other third parties. We rely on continued and unimpeded access to secure network connections to communicate between locations and on reliable internet connections to communicate with external parties. We have physical, technical and procedural safeguards in place that are designed to protect information and protect against security and data breaches as well as fraudulent transactions and other activities. Despite these safeguards and our other security processes and protections, we cannot be assured that all our systems and processes are free from vulnerability to evolving and increasingly sophisticated cyber-attacks, to other physical breaches or to inadvertent data disclosure by third parties or by us. A significant data security breach, including misappropriation of customer, supplier or employee confidential information, could cause us to incur significant costs, which may include potential costs of investigations, legal, forensic and consulting fees and expenses, costs and diversion of management attention required for investigation, remediation and litigation, substantial repair or replacement costs. We could also experience data losses that would impair our ability to manage our business operations, including accounting and project costs, manage our water and distribution systems or process transactions and have a negative impact on our reputation and loss of confidence of our customers, suppliers and others, any of which could have a material adverse impact on our consolidated financial condition, results of operations and cash flows and our business in general.

We are exposed to credit risk through our relationships with several customers.

We are subject to credit risk posed by possible defaults in payment by our bulk water customers in the Cayman Islands, The Bahamas and the British Virgin Islands. We are also subject to credit risk posed by possible defaults in payment by our customers in the United States. Adverse economic conditions affecting, or financial difficulties of, those parties could impair their ability to pay us or cause them to delay payment. We depend on these parties to pay us on a timely basis. Our outstanding accounts receivable are not covered by collateral or credit insurance. Any delay or default in payment could adversely affect our results of operations, cash flows, and financial condition.

We are exposed to the risk of variations in currency exchange rates.

Although we report our results in United States dollars, most of our revenue is earned in other currencies. These currencies have been fixed to the United States dollar for more than 20 years. Consequently, we do not employ hedging strategies against the foreign currency exchange rate risk associated with conducting business in foreign currencies while reporting in United States dollars. If any of the existing fixed exchange rates for these other currencies becomes a floating exchange rate and any of these currencies depreciate against the U.S. dollar, our consolidated financial condition, results of operations and cash flows could be materially adversely affected.

We may not pay dividends in the future. If dividends are paid, they may be in lesser amounts than past dividends.

Our shareholders may receive dividends out of legally available funds if, and when, they are declared by our Board of Directors. We have paid dividends in the past but may cease to do so at any time. We may incur increased operating or development expenses or capital requirements or indebtedness in the future that may restrict our ability to pay dividends. We may also be restricted from paying dividends in the future due to restrictions imposed by applicable corporate laws, our results of operations, cash flows and financial condition, covenants contained in financing agreements, and other factors considered by our Board of Directors. We may not continue to pay dividends in the future or, if dividends are paid, they may not be in amounts comparable to past dividends.

Service of process and enforcement of legal proceedings commenced against us in the United States may be difficult to obtain.

We are incorporated under the laws of the Cayman Islands and most of our assets are located outside of the United States. In addition, seven of our 17 Directors and Executive Officers reside outside the United States.

As a result, it may be difficult for investors to execute service of process within the United States upon us and such other persons, or to enforce judgments obtained against such persons in United States courts, and bring any action, including actions predicated upon the civil liability provisions of the United States securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts or jurisdictions located outside of the United States, rights predicated upon the United States securities laws.

Based on the advice of our Cayman Islands legal counsel, we believe no reciprocal statutory enforcement of foreign judgments exists between the United States and the Cayman Islands, and that foreign judgments originating from the United States are not directly enforceable in the Cayman Islands. A prevailing party in a United States proceeding against us or our Officers or Directors would have to initiate a new proceeding in the Cayman Islands using the United States judgment as evidence of the party's claim. A prevailing party could rely on the summary judgment procedures available in the Cayman Islands, subject to available defenses in the Cayman Islands courts, including, but not limited to, the lack of competent jurisdiction in the United States courts, lack of due service of process in the United States proceeding and the possibility that enforcement or recognition of the United States judgment would be contrary to the public policy of the Cayman Islands.

Depending on the nature of damages awarded, civil liabilities under the Securities Act of 1933, as amended (or the Securities Act), or the Securities Exchange Act of 1934, as amended (or the Exchange Act), for original actions instituted outside the Cayman Islands may or may not be enforceable. For example, a United States judgment awarding remedies unobtainable in any legal action in the courts of the Cayman Islands, such as treble damages, would likely not be enforceable under any circumstances.

The relatively low trading volume of our stock may adversely impact the ability to sell our shares.

For the year ended December 31, 2020, the average daily trading volume of our common stock was approximately 74,000 shares, a much lower trading volume than that of many other companies listed on the NASDAQ Global Select Market. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common stock at any given time. This presence in turn depends on the individual decisions of investors and general economic and market conditions over which we have no control. Due to the limited volume of trading in our common stock, an investor in our stock may have difficulty selling larger volumes of our common stock in the manner, or at the price, that might be attainable if our common stock were more actively traded.

The election process for our Board of Directors may discourage, delay or prevent a change of control of our Company.

We have a classified Board of Directors that consists of three groups. Only one group of Directors is elected each year. The classified nature of our Board may increase the length of time necessary for an acquirer to change the composition of our Board in order to gain control of our Company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Cayman Islands Properties

Abel Castillo Water Works

We own and operate our Abel Castillo Water Works, which is located in the Seven Mile Beach area and encompasses 12,812 square feet of buildings, two seawater reverse osmosis desalination plants with an aggregate capacity of 3.0 million gallons per day, a high service distribution pump house, warehouse space and three potable water storage tanks each with a capacity of 1.0 million gallons and one potable water storage tank with a capacity of 2.0 million gallons. The site is located on 4.2 acres, including 485 feet of waterfront.

West Bay Plant

We own and operate our West Bay plant located on 6.1 acres in West Bay. The plant began operating in 1995, was expanded over the years, and now has a production capacity of approximately 885,000 gallons per day. On this site we have a 2,600 square foot building which houses our water production facilities, a 2,400 square foot

building which houses the potable water distribution pumps, a water quality testing laboratory, and office space and water storage capacity consisting of three potable water tanks each with a capacity of 1.0 million gallons.

Britannia Plant

We own our Britannia seawater reverse osmosis desalination plant which is located in the Seven Mile Beach area and consists of a seawater reverse osmosis production plant with a capacity of 715,000 gallons of water per day, a potable water storage tank with a capacity of 840,000 gallons, potable water high service pumps, and various ancillary equipment. We have leased the site (comprised of 0.73 acres) and steel frame building which houses the plant for a term that ends in 2027 at an annual rent of \$1.00.

Distribution System

We own our Seven Mile Beach and West Bay potable water distribution systems in Grand Cayman which consist of potable water pipes, valves, curb stops, meter boxes, and water meters. We have the legal right to maintain (and expand or contract as necessary) these systems on public and private land within our licensed service area.

Corporate Office

We occupy approximately 5,700 square feet of office space at the Regatta Office Park, West Bay Road, Grand Cayman, Cayman Islands under a lease that expires in April 2024.

Bahamas Properties

Windsor plant

Our Windsor water production facility, located in Nassau, New Providence, has a production capacity of 2.8 million gallons per day. The plant is powered by a combination of diesel engine-driven high-pressure pumps and electrical power purchased from Bahamas Power and Light to power all other loads in the plant. The plant is contained within a 12,000 sq. ft. steel building, and a warehouse, workshop and offices contained within a 2,600 sq. ft. concrete building. The buildings are located on land owned by the WSC and our water sales agreement gives us a license to use the land throughout the term of that agreement, which expires in 2033.

Blue Hills plant

Our Blue Hills plant in Nassau, New Providence consists of two production facilities. The first facility was completed in July 2006, has a production capacity of 7.2 million gallons per day, and is powered by a combination of diesel engine-driven high-pressure pumps, and electrical power purchased from the Bahamas Power and Light to power all other loads in the plant. The plant is contained within a concrete and steel building with a footprint of 16,000 square feet that also contains a warehouse, workshop and offices. It is located on land owned by the WSC and our 20-year water sales agreement gives us a license to use the land throughout the term of that agreement.

The Blue Hills plant water supply agreement was amended in January 2011 and extended through 2032. Pursuant to this amendment, we added a second production facility to increase the total production capacity of the Blue Hills plant to 12.0 million gallons per day. The second facility was completed in March of 2012 and is powered by a combination of diesel engine-driven high-pressure pumps and electrical power purchased from the Bahamas Power and Light to power all other loads in the plant. The second facility is contained within a steel building with a footprint of 10,640 square feet located adjacent to the initial production facility on land owned by the WSC.

U.S. Properties

Aerex owns its 30,000 square foot manufacturing facility located on 6.4 acres of land in Fort Pierce, Florida and has approximately 6,000 square feet of office space in downtown Fort Pierce under a lease that expires in June 2021.

Our Aquilex warehouse consists of 4,100 square feet located in Sunrise, Florida that has been leased through September 2025. Our Aquilex office consists of 6,500 square feet located in Coral Springs, Florida that has been leased through March 2026.

PERC leases approximately 4,100 square feet of office space in Fountain Valley, California that serves as its corporate headquarters. This lease expires in August 2021.

Mexico Properties

NSC owns 20.1 hectares of land in Rosarito Beach, Baja California, Mexico.

ITEM 3. LEGAL PROCEEDINGS

NSC and AdR

Immediately following CW-Cooperatief's acquisition of its initial 50% ownership in NSC, the remaining 50% ownership interest in NSC was held by an unrelated company, Norte Sur Agua, S. de R.L. de C.V. ("NSA"). NSA subsequently transferred ownership of half of its shares in NSC to EWG Water LLC ("EWG") and the other half of its shares in NSC to an individual (the "individual shareholder"). In February 2012, CW-Cooperatief paid \$300,000 to enter into an agreement (the "Option Agreement") that provided it with an option, exercisable through February 7, 2014, to purchase the shares of NSC owned by the individual shareholder for a price of \$1.0 million along with an immediate usufruct and power of attorney to vote those shares. Such shares constituted 25% of the ownership of NSC as of February 2012. In May 2013, NSC repaid a \$5.7 million loan payable to CW-Cooperatief by issuing additional shares of its stock. As a result of this share issuance to CW-Cooperatief, we indirectly acquired 99.99% of the ownership of NSC. The Option Agreement contained an anti-dilution provision that required CW-Cooperatief to transfer or otherwise cause the individual shareholder to acquire, for a total price of \$1 (regardless of their par or market value), shares in NSC of an amount sufficient to maintain the individual shareholder's 25% ownership interest in NSC if (i) any new shares of NSC were issued subsequent to the execution of the Option Agreement (causing the individual shareholder's 25% ownership interest in NSC to be decreased); and (ii) CW-Cooperatief did not exercise its share purchase option by February 7, 2014. CW-Cooperatief exercised its option and paid the \$1.0 million to the individual shareholder to purchase the Option Agreement shares in February 2014.

In January 2018, EWG initiated an ordinary mercantile claim against the individual shareholder, NSC and CW-Cooperatief, (with AdR being named as a third party to be called to trial) before the Tenth Civil Judge in Tijuana, Baja California for Mercantile Matters (the "Tenth Civil Judge"). In the ordinary mercantile claim, EWG challenged, among other things, the transactions contemplated under the Option Agreement, and therefore, the capital investment transactions that increased the ownership interest of CW-Cooperatief in NSC to 99.99% as a consequence of the Option Agreement. EWG requested that the courts, as a preliminary matter (a) suspend the effectiveness of the challenged transactions; (b) order certain public officials in Mexico to record the pendency of the lawsuit in the public records (including a special request to register a lien over the real estate owned by NSC); (c) appoint an inspector for NSC to oversee its commercial activities; and (d) order public officials in Mexico and credit institutions abroad to refrain from authorizing or executing any legal act related with the activities of the plaintiff, the co-defendants and the third party called to trial to avoid damages to third parties, including those with whom negotiations or any form of commercial or administrative activities, or activities of any other nature related with the "Rosarito" water desalination project, are being conducted. The Tenth Civil Judge granted, ex-parte, the preliminary relief sought by EWG, which resulted in the issuance of official writs to several governmental and public entities involved with the "Rosarito" water desalination project, including the registration of the pendency of the lawsuit in certain public records.

On October 16, 2018, NSC was served with the ordinary mercantile claim. On November 7, 2018, NSC filed a legal response to the claim, vigorously opposing the claims made by EWG. In addition to such legal response, NSC filed (i) a request to submit the claim to arbitration, based on certain provisions of the by-laws of NSC, (ii) an appeal remedy against the preliminary relief, and (iii) a request for the setting of a guarantee to release the preliminary relief granted in favor of EWG.

On October 1, 2020, and following an order from a Federal Judge obtained by NSC, the Tenth Civil Judge resolved to (i) move the claim of EWG to arbitration, and (ii) suspend the corresponding ordinary mercantile procedure. Although EWG has certain remedies available to oppose to such resolution, at present NSC does not have knowledge of the filing thereof.

Notwithstanding the resolution of the Tenth Civil Judge to move to arbitration, subparagraphs a) through e) that follow describe certain separate amparo claims, an appeal and an administrative act arising from or

relating to such ordinary mercantile claim, all in chronological order. Due to the current global COVID-19 pandemic, most tribunals in Mexico have suspended their activities intermittently since March 2020, with certain such tribunals restarting activities in August 2020. As such, several resolutions are pending issuance.

a) AdR amparo claim against the preliminary relief sought by EWG.

In April 2018, AdR filed an amparo against the official writs issued by the Tenth Civil Judge to two governmental entities. In May 2018, the amparo claim was amended to also request protection against additional official writs issued by the Tenth Civil Judge to two other governmental entities and one banking institution. In May 2018, the Third District Court for Amparo and Federal Trials in the State of Baja California with residence in Tijuana granted a temporary suspension of the effects and consequences of the claimed official writs issued by the Tenth Civil Judge pending a further determination by the Third District Court. Such suspension was granted definitively in July 2018, and in August 2018, a resolution determining that the claimed official writs are unconstitutional, was issued. EWG appealed such resolution, and in January 2020, the Collegiate Tribunal resolving such appeal dismissed the amparo filed by AdR. However, such dismissal does not adversely impact AdR, considering the resolution to the appeal mentioned in subparagraph b) that follows.

b) Appeal filed by NSC against the preliminary relief sought by EWG.

The appeal remedy filed by NSC on November 7, 2018 mentioned previously, suspended the proceeding (through the posting of a guarantee by NSC) and was resolved in December 2019 and communicated to EWG in January 2020. Such resolution revoked the order of the Tenth Civil Judge whereby EWG was granted the preliminary relief.

c) Amparo filed by EWG against the revocation of the preliminary relief.

In January 2020, EWG filed a new amparo claim against the resolution of the appeal remedy previously mentioned in item b). NSC has responded to this new amparo to vigorously oppose such amparo claim of EWG and to uphold the resolution of such appeal remedy. To this date, this amparo claim has not been resolved and, as such, it does not affect the revocation of the preliminary relief.

d) Administrative cancellation of registrations before the Public Registry of Property.

Despite the posting of a guarantee to release the preliminary relief sought by EWG within the ordinary mercantile claim, the Tenth Civil Judge failed to make the resolution effective, which would thereby rescind the previously mentioned preliminary relief granted to EWG.

Consequently, on June 19, 2019 (i.e. before obtaining a resolution revoking the preliminary relief as mentioned previously), NSC filed before the Public Registry of Property of Baja California a cancellation request for the provisional lien and the preventive annotation recorded against NSC's property in the public real estate records.

On June 24, 2019, the Public Registry of Property of Baja California issued an encumbrances cancellation resolution, approving the release of the provisional lien and the preventive annotation recorded against NSC's property in the public real estate records. Such encumbrances cancellation resolution was registered before the Public Registry of Property of Playas de Rosarito on June 25, 2019. On June 26, 2019, the Public Registry of Property of Playas de Rosarito issued a certificate of no liens with respect to the real estate owned by NSC.

e) Amparo filed by EWG against the administrative cancellation of registrations before the Public Registry of Property.

In November 2019, NSC learned that EWG had filed an amparo claim before the Third District Court in Tijuana against such encumbrances cancellation resolution, and in December 2019, NSC responded to such claim, vigorously opposing it. Thereafter, NSC submitted a motion to dismiss, based on the resolution of the appeal remedy mentioned previously in subparagraph b) revoking the preliminary relief, previously mentioned in item (ii). The Court resolved in favor of such motion to dismiss, and thereafter certified that EWG did not file an appeal remedy against such resolution within the applicable term. Thus, the mentioned dismissal is definitive.

Notwithstanding the resolution to move to arbitration mentioned previously, CW-Cooperatief has not been officially served with the ordinary mercantile claim, and AdR has not been notified that it has to appear for such trial. In any event, AdR is only a named third party called to trial in this claim, and no claims have been made by EWG against AdR.

We cannot presently determine what impact the resolution of this litigation may ultimately have on our consolidated financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our Class A common stock is listed on the NASDAQ Global Select Market and trades under the symbol "CWCO".

No trading market exists for our redeemable preferred stock, which are only issued to, or purchased by, long-term employees of our company.

On January 2, 2020, March 18, 2020 and January 4, 2021, we issued a total of 28,891 shares, 36,007 shares and 25,789 shares of our common stock, respectively, to Executive Officers under the 2008 Equity Incentive Plan. On December 15, 2020, we issued a total of 19,712 shares of our common stock to our Directors under the Non-Executive Directors' Share Plan in consideration for their service on our Board of Directors and the committees thereof. See "ITEM 11. EXECUTIVE COMPENSATION."

Currently 2,023,850 Bahamian Depository Receipts ("BDRs") that constitute ownership of 404,770 shares of our common stock are listed and traded on the Bahamian International Stock Exchange. Our common shares that underlie these BDRs are held in a custodial account in The Bahamas. The BDRs are entitled to dividend payments, when declared on our common stock in proportion to the BDRs' relative value to our common stock.

Holders

As of March 26, 2021, we had 730 holders of record of our common stock.

Dividends

Our Board of Directors declares and approves any and all dividends.

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

Listed below, for each quarter of the last two fiscal years, are the per share dividends declared on our issued and outstanding shares of common shares and redeemable preferred stock.

| | <u>2020</u> | <u>2019</u> |
|--------------------------|----------------|----------------|
| First Quarter | \$0.085 | \$0.085 |
| Second Quarter | 0.085 | 0.085 |
| Third Quarter | 0.085 | 0.085 |
| Fourth Quarter | 0.085 | 0.085 |
| | <u>\$ 0.34</u> | <u>\$ 0.34</u> |

Exchange Controls and Other Limitations Affecting Security Holders

Our Company is not subject to any governmental laws, decrees or regulations in the Cayman Islands which restrict the export or import of capital, or that affect the remittance of dividends, interest or other payments to non-resident holders of our securities. The Cayman Islands does not impose any limitations on the right of non-resident owners to hold or vote our common stock. There are no exchange control restrictions in the Cayman Islands.

The information required by Item 201(d) of Regulation S-K is provided under ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS of this Annual Report.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our water production operations and activities, and those of our affiliate OC-BVI, are conducted at 11 plants in three countries: the Cayman Islands, The Bahamas, and the British Virgin Islands. The following table sets forth the comparative combined production capacity of our retail and bulk segments and our affiliate as of December 31 of each year.

| Comparative Operations | | | | | |
|----------------------------------|-----------|-------------------------|------------------------|-----------|-------------------------|
| 2020 | | | 2019 | | |
| Location | Plants | Capacity ⁽¹⁾ | Location | Plants | Capacity ⁽¹⁾ |
| Cayman Islands | 7 | 9.9 | Cayman Islands | 7 | 9.9 |
| Bahamas ⁽²⁾ | 2 | 14.8 | Bahamas | 3 | 14.9 |
| British Virgin Islands | 2 | 0.8 | British Virgin Islands | 2 | 0.8 |
| Total | <u>11</u> | <u>25.5</u> | Total | <u>12</u> | <u>25.6</u> |

(1) In millions of gallons per day.

(2) As of December 18, 2020, we ceased operations of our water production and supply business in South Bimini, The Bahamas.

Our water treatment and reuse facilities are conducted at 27 plants in the United States. The following table sets forth the comparative combined estimated production capacity of our services segment as of December 31 of each year.

| Comparative Operations | | | | | |
|------------------------|-----------|-------------------------|----------|-----------|-------------------------|
| 2020 | | | 2019 | | |
| Location | Plants | Capacity ⁽¹⁾ | Location | Plants | Capacity ⁽¹⁾ |
| USA | 27 | 45.0 | USA | 21 | 20.3 |
| Total | <u>27</u> | <u>45.0</u> | Total | <u>21</u> | <u>20.3</u> |

(1) In estimated millions of gallons per day.

Cayman Islands

We have been operating our business on Grand Cayman since 1973 and have been using reverse osmosis technology to convert seawater to potable water since 1989. The Cayman Islands have a limited natural supply of fresh water. We have an exclusive license from the Cayman Islands government to process potable water from seawater and then sell and distribute that water by pipeline to the Seven Mile Beach and West Bay areas of Grand Cayman. This license expired in January 2018 but as discussed in the following paragraph we continue to provide water under the terms of this license. Our Grand Cayman operations consist of four company-owned seawater reverse osmosis desalination plants which provide water to approximately 6,900 retail residential and commercial customers within a government licensed area and three government-owned seawater reverse osmosis plants which supply bulk water to the WAC. Our pipeline system on Grand Cayman Island covers the Seven Mile Beach and West Bay areas of Grand Cayman and consists of approximately 100 miles of potable water pipe.

Our exclusive license from the Cayman Islands government was originally scheduled to expire in July 2010 but was extended several times by the Cayman Islands government in order to provide the parties with additional time to negotiate the terms of a new license agreement. The most recent express extension of the license expired on January 31, 2018. We continue to operate under the terms of the 1990 license, providing water

services to the level and quality specified in the 1990 license and in accordance with our understanding of its legal obligations, treating those obligations set forth in the 1990 license as operative notwithstanding the expiration of the express extension. We continue to pay the royalty required under the 1990 license. We have been informed during our retail license negotiations that the Cayman Islands government seeks to restructure the terms of our license in a manner that could significantly reduce the operating income and cash flows we have historically generated from our retail license. Our retail license negotiations have also been impacted by the passage of new legislation and the establishment of a new water regulatory body in the Cayman Islands. See further discussion of this matter at ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Material Commitments, Expenditures and Contingencies — *Cayman Water Retail License*.

The Bahamas

CW-Bahamas produces potable water from two seawater reverse osmosis desalination plants. The Windsor plant and the Blue Hills plant are located in Nassau, New Providence and have a total installed capacity of 14.8 million gallons per day. CW-Bahamas supplies water from these plants to the Water and Sewerage Corporation of The Bahamas ("WSC") under long-term supply agreements. During 2020, we supplied approximately 4.2 billion gallons (2019: 4.0 billion gallons) of water to the WSC from these plants.

From time to time (including presently), CW-Bahamas has experienced delays in collecting its accounts receivable. Representatives of the Bahamas government have informed us that their delays in paying our accounts receivables did/do not reflect any type of dispute with us with respect to the amounts owed. To date, we have not been required to provide an allowance for any delinquent CW-Bahamas accounts receivable as such amounts were eventually paid in full. Based upon our experience, we believe that the present accounts receivable from the WSC are fully collectible and therefore have not provided any allowance for possible non-payment of these receivables. Such accounts receivable balances due from The Bahamas government amounted to \$16.8 million and \$18.4 million as of December 31, 2020 and 2019, respectively. See further discussion of this matter at ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — LIQUIDITY AND CAPITAL RESOURCES — CW Bahamas Liquidity.

Critical Accounting Estimates

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

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

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

Our critical accounting estimates relate to the valuations of our (i) goodwill and intangible assets; and (ii) long-lived assets.

Goodwill and intangible assets

Goodwill represents the excess cost over the fair value of the assets of an acquired business. Goodwill and intangible assets acquired in a business combination accounted for as a purchase and determined to have an indefinite useful life are not amortized but are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed periodically for impairment. We evaluate the possible impairment of goodwill annually as part of our reporting process for the fourth quarter of each fiscal year. Management identifies our reporting units, which consist of our retail, bulk, services and manufacturing operations, and determines the

carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. We determine the fair value of each reporting unit and compare these fair values to the carrying amounts of the reporting units. To the extent the carrying amount of the reporting unit exceeds the fair value of the reporting unit, an impairment loss is recorded.

For the years ended December 31, 2020 and 2019, we estimated the fair value of our reporting units by applying the discounted cash flow method, which relied upon seven-year discrete projections of operating results, working capital and capital expenditures, along with a terminal value subsequent to the discrete period. These seven-year projections were based upon historical and anticipated future results, general economic and market conditions, and considered the impact of planned business and operational strategies. The discount rates for the calculations represented the estimated cost of capital for market participants at the time of each analysis.

We also estimated the fair value of each of our reporting units for the years ended December 31, 2020 and 2019 by applying the guideline public company method. We also estimated the fair value of each of our reporting units for the year ended December 31, 2019 by referencing the market multiples implied by guideline merger and acquisition transactions (the mergers and acquisition method). We considered utilizing the mergers and acquisition method for the year ended December 31, 2020 but due to a lack of relevant meaningful mergers and acquisition activity during the year, such method was not utilized for 2020.

We weighted the fair values estimated for each of our reporting units under each method and summed such weighted fair values to estimate the overall fair value for each reporting unit. The respective weightings we applied to each method for the years ended December 31, 2020 and 2019 were as follows:

| Method | As of December 31, 2020 | | | |
|------------------------------------|-------------------------|-------------|-------------|---------------|
| | Retail | Bulk | Services | Manufacturing |
| Discounted cash flow | 80% | 80% | 80% | 80% |
| Guideline public company | 20% | 20% | 20% | 20% |
| Mergers and acquisitions | —% | —% | —% | —% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

| Method | As of December 31, 2019 | | |
|------------------------------------|-------------------------|-------------|---------------|
| | Retail | Bulk | Manufacturing |
| Discounted cash flow | 80% | 80% | 80% |
| Guideline public company | 10% | 10% | 10% |
| Mergers and acquisitions | 10% | 10% | 10% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The fair values we estimated for our retail, bulk, services and manufacturing reporting units exceeded their carrying amounts by 101%, 49%, 17% and 31%, respectively, as of December 31, 2020. The fair values we estimated for our retail and bulk reporting units exceeded their carrying amounts by 74% and 58%, respectively, as of December 31, 2019. The assets and liabilities for our services reporting unit consist almost entirely of those for PERC, which was acquired at fair value on October 24, 2019, and therefore we estimate the fair value of our services reporting unit closely approximated its carrying value at December 31, 2019. Our manufacturing reporting unit consists entirely of Aerex and the remaining 49% ownership interest of Aerex was purchased on January 24, 2020 for \$8,500,000. We considered this purchase, the manufacturing reporting unit's results of operations for the year ended December 31, 2019, the manufacturing reporting unit's projected results of operations for the year ended December 31, 2020, and the amount by which the estimated fair value of the manufacturing reporting unit exceeded its carrying amount as of December 31, 2018 to determine that it is more likely than not that the fair value of our manufacturing reporting unit exceeded its carrying amount as of December 31, 2019.

In February 2016, we acquired a 51% ownership interest in Aerex. In connection with this acquisition, we recorded goodwill of \$8,035,211. Aerex's actual results of operations for the six months in 2016 following the acquisition fell significantly short of the projected results that were included in the cash flow projections we utilized to determine the purchase price for Aerex and the fair values of its assets and liabilities. Due to this

shortfall in Aerex's results of operations, we tested Aerex's goodwill for possible impairment as of September 30, 2016 by estimating its fair value using the discounted cash flow method. As a result of this impairment testing, we determined that the carrying value of our Aerex goodwill exceeded its fair value and recorded an impairment loss of \$1,750,000 for the three months ended September 30, 2016 to reduce the carrying value of this goodwill to \$6,285,211. As part of our annual impairment testing of goodwill performed during the fourth quarter, in 2017 we updated our projections for Aerex's future cash flows, determined that the carrying value of our Aerex goodwill exceeded its fair value, and recorded an impairment loss of \$1,400,000 for the three months ended December 31, 2017 to further reduce the carrying value of this goodwill to \$4,885,211.

Approximately 80% and 68% of Aerex's revenue, and 89% and 68% of Aerex's gross profit, for the years ended December 31, 2020 and 2019, respectively, were generated from sales to one customer. In October 2020, this customer verbally informed Aerex that, for inventory management purposes, it was suspending its purchases from Aerex following 2020 for a period of approximately one year. This customer has verbally informed Aerex that it presently expects to recommence its purchases from Aerex beginning with the first quarter of 2022. However, we can offer no assurances that this customer will recommence its purchases from Aerex at that time. Furthermore, any such future purchases (should they occur) may not generate as much revenue and gross profit as Aerex has historically earned from this customer. We are seeking to replace the anticipated loss in revenue and gross profit from this customer by increasing sales of other products that we manufacture to new and existing customers, however, we may not be able to do so.

As a result of this anticipated loss of revenue for Aerex, we updated our projections for our manufacturing reporting unit's future cash flows. Such projections assume, in part, that Aerex's major customer will recommence its purchases from Aerex in 2022 but at a reduced aggregate amount, as compared to 2020 and 2019. Based upon these updated projections, we tested our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020. As a result of this impairment testing, we determined that the estimated fair value of our manufacturing reporting unit exceeded its carrying value as of December 31, 2020. However, we may be required to record an impairment loss in the future to reduce the carrying value of our manufacturing reporting unit's goodwill should we determine that Aerex's future net cash inflows will be less than our most current expectations. Any such impairment loss could have a material adverse impact on our consolidated financial condition and results of operations.

In February 2019, we sold CW-Belize. As a result of this sale, CW-Belize has been accounted for as discontinued operations in our consolidated financial statements, and bulk segment goodwill of approximately \$380,000 as of December 31, 2018 associated with CW-Belize was reclassified to long-term assets of discontinued operations in our consolidated statements of financial condition.

Long-lived assets

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

On June 29, 2020, our Mexico subsidiary, AdR, received a letter from the State of Baja California (the "State") terminating AdR's contract with the State involving the construction and operation of a desalination plant in Rosarito California and accompanying aqueduct to deliver the water produced by this plant to the Mexican public water system. As a result of the cancellation of this contract, we recorded an impairment loss for rights of way acquired for the contract's proposed aqueduct of \$(3.0 million) for the three months ended June 30, 2020, which is reflected in our loss from discontinued operations for the year ended December 31, 2020.

Through our former subsidiary, PT Consolidated Water Bali ("CW-Bali"), we built and operated a seawater reverse osmosis plant with a productive capacity of approximately 264,000 gallons per day located in Nusa Dua, one of the primary tourist areas of Bali, Indonesia. We recorded operating losses for CW-Bali as the

sales volumes for its plant were insufficient to cover its operating costs. In 2017 and 2016 we determined, based upon probability-weighted scenarios for CW-Bali's future undiscounted cash flows, that the carrying values of CW-Bali's long-lived assets and our investment in CW-Bali were not recoverable. Consequently, we recorded impairment losses of \$(1.6 million) and \$(2.0 million), in 2017 and 2016, respectively, to reduce the carrying values of these assets to their fair values.

Results of Operations

The following discussion and analysis of our results of operations should be read in conjunction with our audited consolidated financial statements and accompanying notes included under Part II, ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA, of this Annual Report.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Discontinued Operations — Mexico Project Development

In 2010, we began the pursuit, through our Netherlands subsidiary, Consolidated Water Cooperatief, U.A. ("CW-Cooperatief"), and our Mexico subsidiary, N.S.C. Agua, S.A. de C.V. ("NSC"), of a project (the "Project") that originally encompassed the construction, operation and minority ownership of a 100 million gallon per day seawater reverse osmosis desalination plant to be located in northern Baja California, Mexico and accompanying pipelines to deliver water to the Mexican potable water system.

Through a series of transactions that began in 2012, NSC purchased 20.1 hectares of land for approximately \$21.1 million on which the proposed Project's plant was to be constructed.

In November 2015, the State officially commenced the required public tender for the Project, the scope of which the State defined as a first phase to be operational in 2019 consisting of a 50 million gallon per day plant and an aqueduct that connects to the Mexican potable water infrastructure and a second phase to be operational in 2024 consisting of an additional 50 million gallons per day of production capacity. A consortium (the "Consortium") comprised of NSC, Suez Medio Ambiente México, S.A. de C.V. ("Suez MA"), a subsidiary of SUEZ International, S.A.S., and NuWater S.A.P.I. de C.V. ("Nuwater") submitted its tender for the Project in April 2016 and in June 2016, the State designated the Consortium as the winner of the tender process for the Project.

In August 2016, NSC and NuWater incorporated Newco under the name Aguas de Rosarito S.A.P.I. de C.V. ("AdR") to pursue completion of the Project and executed a shareholders agreement for AdR agreeing among other things that (i) AdR would purchase the land and other Project assets from NSC on the date that the Project begins commercial operation and (ii) AdR would enter into a Management and Technical Services Agreement with NSC effective on the first day that the Project begins commercial operation. NSC initially owned 99.6% of the equity of AdR. In February 2018, we acquired the remaining 0.4% ownership in AdR from NuWater.

On August 22, 2016, the Public Private Partnership Agreement for the Project (the "APP Contract") was executed between AdR, the Comisión Estatal del Agua de Baja California ("CEA"), the Government of Baja California as represented by the Secretary of Planning and Finance and the Public Utilities Commission of Tijuana ("CESPT"). The APP Contract required AdR to design, construct, finance and operate a seawater reverse osmosis desalination plant (and accompanying aqueduct) with a capacity of up to 100 million gallons per day in two phases: the first with a capacity of 50 million gallons per day and an aqueduct to the Mexican potable water system in Tijuana, Baja California and the second phase with a capacity of 50 million gallons per day. The first phase was to be operational within 36 months of commencing construction and the second phase was to be operational by July 2024. The APP Contract further required AdR to operate and maintain the plant and aqueduct for a period of 37 years starting from the commencement of operation of the first phase. At the end of the operating period, ownership of the plant and aqueduct would have been transferred to CEA.

Both the exchange rate for the Mexican peso relative to the dollar and general macroeconomic conditions in Mexico varied since the execution of the APP Contract. These changes adversely impacted the estimated construction, operating and financing costs for the Project. The APP Contract and the APP Law allow for the parties to negotiate (but do not guarantee) modifications to the consideration (i.e. water tariff) under the APP Contract in the event of such significant macroeconomic condition changes. In February 2017, AdR submitted

proposals to CEA requesting the definition of the mechanism required by the APP Contract to update the consideration under the APP Contract for changes in foreign exchange rates, lending rates and certain laws which have impacted the Project. On June 1, 2018, AdR and CEA executed an amendment to the APP Contract which, among other things, increased the scope of Phase 1 of the Project by including the aqueduct originally designated for Phase 2, and addressed AdR's concerns regarding the impact on the Project for changes in the exchange rate for the peso relative to the dollar and changes in interest rates that have occurred subsequent to the submission of the Consortium's bid for the Project. As a result of this amendment to the APP Contract, the final cost of Phase 1 and the related consideration to be charged by AdR under the APP Contract was to be determined based upon the bid submitted by the Consortium, the changes set forth in the amendment to the APP Contract and the economic conditions (e.g. interest rates and currency exchange rates) in effect on the financial closing date for Phase 1.

In February 2018, AdR executed a subscription agreement (the "Subscription Agreement") for the equity funding required for the Project. The Subscription Agreement called for NSC to retain a minimum of 25% of the equity in AdR. One or more affiliates of Greenfield SPV VII, S.A.P.I. de C.V. ("Greenfield"), a Mexico company managed by an affiliate of a leading U.S. asset manager, would acquire a minimum of 55% of the equity of AdR. The Subscription Agreement also provided Suez MA with the option to purchase 20% of the equity of AdR. If Suez MA did not exercise this option, NSC would retain 35% of the equity of AdR and Greenfield will acquire 65% of the equity of AdR. The Subscription Agreement became effective when the additional conditions precedent related to the Project were met. The aggregate funding to be provided by AdR's shareholders for the Project, in the form of equity and subordinated shareholder loans, was estimated at approximately 20% of the total cost of Phase 1 of the Project. This Subscription Agreement was scheduled to expire on September 30, 2020. NSC expected to generate a portion of its additional future equity investment in AdR through the sale to AdR of the land it had purchased for the Project.

On June 29, 2020, AdR received a letter (the "Letter") from the Director General of CEA and the Director General of CESPT terminating the APP Contract. The reasoning provided in the Letter for the decision to terminate the APP Contract is that the Project (a) is not financially feasible due to increases in the construction, operating and financing costs for the Project in addition to negative changes in economic conditions (e.g. interest rates and currency exchange rates); (b) is not sustainable for CEA and CESPT given its financial unfeasibility; (c) puts pressure to increase the rates charged to customers; (d) would force the Government of the State to cover a deficit of CEA and CESPT, thus preventing the State Government from spending on investment programs or social expenditures; and (e) negatively affects the general interest. The Letter requested that AdR provide an inventory of the assets that currently comprise the "Project Works" (as defined in the APP Contract) for the purpose of acknowledging and paying the non-recoverable expenses made by AdR in connection with the Project, with such reimbursement to be calculated in accordance with the terms of the APP Contract. The applicable law requires this list of non-recoverable expenses made by AdR in connection with the Project be submitted to CEA and CESPT within 20 business days from the date of receipt of the Letter. AdR initiated an amparo claim before a federal district court in Tijuana, Baja California, to challenge the provision of the applicable law requiring submittal of the list of non-recoverable expenses within the 20 business days term, as AdR considered such term to be unreasonably short due to the magnitude of the Project and the scope of supporting documentation required to be provided with respect to the non-recoverable expenses. AdR obtained an initial provisional suspension of the lapsing of such 20 day term from the court, and on August 10, 2020 the court made such suspension definitive until the completion of the amparo trial. As such, the 20 day term for filing the list of non-recoverable expenses was suspended. Therefore, on August 28, 2020, AdR submitted their list of non-recoverable expenses, including those of NSC, to CEA and CESPT which was comprised of 51,144,525 United States dollars and an additional 137,333,114 Mexican pesos. In February 2021, AdR withdrew this claim which was accepted by the federal district court in Tijuana.

We plan to vigorously pursue all legal remedies and courses of action available under the APP Contract and applicable law (including international treaties and agreements) with respect to any rights we may have upon termination of the APP Contract, including the reimbursement of expenses and investments. However, we cannot provide any assurances that we will be able to obtain reimbursement for any expenses or investments made with respect to the Project.

As a result of the cancellation of the APP Contract, during the three months ended September 30, 2020, we discontinued all development activities associated with the Project and commenced active marketing efforts to

sell the land NSC purchased for the Project. Accordingly, the assets and liabilities of CW-Cooperatief, NSC and AdR, as well as all Project development expenses and the impairment loss these subsidiaries incurred, have been reclassified from the services segment to discontinued operations in the accompanying consolidated financial statements as of and for the years ended December 31, 2020 and 2019. Our net losses from discontinued operations for the years ended December 31, 2020 and 2019 of \$(4,902,243) and \$(2,333,255), respectively, consist of legal, accounting, engineering, administrative, consulting and other costs relating to Project development activities and, for 2020, our activities following the cancellation of the APP Contract to pursue reimbursement from the State.

Consolidated Results

Including discontinued operations, net income attributable to Consolidated Water Co. Ltd. stockholders for 2020 was \$3,711,528 (\$0.24 per share on a fully diluted basis), as compared to \$12,176,093 (\$0.80 per share on a fully diluted basis) for 2019.

The following discussion and analysis of our consolidated results of operations and our results by segment refers only to our continuing operations.

Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders for 2020 was \$8,613,771 (\$0.56 per share on a fully diluted basis), as compared to \$10,888,178 (\$0.72 per share on a fully diluted basis) for 2019.

Total revenue for 2020 increased to \$72,628,126 from \$68,793,651 in 2019, primarily as a result of the addition of PERC's revenue to our services segment. Gross profit for 2020 was \$26,768,455 (37% of total revenue) as compared to \$28,274,348 (41% of total revenue) for 2019. For further discussion of revenue and gross profit see the "Results by Segment" discussion and analysis that follows.

General and administrative expenses ("G&A expenses") on a consolidated basis increased to \$18,434,898 for 2020 as compared to \$17,001,164 for 2019 due to the addition in 2020 of PERC's G&A expenses of approximately \$2.8 million, which includes approximately \$564,000 of amortization expense for certain intangible assets recorded in connection with the acquisition of PERC. Serving to partially offset the incremental PERC expenses was a decrease of approximately \$536,000 in business development expenses and a decrease of approximately \$514,000 in amortization expense resulting from the completion of the amortization period for certain intangible assets recorded in connection with the acquisition of Aerex.

In June 2019, we completed the sales of our CW-Bali assets and its stock for \$365,000 and \$25,000, respectively. Such sales constitute most of the \$445,041 gain on asset dispositions for 2019.

Other income, net, increased to \$1,082,946 in 2020, as compared to \$786,552 in 2019. This increase is primarily attributable to the income generated from our investment in the profit-sharing plan of OC-BVI and our equity in the earnings of OC-BVI, which in the aggregate were approximately \$446,000 higher in 2020 than in 2019 as a result of the receipt by OC-BVI in 2020 of approximately \$815,648 in delinquent interest income.

Results by Segment

Retail Segment:

The retail segment incurred a net loss from operations of \$(1,004,924) for 2020. The retail segment contributed \$1,820,077 to our income from operations for 2019.

Revenue generated by our retail water operations decreased to \$22,952,370 in 2020 from \$26,456,022 in 2019. The reduction in revenue reflects a 13% decrease in the volume of water sold by Cayman Water due to the closing of Grand Cayman Island to all tourist travel in March 2020 in response to the COVID-19 pandemic and lower energy prices in 2020 than in 2019, which decreased the energy pass-through component of our Cayman Water retail revenue by approximately \$861,000.

Retail segment gross profit decreased to \$11,871,556 (52% of retail revenue) for 2020 as compared to \$14,844,857 (56% of retail revenue) for 2019 principally as a result of the drop in revenue.

Consistent with prior periods, we record all non-direct G&A expenses in our retail segment and do not allocate any of these non-direct costs to our other three business segments. Retail G&A expenses decreased to

\$12,879,445 for 2020 as compared to \$13,422,821 for 2019 primarily as a result of a decrease in business development expenses of approximately \$536,000.

Bulk Segment:

The bulk segment contributed \$6,100,134 and \$7,188,007 to our income from operations for 2020 and 2019, respectively.

Bulk segment revenue was \$24,312,546 and \$26,986,108 for 2020 and 2019, respectively. The decrease in bulk segment revenue from 2019 to 2020 is attributable to both OC-Cayman and CW-Bahamas. OC-Cayman experienced a decline in revenue of approximately \$1,213,000 as a result of the two new contracts at lower rates with the WAC for water supplied from (1) the Red Gate and North Sound plants which commenced in February 2019 and expires in 2024 and (2) the North Side Water Works plant, which commenced in July 2019 and expires in 2026. CW-Bahamas experienced a decline in revenue of approximately \$1.5 million due to lower energy costs, which correspondingly decreased the energy pass-through component of CW-Bahamas' rates.

Gross profit for the bulk segment was \$7,352,983 (30% of bulk segment revenue) and \$8,379,303 (31% of bulk segment revenue) for 2020 and 2019, respectively. Gross profit decreased in 2020 as compared to 2019 due to repairs and maintenance for CW-Bahamas for 2020 that exceeded those incurred in 2019 and lower margins earned by OC-Cayman on its new contracts (as compared to its previous contracts) with the WAC.

Bulk segment G&A expenses remained relatively consistent at \$1,260,062 for 2020 as compared to \$1,238,296 for 2019.

Services Segment:

The services segment contributed \$408,529 and \$151,828 to our income from operations for 2020 and 2019, respectively.

Services segment revenue increased to \$12,937,859 for 2020 from \$1,759,446 for 2019 due to the addition of \$11,116,383 in revenue from PERC as a result of our acquisition of a controlling interest in this company in late October 2019.

The gross profit for the services segment increased to \$3,239,645 (25% of services segment revenue) for 2020 from \$544,253 (31% of services segment revenue) for 2019 as a result of the addition of PERC.

G&A expenses for the services segment increased to \$2,834,917 for 2020 as compared to \$392,425 for 2019 due to the addition of PERC.

Manufacturing Segment:

The manufacturing segment contributed \$2,843,815 and \$2,558,313 to our income from operations for 2020 and 2019, respectively.

Manufacturing segment revenue was \$12,425,351 and \$13,592,075 for 2020 and 2019, respectively. Manufacturing segment revenue decreased from 2019 to 2020 due to a decrease in orders in the fourth quarter of 2020.

Manufacturing segment gross profit was \$4,304,271 (35% of manufacturing segment revenue) and \$4,505,935 (33% of manufacturing segment revenue) for 2020 and 2019, respectively. The increase in manufacturing segment gross profit as a percentage of revenue stems from a mix of higher margin projects, coupled with overall higher production activity that led to improved plant efficiency.

G&A expenses for the manufacturing segment dropped to \$1,460,474 for 2020 as compared to \$1,947,622 for 2019 as a result of a decrease of approximately \$514,000 in the amortization expenses resulting from the completion of the amortization period for certain intangible assets recorded in connection with the acquisition of Aerex.

Approximately 80% and 68% of our manufacturing segment revenue, and 89% and 68% of our manufacturing segment gross profit, for 2020 and 2019, respectively, were generated from sales to one customer. In October 2020, this customer verbally informed Aerex that, for inventory management purposes, it was suspending its purchases from Aerex following 2020 for a period of approximately one year. This customer

has verbally informed Aerex that it presently expects to recommence its purchases from Aerex beginning with the first quarter of 2022. However, we can offer no assurances that this customer will recommence its purchases from Aerex at that time. Furthermore, any such future purchases (should they occur) may not generate as much revenue and gross profit as Aerex has historically earned from this customer. We are seeking to replace this anticipated loss in revenue and gross profit by increasing sales of other products that we manufacture to new and existing customers, however, we may not be able to do so. Consequently, our manufacturing segment revenue and gross profit for 2021 may decline as compared to the two prior years.

FINANCIAL CONDITION

The significant changes in the components of our consolidated balance sheet as of December 31, 2020 as compared to December 31, 2019 (other than the change in our cash and cash equivalents, which is discussed later in “LIQUIDITY AND CAPITAL RESOURCES”) and the reasons for these changes are discussed in the following paragraphs.

Accounts receivable decreased by approximately \$1.5 million. This net decrease reflects a decrease in CW-Bahamas’ accounts receivable of approximately \$1.6 million from the WSC and a decrease of \$450,000 of retail accounts receivable due to lower water sales in Cayman Islands. The decreases were offset by an increase of approximately \$414,000 in accounts receivable arising from the addition of PERC.

Prepaid expenses and other current assets increased by approximately \$853,000 primarily due to the prepayment of taxes of approximately \$441,000, new lease assets of approximately \$65,000 as well as additional prepaid insurance of approximately \$55,000.

Contract assets decreased by approximately \$1.2 million due to the completion of a major project by Aerex.

Construction in progress decreased by approximately \$895,000 primarily due to the completion of the renovation of the North Side Water Works plant on Grand Cayman.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position

Our projected liquidity requirements for 2021 include capital expenditures for our existing operations of approximately \$6.3 million, which includes \$4.0 million for the replacement of the 26 year old West Bay seawater desalination plant in Grand Cayman and approximately \$1.3 million for dividends payable. Our liquidity requirements may also include future quarterly dividends, if such dividends are declared by our Board. Our dividend payments amounted to approximately \$5.1 million for the years ended December 31, 2020 and 2019.

As of December 31, 2020, we had cash and cash equivalents of \$43.8 million and working capital of \$66.0 million.

With the exception of the liquidity matter relating to CW-Bahamas that is discussed in the paragraphs that follow, we are not presently aware of anything that would lead us to believe that we will not have sufficient liquidity to meet our needs.

CW-Bahamas Liquidity

CW-Bahamas’ accounts receivable balances (which include accrued interest) due from the WSC amounted to \$16.8 million and \$18.4 million as of December 31, 2020 and 2019, respectively. Approximately 76% of the December 31, 2020 accounts receivable balance was delinquent as of that date. The delay in collecting these accounts receivable has adversely impacted the liquidity of this subsidiary.

From time to time (including presently), CW-Bahamas has experienced delays in collecting its accounts receivable from the WSC. When these delays occur, we hold discussions and meetings with representatives of the WSC and The Bahamas government, and as a result, payment schedules are developed for WSC’s delinquent accounts receivable. All previous delinquent accounts receivable from the WSC, including accrued interest thereon, were eventually paid in full. Based upon this payment history, CW-Bahamas has never been required to provide an allowance for doubtful accounts for any of its accounts receivable, despite the periodic

accumulation of significant delinquent balances. As of December 31, 2020, we have not provided an allowance for doubtful accounts for CW-Bahamas' accounts receivable from the WSC.

We believe the delays we have experienced in collecting CW-Bahamas' receivables were extended due to the impact of Hurricane Dorian, which devastated the northern Bahamas in September 2019 and the severe economic impact of the COVID-19 pandemic on The Bahamas government's revenue sources.

As of February 28, 2021, CW-Bahamas' accounts receivable from the WSC totaled \$19.6 million.

If CW-Bahamas continues to be unable to collect a significant portion of its delinquent accounts receivable, one or more of the following events may occur: (i) CW-Bahamas may not have sufficient liquidity to meet its obligations; (ii) we may be required to cease the recognition of revenue on CW-Bahamas' water supply agreements with the WSC; and (iii) we may be required to provide an allowance for doubtful accounts for CW-Bahamas' accounts receivable. Any of these events could have a material adverse impact on our consolidated financial condition, results of operations, and cash flows.

Discussion of Cash Flows for the Year Ended December 31, 2020

Our cash and cash equivalents increased to \$43,794,150 as of December 31, 2020 from \$42,071,083 as of December 31, 2019.

Cash Flows from Operating Activities

Our operating activities from continuing operations provided cash of \$18,970,938. This net cash provided reflects net income generated for the year ended December 31, 2020 from continuing and discontinued operations of \$4,441,533 as adjusted for (i) various items included in the determination of net income that do not affect cash flows during the year; and (ii) changes in the other components of working capital. The more significant of such items and changes in working capital components included depreciation and amortization of \$7,406,509, a loss from discontinued operations of \$(4,902,243), and a decrease in accounts receivable and contract assets of \$2,541,096.

Cash Flows from Investing Activities

Net cash used by our investing activities was \$11,119,755. In January 2020, we acquired the remaining 49% ownership in Aerex for \$8,500,000 in cash. In August 2020, we acquired an additional 10% of PERC for \$900,000. Additions to property, plant and equipment and construction in progress used \$1,728,393 in cash.

Cash Flows from Financing Activities

Net cash used by our financing activities was \$5,169,926, almost all of which related to the payment of dividends.

Material Commitments, Expenditures and Contingencies

COVID-19

The worldwide coronavirus (COVID-19) pandemic, which was formally recognized by the World Health Organization on March 11, 2020, has had a profound negative impact on the economies of the countries in which we operate. Consequently, the COVID-19 pandemic has had, and will continue to have, a material adverse impact on our consolidated financial condition, results of operations, and cash flows.

A discussion of the current effects of the COVID-19 pandemic on each of our operating subsidiaries is provided in the following paragraphs. However, as the worldwide impact of COVID-19 continues to develop and expand, its future effects on our company could differ materially from the information we are providing herein.

Cayman Water

As preventative measures to combat the possible spread of COVID-19, the Cabinet of the Cayman Islands ("the Cabinet") closed all Cayman Islands sea ports to international passenger arrivals effective March 13, 2020; and closed all Cayman Islands airports to international passenger arrivals effective March 22, 2020. Effective March 28, 2020, the Cabinet and Cayman Islands law enforcement enacted various 'stay-at-home' regulations and curfews, which closed all businesses not deemed essential by the government and required

citizens to stay at home unless they were purchasing necessities or engaged in an essential errand. In May 2020, the Cabinet started the phased relaxation of the shelter-in-place regulations and on October 1, 2020, the Cayman Islands reopened its borders for residents or individuals who own property in the Cayman Islands that provide evidence of a negative COVID-19 test performed within three days prior to arrival in the Cayman Islands and agree to remain in quarantine for 14 days after arrival. No date has yet been set for the planned reopening of the Cayman Islands to tourists.

As a result of these measures taken by the Cayman Islands government, tourism in the Cayman Islands has temporarily ceased. The preventative measures taken by the Cayman Islands government in response to the COVID-19 pandemic commenced in the latter half of March 2020 and thus affected our retail sales volumes for the last nine months of the year ended December 31, 2020. Consequently, our retail sales volume for the year ended December 31, 2020 declined by approximately 13% from the year ended December 31, 2019. However, the retail sales volume for the three months ended December 31, 2020 was approximately 28% less than that for the three months ended December 31, 2019. We expect that our retail segment revenue and cash flows will continue to be materially adversely impacted until such time as tourism and the economy in the Cayman Islands fully recover from the impact and effects of the COVID-19 pandemic.

Cayman Water's operations have been designated as essential services by the Cayman Islands government. Presently, the day-to-day operations of Cayman Water's water production facilities and distribution network have not been materially impeded by the COVID-19 pandemic — we continue to produce and supply water to meet the demand for water in our retail license area. We believe Cayman Water has adequate spare parts and supplies in stock to continue normal operations.

OC-Cayman

Although it operates on Grand Cayman — and therefore is also affected by the preventative measures enacted by government that have been discussed previously — OC-Cayman sells water on a bulk basis to the WAC, which in turn provides this water to areas of Grand Cayman that are more residential, and less tourist related, than the license area served by Cayman Water. The monthly amounts OC-Cayman charges the WAC for water supplied under its water supply agreements consist of fixed amounts that constitute the majority of the amounts charged, and lesser amounts that vary with the volume of water supplied. Therefore, unlike Cayman Water, OC-Cayman's revenue is not as directly affected by tourism on Grand Cayman and, due to the structure of the underlying water supply agreements, is not as acutely sensitive to declines in water demand.

The amount of water provided by OC-Cayman to the WAC for the year ended December 31, 2020 was approximately 1% less than that provided for the year ended December 31, 2019. We cannot presently determine to what extent OC-Cayman's future revenue will be impacted by the COVID-19 pandemic.

OC-Cayman's operations have been designated as essential services by the Cayman Islands government. Presently, OC-Cayman's day-to-day operations have not been materially impeded by the COVID-19 pandemic — we continue to produce and supply water to meet the requirements of our two water supply agreements with the WAC. We believe OC-Cayman has adequate spare parts and supplies in stock to continue normal operations.

CW-Bahamas

The government of The Bahamas enacted Emergency Powers Regulations which became effective March 18, 2020 in an effort to combat the spread of COVID-19. These regulations closed all businesses not deemed essential by the government, encouraged the employees of non-essential businesses to work remotely and imposed 24 hour shelter-in-place curfew on all residents of The Bahamas other than those engaged in essential or pre-approved activities. On March 24, 2020, the government banned all international travel to The Bahamas by closing all airports and seaports. As a result of the measures taken by The Bahamas government, tourism on New Providence Island, where CW-Bahamas operates, temporarily ceased and economic activity in The Bahamas slowed dramatically. In May 2020, the Bahamian government relaxed some of the shelter-in-place regulations and in July 2020, the government of The Bahamas enacted a limited reopening of The Bahamas to air travel. However, increased travel restrictions were reimposed shortly thereafter due to an increase in COVID-19 cases. As of November 2020, shelter-in-place regulations were loosened and commercial and retail operations were permitted to open with limited capacity; additional economic activity (including the operation of restaurants and bars with outdoor and limited indoor seating) has since been permitted. Conditions for

travel to The Bahamas have also been loosened and individuals that wish to travel to The Bahamas must obtain a health travel visa which will be issued upon receipt of a negative RTPCR COVID-19 test five days in advance of travel; they must submit to a mandatory COVID-19 rapid antigen test five days after arrival in The Bahamas or upon exhibiting symptoms of COVID-19 while in The Bahamas. As of March 2021, it is anticipated that a limited number of cruise ship departures from the Port of Nassau may commence in June 2021, but a date for cruise ship arrivals has not yet been set.

CW-Bahamas sells the water produced by its plants on a bulk basis to the WSC, which in turn provides water to the residences, businesses, and other end users on New Providence. Under the terms of each of its water supply agreements with the WSC, CW-Bahamas charges the WSC a fixed monthly amount, an amount each month that is based upon the amount of water supplied during the month, and pass-through energy charges, therefore CW-Bahamas' revenue is impacted by changes in water demand and energy prices. To date, the volume of water CW-Bahamas sells to the WSC has not been adversely impacted by the COVID-19 pandemic despite the downturn in economic activity on New Providence that began in April 2020 stemming from the preventative measures taken by the government in March 2020. In addition, the adverse impact of the COVID-19 pandemic on The Bahamas government's revenue sources may further delay the collection of CW-Bahamas' delinquent accounts receivable from the WSC.

CW-Bahamas' operations have been designated as essential services by the government of The Bahamas. Presently, CW-Bahamas' day-to-day operations have not been materially impeded by the COVID-19 pandemic — we continue to produce and supply water to meet the requirements of our two water agreements with the WSC. We believe CW-Bahamas has sufficient spare parts and consumables inventories to continue normal operations.

Aerex

Presently, the COVID-19 pandemic has not materially impeded Aerex's day-to-day operations.

Aerex presently has 14 plant employees. Should a number of these employees become ill or be required to enter quarantine as a result of COVID-19, Aerex could be required to reduce or cease its manufacturing activities, which could have a material adverse impact on our consolidated financial condition, results of operations and cash flows.

PERC

PERC's operations are considered essential services by the states within which it operates. Presently, the COVID-19 pandemic has not materially impeded PERC's day-to-day operations.

Approximately 75% of PERC's revenue of \$12.5 million for the year ended December 31, 2020 was generated in California under contracts with government entities. The State of California has publicly acknowledged its on-going financial difficulties as a result of the COVID-19 pandemic, and such difficulties presently, or could in the future, extend to the various counties, municipalities and other government-related entities in California, including PERC's customers, which could adversely impact PERC's revenue and the collection of its accounts receivable.

PERC employs state-certified water and wastewater operators to operate various water treatment facilities in California and Arizona. Should a number of these employees become ill or be required to enter quarantine as a result of COVID-19, PERC could have difficulty meeting its contractual and statutory obligations for operating these water treatment facilities, which could have a material adverse impact on our consolidated financial condition, results of operations and cash flows.

Cayman Water Retail License

We sell water through our retail operations under a license issued in July 1990 by the Cayman Islands government (the "1990 license") that granted Cayman Water the exclusive right to provide potable water to customers within its licensed service area. Although the 1990 license was not expressly extended after January 2018, we continue to supply water under the terms of the 1990 license, as further discussed in the following paragraph. Pursuant to the 1990 license, Cayman Water has the exclusive right to produce potable water and distribute it by pipeline to its licensed service area, which consists of two of the three most populated areas of Grand Cayman Island: Seven Mile Beach and West Bay. In 2020 and 2019, we generated

approximately 32% and 38%, respectively, of our consolidated revenue and 44% and 53%, respectively, of our consolidated gross profit from the retail water operations conducted under the 1990 license.

The 1990 license was originally scheduled to expire in July 2010 but was extended several times by the Cayman Islands government in order to provide the parties with additional time to negotiate the terms of a new license agreement. The most recent express extension of the license expired on January 31, 2018. We continue to operate under the terms of the 1990 license, providing water services to the level and quality specified in the 1990 license and in accordance with our understanding of its legal obligations, treating those obligations set forth in the 1990 license as operative notwithstanding the expiration of the express extension. We continue to pay the royalty required under the 1990 license.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office (“OfReg”). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for economic regulation of the water utility sector and the retail license negotiations from the WAC to OfReg in May 2017. We began license negotiations with OfReg in July 2017 and such negotiations are continuing. We have been informed during our retail license negotiations, both by OfReg and its predecessor in these negotiations, that the Cayman Islands government seeks to restructure the terms of our license in a manner that could significantly reduce the operating income and cash flows we have historically generated from our retail license.

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

We are presently unable to determine what impact the resolution of our retail license negotiations will have on our cash flows, financial condition or results of operations but such resolution could result in a material reduction (or the loss) of the operating income and cash flows we have historically generated from our retail operations and could require us to record an impairment losses to reduce the carrying value of our retail segment assets. Such impairment losses could have a material adverse impact on our consolidated financial condition, results of operation and cash flows.

CW-Bahamas Performance Guarantees

Our contracts to supply water to the WSC from our Blue Hills and Windsor plants require us to guarantee delivery of a minimum quantity of water per week. If WSC requires the water and we do not meet this minimum, we are required to pay the WSC for the difference between the minimum and actual gallons delivered at a per gallon rate equal to the price per gallon that WSC is currently paying us under the contract. The Blue Hills contract expires in 2032 and requires us to deliver 63.0 million gallons of water each week. The Windsor contract expires in 2033 and requires us to deliver 16.8 million gallons of water each week.

Adoption of New Accounting Standards:

None.

Effect of newly issued but not yet effective accounting standards:

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848), which provides optional expedients and exceptions to the current guidance on contract modifications and hedging relationships to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. The guidance was effective upon issuance and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. We are currently evaluating the impact of the new guidance on our consolidated financial statements, however the adoption of this standard is not expected to have a material impact on our financial position, results of operations or cash flows.

Dividends

- On January 31, 2020, we paid a dividend of \$0.085 to shareholders of record on January 2, 2020.
- On April 30, 2020, we paid a dividend of \$0.085 to shareholders of record on April 1, 2020.
- On July 31, 2020, we paid a dividend of \$0.085 to shareholders of record on July 1, 2020.
- On October 30, 2020, we paid a dividend of \$0.085 to shareholders of record on October 1, 2020.
- On February 1, 2021, we paid a dividend of \$0.085 to shareholders of record on January 4, 2021.
- On February 23, 2021, our Board declared a dividend of \$0.085 payable on April 30, 2021 to shareholders of record on April 1, 2021.

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

Dividend Reinvestment and Common Stock Purchase Plan

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

Impact of Inflation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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| Schedule II, Valuation and Qualifying Accounts, is omitted because the information is included in the financial statements and notes. | |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Consolidated Water Co. Ltd. (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of income, stockholders’ equity and cash flows for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Mexico Project

As described in Note 8 to the consolidated financial statements, on June 29, 2020 the Mexico subsidiary, AdR, received a letter from the State of Baja California (the “State”) terminating AdR’s contract with the State involving the construction and operation of a desalination plant in Rosarito California and accompanying aqueduct to deliver the water produced by this plant to the Mexican public water system. We identified the evaluation of the remaining assets and liabilities and overall presentation and disclosure of that subsidiary as discontinued operations, as a critical audit matter.

The principal consideration for our determination that the termination of the Mexico project is a critical audit matter was due to the extent of audit effort required in the evaluation of the overall adjustments, potential contract cancellation penalties and presentation and disclosure requirements.

Our audit procedures related to the termination of the Mexico project included, among others:

- Proper classification and presentation of discontinued operations
- Examination of the carrying value of all associated assets and liabilities
- Completeness, accuracy and validity of losses recognized and
- Evaluation of the terms of related contract(s) for any cancellation penalties

Aerex significant customer

As described in Note 2 to the consolidated financial statements, one of Aerex's major customers, experienced project delays, which resulted in them, suspending their orders during the fourth quarter of 2020, for a period of approximately one year. We identified the reduction in sales order, from this significant customer, as a critical audit matter.

The principal consideration for our determination relates to impact on the evaluation of the projections used in the goodwill impairment assessment associated with Aerex. Inherent in the projections are significant management estimates, which when subjected to audit, require a high degree of judgement and increased effort including the involvement of valuation specialists. In particular, the Company's estimate was particular to key assumptions including future purchases, should they occur, and the associated gross profit earned from this customer.

Our audit procedures related to the Company's determination of the Aerex projections used in the goodwill analysis, among others, included examination and reasonableness testing of the projections and assumptions used in the valuation analysis for testing the impairment of the goodwill. Additionally, the customer's reputation and business operations, as well as the Company's business standing with the customer, was evaluated for any impact on the projections.

/s/ Marcum LLP

We have served as the Company's auditor since 2005.

West Palm Beach, Florida
March 31, 2021

CONSOLIDATED WATER CO. LTD.

CONSOLIDATED BALANCE SHEETS

| | December 31, | |
|---|---------------|---------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 43,794,150 | \$ 42,071,083 |
| Accounts receivable, net | 21,483,976 | 22,953,659 |
| Inventory | 3,214,178 | 3,287,555 |
| Prepaid expenses and other current assets | 2,412,282 | 1,559,448 |
| Contract assets | 516,521 | 1,677,041 |
| Current assets of discontinued operations | 1,511,099 | 1,619,056 |
| Total current assets | 72,932,206 | 73,167,842 |
| Property, plant and equipment, net | 57,687,984 | 61,238,752 |
| Construction in progress | 440,384 | 1,335,597 |
| Inventory, noncurrent | 4,506,842 | 4,404,378 |
| Investment in OC-BVI | 2,092,146 | 1,903,602 |
| Goodwill | 13,325,013 | 13,325,013 |
| Intangible assets, net | 4,148,333 | 5,040,000 |
| Operating lease right-of-use assets | 1,329,561 | 1,811,516 |
| Other assets | 1,926,594 | 2,120,708 |
| Long-term assets of discontinued operations | 21,166,489 | 27,669,966 |
| Total assets | \$179,555,552 | \$192,017,374 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Accounts payable, accrued expenses and other current liabilities | \$ 2,856,127 | \$ 3,503,561 |
| Accounts payable – related parties | 200,558 | 57,410 |
| Accrued compensation | 1,434,106 | 1,821,395 |
| Dividends payable | 1,300,022 | 1,292,187 |
| Current maturities of operating leases | 455,788 | 688,540 |
| Current portion of long-term debt | 42,211 | 17,753 |
| Contract liabilities | 461,870 | 339,616 |
| Current liabilities of discontinued operations | 188,434 | 178,382 |
| Total current liabilities | 6,939,116 | 7,898,844 |
| Long-term debt, noncurrent | 126,338 | 61,146 |
| Deferred tax liabilities | 1,440,809 | 1,529,035 |
| Noncurrent operating leases | 982,076 | 1,156,543 |
| Net liability arising from put/call options | 690,000 | 664,000 |
| Other liabilities | 362,165 | 75,000 |
| Long-term liabilities of discontinued operations | 2,499 | 2,679,932 |
| Total liabilities | 10,543,003 | 14,064,500 |
| Commitments and contingencies | | |
| Equity | | |
| Consolidated Water Co. Ltd. stockholders' equity | | |
| Redeemable preferred stock, \$0.60 par value. Authorized 200,000 shares; issued and outstanding 31,068 and 33,751 shares, respectively | 18,641 | 20,251 |
| Class A common stock, \$0.60 par value. Authorized 24,655,000 shares; issued and outstanding 15,143,683 and 15,049,608 shares, respectively | 9,086,210 | 9,029,765 |
| Class B common stock, \$0.60 par value. Authorized 145,000 shares; none issued | — | — |
| Additional paid-in capital | 86,893,486 | 88,356,509 |
| Retained earnings | 64,910,709 | 66,352,733 |
| Total Consolidated Water Co. Ltd. stockholders' equity | 160,909,046 | 163,759,258 |
| Non-controlling interests | 8,103,503 | 14,193,616 |
| Total equity | 169,012,549 | 177,952,874 |
| Total liabilities and equity | \$179,555,552 | \$192,017,374 |

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

CONSOLIDATED WATER CO. LTD.

CONSOLIDATED STATEMENTS OF INCOME

| | Year Ended December 31, | |
|---|-------------------------|--------------|
| | 2020 | 2019 |
| Total revenue | \$72,628,126 | \$68,793,651 |
| Total cost of revenue (including purchases from related parties of \$1,349,331 in 2020 and \$10,295 in 2019) | 45,859,671 | 40,519,303 |
| Gross profit | 26,768,455 | 28,274,348 |
| General and administrative expenses | 18,434,898 | 17,001,164 |
| Gain on asset dispositions and impairments, net | 13,997 | 445,041 |
| Income from operations | 8,347,554 | 11,718,225 |
| Other income (expense): | | |
| Interest income | 540,096 | 588,509 |
| Interest expense | (9,669) | (1,332) |
| Profit-sharing income from OC-BVI | 135,675 | 16,200 |
| Equity in the earnings of OC-BVI | 371,019 | 44,765 |
| Net unrealized gain (loss) on put/call options | (26,000) | 56,000 |
| Other | 71,825 | 82,410 |
| Other income, net | 1,082,946 | 786,552 |
| Income before income taxes | 9,430,500 | 12,504,777 |
| Provision for income taxes | 86,724 | 66,621 |
| Net income from continuing operations | 9,343,776 | 12,438,156 |
| Income from continuing operations attributable to non-controlling interests | 730,005 | 1,549,978 |
| Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders | 8,613,771 | 10,888,178 |
| Gain on sale of discontinued operations | — | 3,621,170 |
| Net loss from discontinued operations | (4,902,243) | (2,333,255) |
| Total income (loss) from discontinued operations | (4,902,243) | 1,287,915 |
| Net income attributable to Consolidated Water Co. Ltd. stockholders | \$ 3,711,528 | \$12,176,093 |
| Basic earnings (loss) per common share attributable to Consolidated Water Co. Ltd. common stockholders | | |
| Continuing operations | \$ 0.56 | \$ 0.72 |
| Discontinued operations | (0.32) | 0.09 |
| Basic earnings per share | \$ 0.24 | \$ 0.81 |
| Diluted earnings (loss) per common share attributable to Consolidated Water Co. Ltd. common stockholders | | |
| Continuing operations | \$ 0.56 | \$ 0.72 |
| Discontinued operations | (0.32) | 0.08 |
| Diluted earnings per share | \$ 0.24 | \$ 0.80 |
| Dividends declared per common and redeemable preferred shares | \$ 0.34 | \$ 0.34 |
| Weighted average number of common shares used in the determination of: | | |
| Basic earnings per share | 15,119,305 | 15,025,639 |
| Diluted earnings per share | 15,223,955 | 15,137,076 |

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

CONSOLIDATED WATER CO. LTD.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Redeemable preferred stock | | Common stock | | Additional paid-in capital | Retained earnings | Cumulative translation adjustment | Non-controlling interests | Total stockholders' equity |
|--|----------------------------|-----------------|-------------------|--------------------|----------------------------|---------------------|-----------------------------------|---------------------------|----------------------------|
| | Shares | Dollars | Shares | Dollars | | | | | |
| Balance as of December 31, 2018 . . . | 34,796 | \$20,878 | 14,982,906 | \$8,989,744 | \$87,211,953 | \$59,298,161 | \$(549,555) | \$ 8,784,722 | \$163,755,903 |
| Issuance of share capital | 7,293 | 4,376 | 59,472 | 35,683 | (40,059) | — | — | — | — |
| Conversion of preferred stock | (7,230) | (4,338) | 7,230 | 4,338 | — | — | — | — | — |
| Buyback of preferred stock | (2,674) | (1,605) | — | — | (22,491) | — | — | — | (24,096) |
| Net income | — | — | — | — | — | 12,176,093 | — | 1,549,978 | 13,726,071 |
| Exercise of options | 1,566 | 940 | — | — | 14,882 | — | — | — | 15,822 |
| Dividends declared | — | — | — | — | — | (5,121,521) | — | — | (5,121,521) |
| PERC non-controlling interest at acquisition date | — | — | — | — | — | — | — | 3,617,634 | 3,617,634 |
| Sale of CW-Bali | — | — | — | — | — | — | 549,555 | 241,282 | 790,837 |
| Stock-based compensation | — | — | — | — | 1,192,224 | — | — | — | 1,192,224 |
| Balance as of December 31, 2019 . . . | 33,751 | 20,251 | 15,049,608 | 9,029,765 | 88,356,509 | 66,352,733 | — | 14,193,616 | 177,952,874 |
| Issuance of share capital | 6,123 | 3,674 | 84,610 | 50,766 | (54,440) | — | — | — | — |
| Conversion of preferred stock | (9,465) | (5,679) | 9,465 | 5,679 | — | — | — | — | — |
| Buyback of preferred stock | (176) | (105) | — | — | (1,623) | — | — | — | (1,728) |
| Net income | — | — | — | — | — | 3,711,528 | — | 730,005 | 4,441,533 |
| Exercise of options | 835 | 500 | — | — | 9,661 | — | — | — | 10,161 |
| Purchase of noncontrolling interests in Aerex and PERC | — | — | — | — | (2,579,882) | — | — | (6,820,118) | (9,400,000) |
| Dividends declared | — | — | — | — | — | (5,153,552) | — | — | (5,153,552) |
| Stock-based compensation | — | — | — | — | 1,163,261 | — | — | — | 1,163,261 |
| Balance as of December 31, 2020 . . . | <u>31,068</u> | <u>\$18,641</u> | <u>15,143,683</u> | <u>\$9,086,210</u> | <u>\$86,893,486</u> | <u>\$64,910,709</u> | <u>\$ —</u> | <u>\$ 8,103,503</u> | <u>\$169,012,549</u> |

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

CONSOLIDATED WATER CO. LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | |
|--|--------------------------------|---------------------|
| | 2020 | 2019 |
| Cash flows from operating activities | | |
| Net income | \$ 4,441,533 | \$13,726,071 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Impairment loss for Mexico assets – discontinued operations | 3,351,842 | — |
| Depreciation and amortization of discontinued operations | 4,545 | 4,545 |
| Foreign currency transaction adjustment – discontinued operations | 3,528 | (104,736) |
| Loss from discontinued operations | 1,542,328 | 2,433,446 |
| Gain on sale of discontinued operations | — | (3,621,170) |
| Depreciation and amortization | 7,406,509 | 7,203,102 |
| Deferred income tax benefit | (221,829) | (239,848) |
| Provision for doubtful accounts | 129,107 | — |
| Unrealized (gain) loss on net put/call option | 26,000 | (56,000) |
| Compensation expense relating to stock and stock option grants | 1,163,261 | 1,192,224 |
| Gain on asset dispositions and impairments, net | (13,997) | (445,041) |
| Foreign currency transaction adjustment | — | (255) |
| Profit-sharing and equity in earnings of OC-BVI | (506,694) | (60,965) |
| Distribution of earnings from OC-BVI | 318,150 | 742,350 |
| Change in: | | |
| Accounts receivable and contract assets | 2,541,096 | (356,223) |
| Inventory | (102,551) | (1,357,032) |
| Prepaid expenses and other assets | (629,734) | (298,611) |
| Accounts payable (including related parties), accrued expenses and other current liabilities, and contract liabilities | (482,156) | (1,342,463) |
| Net cash provided by operating activities – continuing operations | 18,970,938 | 17,419,394 |
| Net cash used in operating activities – discontinued operations | (1,635,646) | (2,215,736) |
| Net cash provided by operating activities | 17,335,292 | 15,203,658 |
| Cash flows from investing activities | | |
| Additions to property, plant and equipment and construction in progress | (1,728,393) | (3,525,122) |
| Proceeds from asset dispositions | 8,638 | 453,480 |
| Proceeds from sale of discontinued operations, net of cash provided | — | 6,971,234 |
| Purchase of noncontrolling interest in Aerex | (8,500,000) | — |
| Acquisition of PERC, net of cash acquired | — | (3,147,438) |
| Purchase of noncontrolling interest in PERC | (900,000) | — |
| Collections on loans receivable | — | 734,980 |
| Net cash provided by (used in) investing activities – continuing operations | (11,119,755) | 1,487,134 |
| Net cash used in investing activities – discontinued operations | — | (1,499) |
| Net cash provided by (used in) investing activities | (11,119,755) | 1,485,635 |
| Cash flows from financing activities | | |
| Dividends paid to common shareholders | (5,133,727) | (5,097,602) |
| Dividends paid to preferred shareholders | (11,990) | (18,225) |
| Repurchase of redeemable preferred stock | (1,728) | (24,096) |
| Proceeds received from exercise of stock options | 10,161 | 15,822 |
| Principal repayments on long-term debt | (32,642) | — |
| Net cash used in financing activities | (5,169,926) | (5,124,101) |
| Net increase in cash and cash equivalents | 1,045,611 | 11,565,192 |
| Cash and cash equivalents at beginning of period | 42,071,083 | 31,111,968 |
| Cash and cash equivalents at beginning of period – discontinued operations | 831,586 | 225,509 |
| Less: cash and cash equivalents at end of period – discontinued operations | (154,130) | (831,586) |
| Cash and cash equivalents at end of period | \$ 43,794,150 | \$42,071,083 |

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

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activity

Consolidated Water Co. Ltd. and its subsidiaries (collectively, the “Company”) supply potable water, treat water for reuse and provide water-related products and services to customers in the Cayman Islands, The Bahamas, the United States and the British Virgin Islands. The Company produces potable water from seawater using reverse osmosis technology and sells this water to a variety of customers, including public utilities, commercial and tourist properties, residential properties and government facilities. The Company designs, builds and sells water production and water treatment infrastructure and manages water infrastructure for commercial and governmental customers. The Company also manufactures a wide range of specialized and custom water industry related products and provides design, engineering, operating and other services applicable to commercial, municipal and industrial water production, supply and treatment.

2. Accounting policies

Basis of preparation: The consolidated financial statements presented are prepared in accordance with the accounting principles generally accepted in the United States of America.

Use of estimates: The preparation of consolidated 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 the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include the carrying value of property, plant and equipment, intangible assets, goodwill and put/call options. Actual results could differ significantly from such estimates.

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

On January 24, 2020, as a result of CW-Holdings’ exercise of a call option, CW-Holdings purchased the remaining 49% ownership interest in Aerex for \$8,500,000 in cash. After giving effect to this purchase, CW-Holdings owns 100% of the outstanding capital stock of Aerex. On August 11, 2020, CW-Holdings purchased an additional 10% of the ownership of PERC for \$900,000, increasing its ownership of this subsidiary to 61%.

Foreign currency: The Company’s reporting currency is the United States dollar (“US\$”). The functional currency of the Company and its foreign operating subsidiaries (other than NSC, AdR and CW-Cooperatief) is the currency for each respective country. The functional currency for NSC, AdR and CW-Cooperatief is the US\$. NSC and AdR conduct business in US\$ and Mexican peso and CW-Cooperatief conducts business in US\$ and euros. The exchange rates for the Cayman Islands dollar and the Bahamian dollar are fixed to the US\$. The exchange rates for conversion of Mexican pesos and euros into US\$ vary based upon market conditions. Net foreign currency gains arising from transactions and re-measurements were \$68,818 and \$71,923 for the year ended December 31, 2020 and 2019, respectively, and are included in “Other income (expense) — Other” in the accompanying consolidated statements of income.

Cash and cash equivalents: Cash and cash equivalents consist of demand deposits at banks and highly liquid deposits at banks with an original maturity of three months or less. Cash and cash equivalents as of December 31, 2020 and 2019 include \$8.5 million and \$12.7 million, respectively, of certificates of deposits with an original maturity of three months or less.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting policies – (continued)

As of December 31, 2020, the Company had deposits in U.S. banks in excess of federally insured limits of approximately \$10.3 million. As of December 31, 2020, the Company held cash in foreign bank accounts of approximately \$32.8 million.

Certain transfers from the Company's Bahamas bank accounts to Company bank accounts in other countries require the approval of the Central Bank of The Bahamas. As of December 31, 2020, the equivalent United States dollar cash balances for deposits held in The Bahamas were approximately \$15.9 million.

Accounts receivable and allowance for doubtful accounts: Accounts receivable are recorded at invoiced amounts based on meter readings, contractual amounts, fixed fees plus reimbursables or time and materials per contractual agreements. Trade accounts receivable also represent our unconditional right, subject only to the passage of time, to receive consideration arising from our performance under contracts with customers. Trade accounts receivable include amounts billed and billable on construction contracts, service and maintenance contracts and contracts for the sale of goods. Billed contract receivables have been invoiced to customers based on contracted amounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable balance. The Company determines the allowance for doubtful accounts based on historical write-off experience and monthly review of delinquent accounts. Past due balances are reviewed individually for collectability and disconnection. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered by management to be remote.

Inventory: Inventory primarily includes consumables stock and spare parts stock that are valued at cost, less an allowance for obsolescence, with cost determined on the first-in, first-out basis. Inventory also includes potable water held in the Company's reservoirs. The carrying amount of the water inventory is the lower of the average cost of producing water during the year or its net realizable value.

Contract assets and liabilities: Billing practices for the Company's contracts are governed by the contract terms of each project based upon costs incurred, achievement of milestones or predetermined schedules. Billings do not necessarily correlate with revenue recognized over time using the direct inputs method of accounting. The Company records contract assets and contract liabilities to account for these differences in timing.

Contract assets, which include costs and estimated earnings in excess of billings on uncompleted contracts, arise when the Company recognizes revenue for services performed under its construction and manufacturing contracts, but the Company is not yet entitled to bill the customer under the terms of the contract. Contract liabilities, which include billings in excess of costs and estimated earnings on uncompleted contracts, represent the Company's obligation to transfer goods or services to a customer for which the Company has been paid by the customer or for which the Company has billed the customer under the terms of the contract. Revenue for future services reflected in this account are recognized, and the liability is reduced, as the Company subsequently satisfies the performance obligation under the contract.

Costs and estimated earnings in excess of billings on uncompleted contracts and billings in excess of costs and estimated earnings on uncompleted contracts are typically resolved within one year and are not considered significant financing components.

The Company considers retention that is withheld on progress billings as not creating an unconditional right to payment until contractual milestones are reached (typically substantial completion). Accordingly, withheld retention is considered a component of contracts assets and liabilities until finally billed to the customer, when obligations have been satisfied and the right to receipt is subject only to the passage of time.

The Company's contract assets and liabilities are reported in a net asset or liability position on a contract-by-contract basis at the end of each reporting period. The Company classifies contract assets and liabilities related to construction and manufacturing contracts in current assets and current liabilities as they will be liquidated in the normal course of contract completion, although this may require more than one year.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting policies – (continued)

Property, plant and equipment, net: Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using a straight-line method with an allowance for estimated residual values. Rates are determined based on the estimated useful lives of the assets as follows:

| | |
|--|----------------------------------|
| Buildings | 5 to 40 years |
| Plant and equipment | 4 to 40 years |
| Distribution system | 3 to 40 years |
| Office furniture, fixtures and equipment | 3 to 10 years |
| Vehicles | 3 to 10 years |
| Leasehold improvements | Shorter of 5 years or lease term |
| Lab equipment | 5 to 10 years |

Additions to property, plant and equipment are comprised of the cost of the contracted services, direct labor and materials. Assets under construction are recorded as additions to property, plant and equipment upon completion of the projects. Depreciation commences in the month the asset is placed in service.

Interest costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial amount of time to be ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for use. No interest was capitalized during the years ended December 31, 2020 or 2019.

Long-lived assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if their carrying amounts are not recoverable through their undiscounted cash flows and measures the impairment loss based on the difference between the carrying amounts and estimated fair values.

Goodwill and intangible assets: Goodwill represents the excess cost over the fair value of the assets of an acquired business. Goodwill and intangible assets acquired in a business combination accounted for as a purchase and determined to have an indefinite useful life are not amortized but are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed periodically for impairment. The Company evaluates the possible impairment of goodwill annually as part of its reporting process for the fourth quarter of each fiscal year. Management identifies the Company's reporting units, which consist of the retail, bulk, and manufacturing business segments, and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. The Company determines the fair value of each reporting unit and compares the fair value to the carrying amount of the reporting unit. To the extent the carrying amount of the reporting unit exceeds the fair value of the reporting unit, an impairment loss is recorded.

For the years ended December 31, 2020 and 2019, the Company estimated the fair value of its reporting units by applying the discounted cash flow method, which relied upon seven-year discrete projections of operating results, working capital and capital expenditures, along with a terminal value subsequent to the discrete period. These seven-year projections were based upon historical and anticipated future results, general economic and market conditions, and considered the impact of planned business and operational strategies. The discount rates for the calculations represented the estimated cost of capital for market participants at the time of each analysis.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting policies – (continued)

The Company also estimated the fair value of each of its reporting units for the years ended December 31, 2020 and 2019 by applying the guideline public company method. The Company also estimated the fair value of each of its reporting units for the year ended December 31, 2019 by referencing the market multiples implied by guideline merger and acquisition transactions (the mergers and acquisition method). The Company considered utilizing the mergers and acquisition method for the year ended December 31, 2020 but due to a lack of relevant meaningful mergers and acquisition activity during the year, such method was not utilized for 2020.

The Company weighted the fair values estimated for each of its reporting units under each method and summed such weighted fair values to estimate the overall fair value for each reporting unit. The respective weightings the Company applied to each method for the years ended December 31 were as follows:

| Method | As of December 31, 2020 | | | |
|------------------------------------|-------------------------|------|----------|---------------|
| | Retail | Bulk | Services | Manufacturing |
| Discounted cash flow | 80% | 80% | 80% | 80% |
| Guideline public company | 20% | 20% | 20% | 20% |
| Mergers and acquisitions | —% | —% | —% | —% |
| | 100% | 100% | 100% | 100% |

| Method | As of December 31, 2019 | | |
|------------------------------------|-------------------------|------|---------------|
| | Retail | Bulk | Manufacturing |
| Discounted cash flow | 80% | 80% | 80% |
| Guideline public company | 10% | 10% | 10% |
| Mergers and acquisitions | 10% | 10% | 10% |
| | 100% | 100% | 100% |

The fair values the Company estimated for its retail, bulk, services and manufacturing reporting units exceeded their carrying amounts by 101%, 49%, 17%, and 31% respectively, as of December 31, 2020. The fair values the Company estimated for its retail and bulk reporting units exceeded their carrying amounts by 74% and 58%, respectively, as of December 31, 2019. The assets and liabilities for the Company's services reporting unit consist almost entirely of those for PERC, which was acquired on October 24, 2019, and therefore the Company estimated that the fair value of its services reporting unit closely approximated its carrying value as of December 31, 2019. The Company's manufacturing reporting unit consists entirely of Aerex and the remaining 49% ownership interest of Aerex was purchased on January 24, 2020 for \$8,500,000. The Company considered this purchase, the manufacturing reporting unit's results of operations for the year ended December 31, 2019, its projected results of operations for the year ending December 31, 2020, and the amount by which its estimated fair value exceeded its carrying amount as of December 31, 2018 to determine that it is more likely than not that the fair value of the manufacturing reporting unit exceeded its carrying amount as of December 31, 2019.

On February 11, 2016, the Company acquired 51% ownership interest in Aerex. In connection with this acquisition the Company recorded goodwill of \$8,035,211. Aerex's actual results of operations for the six months in 2016 following the acquisition fell significantly short of the projected results for this period that were included in the cash flow projections the Company utilized to determine the purchase price for Aerex and the fair values of its assets and liabilities. Due to this shortfall in Aerex's results of operations, the Company tested Aerex's goodwill for possible impairment as of September 30, 2016 by estimating its fair value using the discounted cash flow method. As a result of this impairment testing, the Company determined that the carrying value of the Aerex goodwill exceeded its fair value and recorded an impairment loss of \$1,750,000 for the three months ended September 30, 2016, included in loss on long-lived asset dispositions and impairments, net in the accompanying consolidated statements of income, to reduce the carrying value of

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting policies – (continued)

this goodwill to \$6,285,211. As part of the Company's annual impairment testing of goodwill performed during the fourth quarter, in 2017 the Company updated its projections for Aerex's future cash flows, determined that the carrying value of the Aerex goodwill exceeded its fair value, and recorded an impairment loss of \$1,400,000 for the three months ended December 31, 2017, which is included in loss on long-lived asset dispositions and impairments, net in the accompanying consolidated statements of income, to further reduce the carrying value of the goodwill to \$4,885,211.

Approximately 80% and 68% of Aerex's revenue, and 89% and 68% of Aerex's gross profit, for the years ended December 31, 2020 and 2019, respectively, were generated from sales to one customer. In October 2020, this customer verbally informed Aerex that, for inventory management purposes, it was suspending its purchases from Aerex following 2020 for a period of approximately one year. This customer has verbally informed Aerex that it presently expects to recommence its purchases from Aerex beginning with the first quarter of 2022. However, the Company can offer no assurances that this customer will recommence its purchases from Aerex at that time. Furthermore, any such future purchases (should they occur) may not generate as much revenue and gross profit as Aerex has historically earned from this customer. The Company is seeking to replace the anticipated loss in revenue and gross profit from this customer by increasing sales of other products that it manufactures to new and existing customers, however, it may not be able to do so.

As a result of this anticipated loss of revenue for Aerex, the Company updated its projections for the manufacturing reporting unit's future cash flows. Such projections assume, in part, that Aerex's major customer will recommence its purchases from Aerex in 2022 but at a reduced aggregate amount, as compared to 2020 and 2019. Based upon these updated projections, the Company tested its manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020. As a result of this impairment testing, it determined that the estimated fair value of the manufacturing reporting unit exceeded its carrying value as of December 31, 2020. However, the Company may be required to record an impairment loss in the future to reduce the carrying value of the manufacturing reporting unit's goodwill should it be determined that Aerex's future net cash inflows will be less than the Company's most current expectations. Any such impairment loss could have a material adverse impact on its consolidated financial condition and results of operations.

In February 2019, the Company sold its former Belize subsidiary (see Note 8) As a result of this sale, this former subsidiary has been accounted for as discontinued operations in the consolidated financial statements, and bulk segment goodwill of approximately \$380,000 as of December 31, 2018 associated with this former subsidiary was reclassified to long-term assets of discontinued operations in the consolidated statements of financial condition.

Investments: Investments where the Company does not exercise significant influence over the operating and financial policies of the investee and holds less than 20% of the voting stock are recorded at cost. The Company uses the equity method of accounting for investments in common stock where the Company holds 20% to 50% of the voting stock of the investee and has significant influence over its operating and financial policies but does not meet the criteria for consolidation. The Company recognizes impairment losses on declines in the fair value of the stock of investees that are other than temporary.

Other assets: Under the terms of CW-Bahamas' contract with the Water and Sewerage Corporation of The Bahamas ("WSC") to supply water from its Blue Hills desalination plant, CW-Bahamas was required to reduce the amount of water lost by the public water distribution system on New Providence Island, The Bahamas, over a one-year period by 438 million gallons, a requirement CW-Bahamas met during 2007. The Company was solely responsible for the engineering, labor and materials costs incurred to affect the reduction in lost water, which were capitalized and are being amortized on a straight-line basis over the original remaining life of the Blue Hills contract. Such costs are included in other assets and aggregated approximately \$3.5 million as of December 31, 2020 and 2019. Accumulated amortization for these costs was approximately \$2.5 million and \$2.4 million as of December 31, 2020 and 2019, respectively. Amortization expense was \$179,353 for the years ended December 31, 2020 and 2019.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting policies – (continued)

Income taxes: The Company accounts for the income taxes arising from the operations of its United States subsidiaries under the asset and liability method. Deferred tax assets and liabilities, if any, are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to the extent any deferred tax asset may not be realized.

The Company is not presently subject to income taxes in the other countries in which it operates.

Revenue recognition: Revenue is recognized when control of the promised goods or services is transferred to the Company’s customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The following table presents the Company’s revenue disaggregated by revenue source.

| | Year Ended December 31, | |
|---------------------------------|-------------------------|---------------------|
| | 2020 | 2019 |
| Retail revenue | \$22,952,370 | \$26,456,022 |
| Bulk revenue | 24,312,546 | 26,986,108 |
| Services revenue | 12,937,859 | 1,759,446 |
| Manufacturing revenue | 12,425,351 | 13,592,075 |
| Total revenue | \$72,628,126 | \$68,793,651 |

Retail revenue

The Company produces and supplies water to end-users, including residential, commercial and governmental customers in the Cayman Islands under an exclusive retail license issued to Cayman Water by the Cayman Islands government to provide water in two of the three most populated areas on Grand Cayman Island. Customers are billed on a monthly basis based on metered consumption and bills are typically collected within 30 to 35 days after the billing date. Receivables not collected within 45 days subject the customer to disconnection from water service. In 2020 and 2019, bad debts represented less than 1% of the Company’s total retail sales.

The Company recognizes revenue from water sales at the time water is supplied to the customer’s premises. The amount of water supplied is determined and invoiced based upon water meter readings performed at the end of each month. All retail water contracts are month-to-month contracts. The Company has elected the “right to invoice” practical expedient for revenue recognition on its retail water sale contracts and recognizes revenue in the amount to which the Company has a right to invoice.

Bulk revenue

The Company produces and supplies water to government-owned distributors in the Cayman Islands and The Bahamas.

OC-Cayman provides bulk water to the Water Authority-Cayman (“WAC”), a government-owned utility and regulatory agency, under two agreements. The WAC in turn distributes such water to properties in Grand Cayman outside of Cayman Water’s retail license area.

The Company sells bulk water in The Bahamas through its majority-owned subsidiary, CW-Bahamas, under two agreements with the Water and Sewerage Corporation of The Bahamas (“WSC”), which distributes such water through its own pipeline system to residential, commercial and tourist properties on the Island of New

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting policies – (continued)

Providence. CW-Bahamas also sold water to a private resort on Bimini through December 18, 2020, which generated revenue of approximately \$127,000 and \$237,000 for the years ended December 31, 2020 and 2019, respectively.

The Company has elected the “right to invoice” practical expedient for revenue recognition on its bulk water sale contracts and recognizes revenue in the amount to which the Company has a right to invoice.

Services and Manufacturing revenue

The Company provides design, engineering, management, procurement and construction services for desalination infrastructure through DesalCo, which serves customers in the Cayman Islands, The Bahamas and the British Virgin Islands.

The Company also develops, builds, sells, operates and manages water, wastewater and water reuse infrastructure through PERC. All of PERC’s customers are companies or governmental entities located in the U.S.

The Company, through Aerex, is a custom and specialty manufacturer of water treatment-related systems and products applicable to commercial, municipal and industrial water production. Substantially all of Aerex’s customers are U.S. companies.

The Company generates services revenue from DesalCo and PERC and generates manufacturing revenue from Aerex.

The Company recognizes revenue for its construction and specialized/custom manufacturing contracts over time under the input method using costs incurred (which represents work performed) to date relative to total estimated costs at completion to measure progress toward satisfying its performance obligations as such measure best reflects the transfer of control of the promised good to the customer. Contract costs include labor, material and amounts payable to subcontractors. The Company follows this method since it can make reasonably dependable estimates of the revenue and costs applicable to various stages of a contract. Under this input method, the Company records revenue and recognizes profit or loss as work on the contract progresses. The Company estimates total project costs and profit to be earned on each long-term, fixed price contract prior to commencement of work on the contract and updates these estimates as work on the contract progresses. The cumulative amount of revenue recorded on a contract at a specified point in time is that percentage of total estimated revenue that incurred costs to date comprises of estimated total contract costs. If, as work progresses, the actual contract costs exceed estimates, the profit recognized on revenue from that contract decreases. The Company recognizes the full amount of any estimated loss on a contract at the time the estimates indicate such a loss. Any contract assets are classified as current assets. Contract liabilities on uncompleted contracts, if any, are classified as current liabilities.

The Company has elected the “right to invoice” practical expedient for revenue recognition on its services agreements and recognizes revenue in the amount to which the Company has a right to invoice.

Practical Expedients and Exemptions

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

Comparative amounts: Certain amounts presented in the financial statements previously issued for 2019 have been reclassified to conform to the current year’s presentation.

3. Cash and cash equivalents

Cash and cash equivalents are not restricted by the terms of the Company’s bank accounts as to withdrawal or use. As of December 31, 2020 and 2019, the equivalent United States dollars are denominated in the following currencies:

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Cash and cash equivalents – (continued)

| | December 31, | |
|---|--------------|--------------|
| | 2020 | 2019 |
| Bank accounts: | | |
| United States dollar | \$14,001,264 | \$15,661,140 |
| Cayman Islands dollar | 5,650,874 | 6,690,274 |
| Bahamian dollar | 14,863,287 | 6,353,936 |
| Bermudian dollar | 2,832 | 3,084 |
| | 34,518,257 | 28,708,434 |
| Short term deposits: | | |
| United States dollar | 5,796,582 | 11,100,185 |
| Cayman Islands dollar | 2,413,547 | 1,209,954 |
| Bahamian dollar | 1,065,764 | 1,052,510 |
| | 9,275,893 | 13,362,649 |
| Total cash and cash equivalents | \$43,794,150 | \$42,071,083 |

Transfers from the Company's Bahamas bank accounts to Company bank accounts in other countries require the approval of the Central Bank of the Bahamas.

4. Accounts receivable, net

| | December 31, | |
|---|--------------|--------------|
| | 2020 | 2019 |
| Trade accounts receivable | \$21,422,782 | \$22,862,706 |
| Receivable from OC-BVI | 62,171 | 10,808 |
| Other accounts receivable | 269,133 | 222,381 |
| | 21,754,086 | 23,095,895 |
| Allowance for doubtful accounts | (270,110) | (142,236) |
| Accounts receivable, net | \$21,483,976 | \$22,953,659 |

The activity for the allowance for doubtful accounts consisted of:

| | December 31, | |
|---|--------------|------------|
| | 2020 | 2019 |
| Opening allowance for doubtful accounts | \$ 142,236 | \$ 158,902 |
| Provision for doubtful accounts | 129,107 | — |
| Accounts written off during the year | (1,233) | (16,666) |
| Ending allowance for doubtful accounts | \$ 270,110 | \$ 142,236 |

Significant concentrations of credit risk are disclosed in Note 18.

CONSOLIDATED WATER CO. LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Inventory

| | December 31, | |
|-----------------------------------|--------------------|--------------------|
| | 2020 | 2019 |
| Water stock | \$ 27,938 | \$ 33,694 |
| Consumables stock | 105,540 | 118,286 |
| Spare parts stock | 7,587,542 | 7,539,953 |
| Total inventory | 7,721,020 | 7,691,933 |
| Less current portion | 3,214,178 | 3,287,555 |
| Inventory (non-current) | <u>\$4,506,842</u> | <u>\$4,404,378</u> |

6. Contracts in progress

Revenue recognized and amounts billed on contracts in progress are summarized as follows:

| | December 31, | |
|---|------------------|---------------------|
| | 2020 | 2019 |
| Revenue recognized to date on contracts in progress | \$ 17,534,449 | \$ 16,054,699 |
| Amounts billed to date on contracts in progress | (17,791,928) | (15,078,830) |
| Retainage | 312,130 | 361,556 |
| Net contract asset | <u>\$ 54,651</u> | <u>\$ 1,337,425</u> |

The above net balances are reflected in the accompanying consolidated balance sheet as follows:

| | December 31, | |
|-------------------------------------|------------------|---------------------|
| | 2020 | 2019 |
| Contract assets | \$ 516,521 | \$ 1,677,041 |
| Contract liabilities | (461,870) | (339,616) |
| Net contract asset | <u>\$ 54,651</u> | <u>\$ 1,337,425</u> |

As of December 31, 2020, the Company had unsatisfied or partially unsatisfied performance obligations for contracts in progress representing approximately \$2.0 million in aggregate transaction price for contracts with an original expected length of greater than one year. The Company expects to earn revenue as it satisfies its performance obligations under those contracts in the amount of approximately \$1.7 million during the year ending December 31, 2021 and \$0.3 million thereafter.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Property, plant and equipment and construction in progress

| | December 31, | |
|---|----------------------|----------------------|
| | 2020 | 2019 |
| Land | \$ 3,566,537 | \$ 3,566,537 |
| Buildings | 23,250,843 | 23,176,106 |
| Plant and equipment | 63,734,860 | 64,840,636 |
| Distribution system | 39,149,063 | 36,538,614 |
| Office furniture, fixtures and equipment | 3,079,362 | 3,038,589 |
| Vehicles | 1,999,463 | 1,582,053 |
| Leasehold improvements | 274,230 | 272,092 |
| Lab equipment | 12,456 | 14,958 |
| | 135,066,814 | 133,029,585 |
| Less accumulated depreciation | 77,378,830 | 71,790,833 |
| Property, plant and equipment, net | \$ 57,687,984 | \$ 61,238,752 |
| Construction in progress | \$ 440,384 | \$ 1,335,597 |

As of December 31, 2020, the Company had outstanding capital commitments of \$29,145. The Company maintains insurance for loss or damage to all fixed assets that it deems susceptible to loss. The Company does not insure its underground distribution system as the Company considers the possibility of material loss or damage to this system to be remote. During the years ended December 31, 2020 and 2019, \$1,653,501 and \$7,755,375, respectively, of construction in progress was placed in service. Depreciation expense was \$6,335,489 and \$5,510,336 for the years ended December 31, 2020 and 2019, respectively.

8. Discontinued operations

Mexico project development

In May 2010, the Company acquired, through its wholly-owned Netherlands subsidiary, CW-Cooperatief, a 50% interest in NSC, a development stage Mexican company. CW-Cooperatief has since purchased, through the conversion of a loan it made to NSC, additional shares that increased its ownership interest in NSC to 99.99%. NSC was formed to pursue a project (the “Project”) that originally encompassed the construction, operation and minority ownership of a 100 million gallon per day seawater reverse osmosis desalination plant to be located in northern Baja California, Mexico and accompanying pipelines to deliver water to the Mexican potable water system. As discussed in paragraphs that follow, during 2015 the scope of the Project was defined by the State of Baja California (the “State”) to consist of a first phase consisting of a 50 million gallon per day plant and an aqueduct that connects to the Mexican potable water infrastructure and a second phase consisting of an additional 50 million gallons per day of production capacity.

Through a series of transactions that began in 2012, NSC purchased 20.1 hectares of land for approximately \$21.1 million on which the proposed Project’s plant would be constructed.

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

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Discontinued operations – (continued)

In response to its APP Proposal, in September 2015 NSC received a letter dated June 30, 2015 from the Director General of the Comisión Estatal del Agua de Baja California (“CEA”), the State agency with responsibility for the Project, stating that (i) the Project is in the public interest with high social benefits and is consistent with the objectives of the State development plan; and (ii) that the Project should proceed, and the required public tender should be conducted. In November 2015, the State officially commenced the tender for the Project, the scope of which the State defined as a first phase to be operational in 2019 consisting of a 50 million gallon per day plant and an aqueduct that connects to the Mexican potable water infrastructure and a second phase to be operational in 2024 consisting of an additional 50 million gallons per day of production capacity. A consortium (the “Consortium”) comprised of NSC, NuWater S.A.P.I. de C.V. (“NuWater”) and Suez Medio Ambiente México, S.A. de C.V. (“Suez MA”), a subsidiary of SUEZ International, S.A.S., submitted its tender for the Project in April 2016 and in June 2016, the State designated the Consortium as the winner of the tender process for the Project.

In August 2016, NSC and NuWater incorporated Newco under the name Aguas de Rosarito S.A.P.I. de C.V. (“AdR”), a special purpose company, to complete the Project and executed a shareholders agreement for AdR agreeing among other things that (i) AdR would purchase the land and other Project assets from NSC on the date that the Project begins commercial operations and (ii) AdR would enter into a Management and Technical Services Agreement with NSC effective on the first day that the Project begins commercial operations. NSC initially owned 99.6% of the equity of AdR. In February 2018, CW-Holdings acquired the remaining 0.4% ownership in AdR from NuWater.

On August 22, 2016, the Public Private Partnership Agreement for the Project (the “APP Contract”) was executed between AdR, CEA, the Government of Baja California, as represented by the Secretary of Planning and Finance and the Public Utilities Commission of Tijuana (“CESPT”). The APP Contract required AdR to design, construct, finance and operate a seawater reverse osmosis desalination plant (and accompanying aqueduct) with a capacity of up to 100 million gallons per day in two phases: the first with a capacity of 50 million gallons per day and an aqueduct to the Mexican public water system in Tijuana, Baja California and the second phase with a capacity of 50 million gallons per day. The first phase was to be operational within 36 months of commencing construction and the second phase was to be operational by January 2025. The APP Contract further required AdR to operate and maintain the plant and aqueduct for a period of 37 years starting from the commencement of operation of the first phase. At the end of the operating period, the plant and aqueduct would have been transferred to CEA.

In December 2016, the Congress of the State of Baja California, Mexico (the “Congress”) passed Decreto #57 which, among other things, ratified and authorized the payment obligations of the corresponding public entities under the APP Contract and authorized the corresponding public entities to obtain a credit facility to guarantee their payment obligations. During 2017, following consultations between representatives of the State and the Ministry of Finance of the Federal Government of Mexico, it was determined that certain amendments to Decreto #57 were required to comply with recent changes to the Federal Financial Discipline Law for Federative Entities and Municipalities. In addition, an amendment of Decreto #57 was required to authorize the inclusion of revenue from the CESPT in the primary payment trust for the Project. These amendments were included in Decreto #168, which was approved by the Congress in December 2017. The authorization of the payment obligations of the public entities under the APP Contract and for the execution of the credit agreement to guarantee such payment obligations given in Decreto #57, as amended by Decreto #168, expired on December 31, 2018. During the congressional session held at the end of March 2019, the Congress passed Decreto #335, which renewed the authorizations for the various payment trusts, guaranties and bank credit lines required to be established for the Project by the State entities. Decreto #335 expired December 31, 2019. During the congressional session held at the end of December 2019, the Congress passed Decreto #37, which renewed the authorizations for the various payment trusts, guaranties and bank credit lines required to be established for the Project by the State entities. Decreto #37 expired June 30, 2020.

Both the exchange rate for the Mexican peso relative to the dollar and general macroeconomic conditions in Mexico varied since the execution of the APP Contract. These changes adversely impacted the estimated

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Discontinued operations – (continued)

construction, operating and financing costs for the Project. The APP Contract and the APP Law allowed for the parties to negotiate (but did not guarantee) modifications to the consideration (i.e. water tariff) under the APP Contract in the event of such significant macroeconomic condition changes. In February 2017, AdR submitted proposals to CEA requesting the definition of the mechanism required by the APP Contract to update the consideration under the APP Contract for changes in foreign exchange rates, lending rates and certain laws which have impacted the Project. On June 1, 2018, AdR and CEA executed an amendment to the APP Contract which, among other things, increased the scope of Phase 1 of the Project for including the aqueduct originally designated for Phase 2, and addressed AdR's concerns regarding the impact on the Project for changes in the exchange rate for the peso relative to the dollar and changes in interest rates that occurred subsequent to the submission of the Consortium's bid for the Project. As a result of this amendment to the APP Contract, the final cost of Phase 1 and the related consideration to be charged by AdR under the APP Contract would have been determined based upon the bid submitted by the Consortium, the changes set forth in the amendment to the APP Contract and the economic conditions (e.g. interest rates and currency exchange rates) in effect on the financial closing date for Phase 1.

In February 2018, AdR executed a subscription agreement (the "Agreement") for the equity funding required for the Project. The Agreement calls for NSC to retain a minimum of 25% of the equity in AdR. One or more affiliates of Greenfield SPV VII, S.A.P.I. de C.V. ("Greenfield"), a Mexico company managed by an affiliate of a leading U.S. asset manager, would acquire a minimum of 55% of the equity of AdR. The Agreement also provided Suez MA with the option to purchase 20% of the equity of AdR. If Suez MA did not exercise this option, NSC would retain 35% of the equity of AdR and Greenfield will acquire 65% of the equity of AdR. The Agreement became effective when the certain conditions precedent related to the Project were met. The aggregate investment to be made by the equity partners in the Project, in the form of equity and subordinated shareholder loans, is presently estimated at approximately 20% of the total cost of Phase 1 of the Project. This Agreement was scheduled to expire on September 30, 2020. NSC expected to generate a portion of its funding for its additional future equity investment in AdR through the sale to AdR of the land it had purchased for the Project.

Through June 30, 2020, NSC had paid approximately \$3.0 million to acquire rights of way for the aqueduct to be constructed for the Project to deliver water to the Mexico public water system.

On June 29, 2020, AdR received a letter (the "Letter") from the Director General of CEA and the Director General of CESPT terminating the APP Contract. The reasoning provided in the Letter for the decision to terminate the APP Contract is that the Project (a) is not financially feasible due to increases in the construction, operating and financing costs for the Project in addition to negative changes in economic conditions (e.g. interest rates and currency exchange rates); (b) is not sustainable for CEA and CESPT given its financial unfeasibility; (c) puts pressure to increase the rates charged to customers; (d) would force the Government of the State to cover a deficit of CEA and CESPT, thus preventing the State Government from spending on investment programs or social expenditures; and (e) negatively affects the general interest. The Letter requested that AdR provide an inventory of the assets that currently comprise the "Project Works" (as defined in the APP Contract) for the purpose of acknowledging and paying the non-recoverable expenses made by AdR in connection with the Project, with such reimbursement to be calculated in accordance with the terms of the APP Contract. The applicable law requires this list of non-recoverable expenses made by AdR in connection with the Project be submitted to CEA and CESPT within 20 business days from the date of receipt of the Letter.

As a consequence of the termination of the APP Contract, the rights of way NSC and AdR acquired for the aqueduct no longer have any value due to the loss of their strategic importance derived from their incorporation in the Project. Consequently, the Company recorded an impairment loss of approximately \$(3.0 million) for the three months ended June 30, 2020 to write off its investment in these rights of way. The Company also recorded adjustments during the three months ended June 30, 2020 of \$2.6 million and \$2.2 million to reduce its operating lease right-of-use assets and operating lease liabilities, respectively, due to the planned cancellation (or transfer to the State) of a long-term land lease associated with the Project.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Discontinued operations – (continued)

As a result of the cancellation of the APP Contract, during the three months ended September 30, 2020 the Company discontinued all project development activities associated with the Project and engaged a real estate broker and commenced active marketing efforts to sell the land NSC purchased for the Project. Accordingly, the assets and liabilities of CW-Cooperatief, NSC and AdR, as well as all Project development expenses and the impairment loss incurred by the Company, have been reclassified from the services segment to discontinued operations in the accompanying consolidated financial statements as of and for the year ended December 31, 2020 and 2019.

Summarized financial information for the Mexico project development is as follows:

| | December 31, | |
|--|-------------------------|--------------|
| | 2020 | 2019 |
| Cash | \$ 154,130 | \$ 831,586 |
| Prepaid expenses and other current assets | 88,978 | 111,220 |
| Value added taxes receivable | 1,267,991 | 676,250 |
| Property, plant and equipment, net | 5,682 | 10,227 |
| Land and rights of way | 21,126,898 | 24,162,523 |
| Other assets | 33,909 | 3,497,216 |
| Total assets of discontinued operations | \$22,677,588 | \$29,289,022 |
| Total liabilities of discontinued operations | \$ 190,933 | \$ 2,858,314 |
| | Year Ended December 31, | |
| | 2020 | 2019 |
| Revenues | \$ — | \$ — |
| Income from operations | \$ — | \$ — |
| Net loss from discontinued operations | \$ 4,902,243 | \$ 2,333,255 |
| Gain on sale of discontinued operations | \$ — | \$ — |
| Depreciation expense | \$ 4,545 | \$ 4,545 |

AdR initiated an *amparo* claim before a federal district court in Tijuana, Baja California, to challenge the provision of the applicable law requiring submittal of the list of non-recoverable expenses within the 20 business days term, as AdR considered such term to be unreasonably short due to the magnitude of the Project and the scope of supporting documentation required to be provided with respect to the non-recoverable expenses. AdR obtained an initial provisional suspension of the lapsing of such 20 day term from the court, and on August 10, 2020 the court made such suspension definitive until the completion of the amparo trial. As such, the 20 day term for filing the list of non-recoverable expenses was suspended. Therefore, on August 28, 2020, AdR submitted, in due time and form, its list of non-recoverable expenses, including those of NSC, to CEA and CESPT which was comprised of 51,144,525 United States dollars and an additional 137,333,114 Mexican pesos. In February 2021, AdR withdrew this claim which was accepted by the federal district court in Tijuana.

The Company, AdR and NSC plan to vigorously pursue all legal remedies and courses of action available under the APP Contract and applicable law (including international treaties and agreements) with respect to any rights they may have upon termination of the APP Contract, including the reimbursement of expenses and investments. However, the Company cannot provide any assurances that it will be able to obtain reimbursement for any expenses or investments made with respect to the Project.

The Company, AdR and NSC will terminate the various agreements ancillary to the Project as a result of the termination of the APP Contract unless the State elects to assume such agreements.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Discontinued operations – (continued)

Project Litigation

Immediately following CW-Cooperatief's acquisition of its initial 50% ownership in NSC, the remaining 50% ownership interest in NSC was held by an unrelated company, Norte Sur Agua, S. de R.L. de C.V. ("NSA"). NSA subsequently transferred ownership of half of its shares in NSC to EWG Water LLC ("EWG") and the other half of its shares in NSC to an individual (the "individual shareholder"). In February 2012, CW-Cooperatief paid \$300,000 to enter into an agreement (the "Option Agreement") that provided it with an option, exercisable through February 7, 2014, to purchase the shares of NSC owned by the individual shareholder for a price of \$1.0 million along with an immediate usufruct and power of attorney to vote those shares. Such shares constituted 25% of the ownership of NSC as of February 2012. In May 2013, NSC repaid a \$5.7 million loan payable to CW-Cooperatief by issuing additional shares of its stock. As a result of this share issuance to CW-Cooperatief, the Company indirectly acquired 99.99% of the ownership of NSC. The Option Agreement contained an anti-dilution provision that required CW-Cooperatief to transfer or otherwise cause the individual shareholder to acquire, for a total price of \$1 (regardless of their par or market value), shares in NSC of an amount sufficient to maintain the individual shareholder's 25% ownership interest in NSC if (i) any new shares of NSC were issued subsequent to the execution of the Option Agreement (causing the individual shareholder's 25% ownership interest in NSC to be decreased); and (ii) CW-Cooperatief did not exercise its share purchase option by February 7, 2014. CW-Cooperatief exercised its option and paid the \$1.0 million to the individual shareholder to purchase the Option Agreement shares in February 2014.

In January 2018, EWG initiated an ordinary mercantile claim against the individual shareholder, NSC and CW-Cooperatief, (with AdR being named as a third party to be called to trial) before the Tenth Civil Judge in Tijuana, Baja California for Mercantile Matters (the "Tenth Civil Judge"). In the ordinary mercantile claim, EWG challenged, among other things, the transactions contemplated under the Option Agreement, and therefore, the capital investment transactions that increased the ownership interest of CW-Cooperatief in NSC to 99.99% as a consequence of the Option Agreement. EWG requested that the courts, as a preliminary matter (a) suspend the effectiveness of the challenged transactions; (b) order certain public officials in Mexico to record the pendency of the lawsuit in the public records (including a special request to register a lien over the real estate owned by NSC); (c) appoint an inspector for NSC to oversee its commercial activities; and (d) order public officials in Mexico and credit institutions abroad to refrain from authorizing or executing any legal act related with the activities of the plaintiff, the co-defendants and the third party called to trial to avoid damages to third parties, including those with whom negotiations or any form of commercial or administrative activities, or activities of any other nature related with the "Rosarito" water desalination project, are being conducted. The Tenth Civil Judge granted, ex-parte, the preliminary relief sought by EWG, which resulted in the issuance of official writs to several governmental and public entities involved with the "Rosarito" water desalination project, including the registration of the pendency of the lawsuit in certain public records.

On October 16, 2018, NSC was served with the ordinary mercantile claim. On November 7, 2018, NSC filed a legal response to the claim, vigorously opposing the claims made by EWG. In addition to such legal response, NSC filed (i) a request to submit the claim to arbitration, based on certain provisions of the by-laws of NSC, (ii) an appeal remedy against the preliminary relief, and (iii) a request for the setting of a guarantee to release the preliminary relief granted in favor of EWG.

On October 1, 2020, and following an order from a Federal Judge obtained by NSC, the Tenth Civil Judge resolved to (i) move the claim of EWG to arbitration, and (ii) suspend the corresponding ordinary mercantile procedure. Although EWG has certain remedies available to oppose to such resolution, at present NSC does not have knowledge of the filing thereof.

Notwithstanding the resolution of the Tenth Civil Judge to move to arbitration, subparagraphs a) through e) that follow describe certain separate amparo claims, an appeal and an administrative act arising from or relating to such ordinary mercantile claim, all in chronological order. Due to the current global COVID-19 pandemic, most tribunals in Mexico have suspended their activities intermittently since March 2020, with certain such tribunals restarting activities in August 2020. As such, several resolutions are pending issuance.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Discontinued operations – (continued)

a) AdR amparo claim against the preliminary relief sought by EWG.

In April 2018, AdR filed an amparo against the official writs issued by the Tenth Civil Judge to two governmental entities. In May 2018, the amparo claim was amended to also request protection against additional official writs issued by the Tenth Civil Judge to two other governmental entities and one banking institution. In May 2018, the Third District Court for Amparo and Federal Trials in the State of Baja California with residence in Tijuana granted a temporary suspension of the effects and consequences of the claimed official writs issued by the Tenth Civil Judge pending a further determination by the Third District Court. Such suspension was granted definitively in July 2018, and in August 2018, a resolution determining that the claimed official writs are unconstitutional, was issued. EWG appealed such resolution, and in January 2020, the Collegiate Tribunal resolving such appeal dismissed the amparo filed by AdR. However, such dismissal does not adversely impact AdR, considering the resolution to the appeal mentioned in subparagraph b) that follows.

b) Appeal filed by NSC against the preliminary relief sought by EWG.

The appeal remedy filed by NSC on November 7, 2018 mentioned previously, suspended the proceeding (through the posting of a guarantee by NSC) and was resolved in December 2019 and communicated to EWG in January 2020. Such resolution revoked the order of the Tenth Civil Judge whereby EWG was granted the preliminary relief.

c) Amparo filed by EWG against the revocation of the preliminary relief.

In January 2020, EWG filed a new amparo claim against the resolution of the appeal remedy previously mentioned in item b). NSC has responded to this new amparo to vigorously oppose such amparo claim of EWG and to uphold the resolution of such appeal remedy. To this date, this amparo claim has not been resolved and, as such, it does not affect the revocation of the preliminary relief.

d) Administrative cancellation of registrations before the Public Registry of Property.

Despite the posting of a guarantee to release the preliminary relief sought by EWG within the ordinary mercantile claim, the Tenth Civil Judge failed to make the resolution effective, which would thereby rescind the previously mentioned preliminary relief granted to EWG.

Consequently, on June 19, 2019 (i.e. before obtaining a resolution revoking the preliminary relief as mentioned previously), NSC filed before the Public Registry of Property of Baja California a cancellation request for the provisional lien and the preventive annotation recorded against NSC's property in the public real estate records.

On June 24, 2019, the Public Registry of Property of Baja California issued an encumbrances cancellation resolution, approving the release of the provisional lien and the preventive annotation recorded against NSC's property in the public real estate records. Such encumbrances cancellation resolution was registered before the Public Registry of Property of Playas de Rosarito on June 25, 2019. On June 26, 2019, the Public Registry of Property of Playas de Rosarito issued a certificate of no liens with respect to the real estate owned by NSC.

e) Amparo filed by EWG against the administrative cancellation of registrations before the Public Registry of Property.

In November 2019, NSC learned that EWG had filed an amparo claim before the Third District Court in Tijuana against such encumbrances cancellation resolution, and in December 2019, NSC responded to such claim, vigorously opposing it. Thereafter, NSC submitted a motion to dismiss, based on the resolution of the appeal remedy mentioned previously in subparagraph b) revoking the preliminary relief, previously mentioned in item (ii). The Court resolved in favor of such motion to dismiss, and thereafter certified that EWG did not file an appeal remedy against such resolution within the applicable term. Thus, the mentioned dismissal is definitive.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Discontinued operations – (continued)

Notwithstanding the resolution to move to arbitration mentioned previously, CW-Cooperatief has not been officially served with the ordinary mercantile claim, and AdR has not been notified that it has to appear for such trial. In any event, AdR is only a named third party called to trial in this claim, and no claims have been made by EWG against AdR.

The Company cannot presently determine what impact the resolution of this litigation may have on its consolidated financial condition, results of operations or cash flows.

CW-Belize

On February 14, 2019, the Company completed the sale of its former subsidiary, Consolidated Water (Belize) Limited (“CW-Belize”) to Belize Water Services Ltd. (“BWSL”) effective January 1, 2019. After adjustments, the final price for CW-Belize was approximately \$7.0 million. Pursuant to the sale and purchase agreement, BWSL initially paid the Company \$6.735 million of the purchase price and approximately \$265,000 was withheld to cover indemnification obligations of the Company under the agreement. The remaining \$265,000 of the purchase price was paid by BWSL in August 2019. As a result of the sale of CW-Belize, the Company realized a gain of \$3,621,170, which is reported as gain on sale of discontinued operations in the accompanying consolidated statement of operations for the year ended December 31, 2019.

CW-Bali

Through its subsidiary, CW-Bali, the Company built a seawater reverse osmosis desalination plant located in Nusa Dua, one of the primary tourist areas of Bali, Indonesia. CW-Bali’s sales volumes were never sufficient to cover its operating costs and CW-Bali incurred net losses each year since commencing operations in 2013.

In June 2019, the Company sold its CW-Bali assets and stock for \$365,000 and \$25,000, respectively. Such sales are included in gain on asset dispositions and impairments, net in the accompanying consolidated statement of income for the year ended December 31, 2019.

9. Intangible assets

In February 2016, the Company purchased a 51% ownership interest in Aerex Industries, Inc. The purchase transaction identified certain intangible assets with a fair value of \$5,900,000 and useful lives as follows: non-compete (5 years), trade name (15 years), certifications/programs (3 years), customer backlog (1 year), and customer relationships (4 years). In January 2020, the Company acquired the remaining 49% ownership interest in Aerex.

In October 2019, the Company purchased a 51% ownership interest in PERC Water Corporation. The purchase transaction identified certain intangible assets with a fair value of \$3,990,000 and useful lives as follows: non-compete (3 years), trade name (15 years), customer backlog (2 years), and facility management contracts (6 years). In August 2020, the Company purchased an additional 10% of the ownership of PERC, increasing its ownership of this subsidiary to 61%.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Intangible assets – (continued)

The costs and accumulated amortization for these assets were as follows:

| | December 31, | |
|---|--------------|--------------|
| | 2020 | 2019 |
| Cost | | |
| Non-compete agreements | \$ 530,000 | \$ 530,000 |
| Trade names | 2,700,000 | 2,700,000 |
| Certifications/programs | 2,000,000 | 2,000,000 |
| Customer backlogs | 460,000 | 460,000 |
| Customer relationships | 2,000,000 | 2,000,000 |
| Facility management contracts | 2,200,000 | 2,200,000 |
| | 9,890,000 | 9,890,000 |
| Accumulated amortization | | |
| Non-compete agreements | (443,889) | (320,556) |
| Trade names | (560,000) | (380,000) |
| Certifications/programs | (2,000,000) | (2,000,000) |
| Customer backlogs | (310,000) | (130,000) |
| Customer relationships | (2,000,000) | (1,958,333) |
| Facility management contracts | (427,778) | (61,111) |
| | (5,741,667) | (4,850,000) |
| Intangible assets, net | \$ 4,148,333 | \$ 5,040,000 |

Amortization of intangible assets for each of the next five years and thereafter is expected to be as follows:

| | |
|----------------------|-------------|
| 2021 | \$ 746,667 |
| 2022 | 582,778 |
| 2023 | 546,667 |
| 2024 | 546,667 |
| 2025 | 485,556 |
| Thereafter | 1,239,998 |
| | \$4,148,333 |

Amortization expense was \$891,667 and \$841,667 for the years ended years ended December 31, 2020 and 2019, respectively.

10. Leases

The Company leases property and equipment under operating leases, primarily office and warehouse locations. For leases with terms greater than twelve months, the related asset and obligation are recorded at the present value of lease payments over the term. Many of these leases contain rental escalation clauses which are factored into the determination of lease payments when appropriate. When available, the lease payments are discounted using the rate implicit in the lease; however, the Company's current leases do not provide a readily determinable implicit rate. Therefore, the Company's incremental borrowing rate is estimated to discount the lease payments based on information available at lease commencement.

These leases contain both lease and non-lease components, which the Company has elected to treat as a single lease component. The Company elected not to recognize leases that have an original lease term, including

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Leases – (continued)

reasonably certain renewal or purchase obligations, of twelve months or less in its consolidated balance sheets for all classes of underlying assets. Lease costs for such short-term leases are expensed on a straight-line basis over the lease term.

The land used by the Company to operate its seawater desalination plants in the Cayman Islands and The Bahamas are owned by the Company or leased to the Company for immaterial annual amounts and are not included in the lease amounts presented on the consolidated balance sheets.

AdR entered into a lease for land to be used in the Project with an initial effective term of 20-years from the date of full operation of its proposed seawater desalination plant. The lease is cancellable by AdR should it ultimately not proceed with the Project. On June 29, 2020, AdR was notified that the APP Contract was terminated. As a result, the Company, AdR and NSC expect to terminate the various agreements ancillary to the Project or to transfer them to the State, including this land lease for the Project. As such, the lease amounts as of December 31, 2020 do not include this lease.

All lease assets denominated in a foreign currency are measured using the exchange rate at the commencement of the lease. All lease liabilities denominated in a foreign currency are remeasured using the exchange rate as of the consolidated balance sheet date.

Effective May 1, 2019, the Company executed a new lease for its office located in the Cayman Islands under similar terms compared to the prior lease. This new lease expires April 30, 2024.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Leases – (continued)

Lease assets and liabilities

The following table presents the lease-related assets and liabilities and their respective classification on the consolidated balance sheets:

| | December 31, | |
|---|--------------|-------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current | | |
| Prepaid expenses and other current assets | \$ 108,303 | \$ 33,567 |
| Current assets of discontinued operations | — | 2,530 |
| Noncurrent | | |
| Operating lease right-of-use assets | 1,329,561 | 1,811,516 |
| Long-term assets of discontinued operations | 33,909 | 2,627,696 |
| Total lease right-of-use assets | \$1,471,773 | \$4,475,309 |
| LIABILITIES | | |
| Current | | |
| Current maturities of operating leases | \$ 455,788 | \$ 688,540 |
| Current liabilities of discontinued operations | 29,432 | 67,211 |
| Noncurrent | | |
| Noncurrent operating leases | 982,076 | 1,156,543 |
| Noncurrent liabilities of discontinued operations | 2,499 | 2,679,932 |
| Total lease liabilities | \$1,469,795 | \$4,592,226 |
| <u>Weighted average remaining lease term:</u> | | |
| Operating leases | 3.4 years | 3.5 years |
| Operating leases – discontinued operations | 1.1 years | 24.0 years |
| <u>Weighted average discount rate:</u> | | |
| Operating leases | 4.15% | 4.37% |
| Operating leases – discontinued operations | 3.48% | 4.68% |

The components of lease cost were as follows:

| | Year Ended December 31, | |
|---|-------------------------|------------|
| | 2020 | 2019 |
| Operating lease costs | \$ 773,756 | \$ 563,358 |
| Short-term lease costs | 5,518 | 16,469 |
| Lease costs – discontinued operations | 127,983 | 234,045 |
| Total lease costs | \$ 907,257 | \$ 813,872 |

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Leases – (continued)

Supplemental cash flow information related to leases is as follows:

| | Year Ended December 31, | |
|--|-------------------------|-----------|
| | 2020 | 2019 |
| Cash paid for amounts included in measurement of liabilities: | | |
| Operating cash outflows for operating leases | \$708,095 | \$717,172 |
| Operating cash outflows for operating leases – discontinued operations . . . | 127,153 | 250,833 |

Future lease payments relating to the Company’s operating lease liabilities from continuing operations as of December 31, 2020 were as follows:

| Years ending December 31, | Total |
|--|------------|
| 2021 | \$ 505,206 |
| 2022 | 402,563 |
| 2023 | 405,113 |
| 2024 | 186,670 |
| 2025 | 43,229 |
| Thereafter | — |
| Total future lease payments | 1,542,781 |
| Less: imputed interest | (104,917) |
| Total lease obligations | 1,437,864 |
| Less: current obligations | (455,788) |
| Noncurrent lease obligations | \$ 982,076 |

11. Income taxes

The components of income before income taxes for the years ended December 31, 2020 and 2019 are as follows:

| | Year Ended December 31, | |
|--|-------------------------|--------------|
| | 2020 | 2019 |
| Foreign (not subject to income taxes) | \$ 6,475,693 | \$13,593,497 |
| Mexico | (4,903,988) | (2,458,210) |
| United States | 2,956,552 | 2,657,405 |
| | 4,528,257 | 13,792,692 |
| Less gain on sale of discontinued operations | — | (3,621,170) |
| Less discontinued operations | 4,902,243 | 2,333,255 |
| | \$ 9,430,500 | \$12,504,777 |

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Income taxes – (continued)

The Company's provision for income taxes for the years ended December 31, 2020 and 2019, which related to U.S. operations, consisted of the following:

| | <u>Year Ended December 31,</u> | |
|---------------------------|--------------------------------|------------------|
| | <u>2020</u> | <u>2019</u> |
| Current: | | |
| Federal | \$ 191,322 | \$ 143,567 |
| State | 87,630 | 171,093 |
| Foreign | — | — |
| Total | <u>278,952</u> | <u>314,660</u> |
| Deferred: | | |
| Federal | (132,957) | (203,031) |
| State | (59,271) | (45,008) |
| Foreign | — | — |
| Total | <u>(192,228)</u> | <u>(248,039)</u> |
| Total provision | <u>\$ 86,724</u> | <u>\$ 66,621</u> |

A reconciliation of the U.S. statutory federal tax rate to the effective rate for the years ended December 31, 2020 and 2019 is as follows:

| | <u>Year Ended December 31,</u> | |
|---|--------------------------------|--------------|
| | <u>2020</u> | <u>2019</u> |
| U.S. statutory federal rate | 21.00% | 21.00% |
| State taxes, net of federal effect | 4.00% | 4.38% |
| Nontaxable foreign income | (17.28)% | (19.98)% |
| Research & development tax credit | (11.73)% | (3.82)% |
| Permanent items | (0.67)% | (0.87)% |
| Valuation allowance for deferred tax assets | 5.60% | (0.18)% |
| | <u>0.92%</u> | <u>0.53%</u> |

The tax effects of significant items comprising the Company's net long-term deferred tax liability as of December 31, 2020 and 2019 were as follows:

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Income taxes – (continued)

| | December 31, | |
|---|--------------|--------------|
| | 2020 | 2019 |
| Continuing Operations | | |
| Deferred tax assets: | | |
| Research & development tax credits | \$ 613,003 | \$ 166,653 |
| Accrued compensation | 110,092 | — |
| Valuation allowances | (496,343) | (43,900) |
| | 226,752 | 122,753 |
| Deferred tax liabilities: | | |
| Property and equipment | 252,800 | 148,707 |
| Intangible assets | 1,188,009 | 1,380,328 |
| | 1,440,809 | 1,529,035 |
| Net deferred tax liability | \$ 1,214,057 | \$ 1,406,282 |
| Discontinued Operations | | |
| Deferred tax assets: | | |
| Operating loss carryforwards – Mexico | \$ 4,296,453 | \$ 3,427,295 |
| Land basis difference – Mexico | 1,262,159 | 1,164,365 |
| Start-up costs – Mexico | 4,904,337 | 4,608,990 |
| Valuation allowances | (10,462,949) | (9,200,650) |
| | \$ — | \$ — |

12. Earnings per share

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

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Earnings per share – (continued)

The following summarizes information related to the computation of basic and diluted EPS:

| | <u>Year Ended December 31,</u> | |
|--|--------------------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders | \$ 8,613,771 | \$10,888,178 |
| Less: preferred stock dividends | <u>(11,740)</u> | <u>(11,937)</u> |
| Net income from continuing operations available to common shares in the determination of basic earnings per common share | 8,602,031 | 10,876,241 |
| Total income (loss) from discontinued operations | <u>(4,902,243)</u> | <u>1,287,915</u> |
| Net income available to common shares in the determination of basic earnings per common share | <u>\$ 3,699,788</u> | <u>\$12,164,156</u> |
| Weighted average number of common shares in the determination of basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders | 15,119,305 | 15,025,639 |
| Plus: | | |
| Weighted average number of preferred shares outstanding during the period | 33,814 | 33,983 |
| Potential dilutive effect of unexercised options and unvested stock grants | <u>70,836</u> | <u>77,454</u> |
| Weighted average number of shares used for determining diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders | <u>15,223,955</u> | <u>15,137,076</u> |

13. Dividends

Interim dividends declared on Class A common stock and redeemable preferred stock for each quarter of the respective years ended December 31, 2020 and 2019 were as follows:

| | <u>2020</u> | <u>2019</u> |
|--------------------------|----------------|----------------|
| First Quarter | \$0.085 | \$0.085 |
| Second Quarter | 0.085 | 0.085 |
| Third Quarter | 0.085 | 0.085 |
| Fourth Quarter | <u>0.085</u> | <u>0.085</u> |
| | <u>\$ 0.34</u> | <u>\$ 0.34</u> |

14. Segment information

The Company has four reportable segments: retail, bulk, services and manufacturing. The retail segment operates the water utility for the Seven Mile Beach and West Bay areas of Grand Cayman Island pursuant to an exclusive license granted by the Cayman Islands government. The bulk segment supplies potable water to government utilities in Grand Cayman and The Bahamas under long-term contracts. The services segment designs, constructs and sells water infrastructure and provides management and operating services to third parties. The manufacturing segment manufactures and services a wide range of custom and specialized water-related products applicable to commercial, municipal and industrial water production, supply and treatment. Consistent with prior periods, the Company records all non-direct general and administrative expenses in its retail business segment and does not allocate any of these non-direct expenses to its other three business segments.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Segment information – (continued)

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

The Company's segments are strategic business units that are managed separately because each segment sells different products and/or services, serves customers with distinctly different needs and generates different gross profit margins.

| | Year Ended December 31, 2020 | | | | |
|--|------------------------------|---------------------|-------------------|---------------------|---------------------|
| | Retail | Bulk | Services | Manufacturing | Total |
| Revenue | \$22,952,370 | \$24,312,546 | \$12,937,859 | \$12,425,351 | \$72,628,126 |
| Cost of revenue | 11,080,814 | 16,959,563 | 9,698,214 | 8,121,080 | 45,859,671 |
| Gross profit | 11,871,556 | 7,352,983 | 3,239,645 | 4,304,271 | 26,768,455 |
| General and administrative expenses | 12,879,445 | 1,260,062 | 2,834,917 | 1,460,474 | 18,434,898 |
| Gain on asset dispositions and impairments, net | 2,965 | 7,213 | 3,801 | 18 | 13,997 |
| Income (loss) from operations | <u>\$ (1,004,924)</u> | <u>\$ 6,100,134</u> | <u>\$ 408,529</u> | <u>\$ 2,843,815</u> | 8,347,554 |
| Other income, net | | | | | 1,082,946 |
| Income before income taxes | | | | | 9,430,500 |
| Provision for income taxes | | | | | 86,724 |
| Net income from continuing operations | | | | | 9,343,776 |
| Income from continuing operations attributable to non-controlling interests | | | | | 730,005 |
| Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders | | | | | 8,613,771 |
| Net loss from discontinued operations | | | | | (4,902,243) |
| Net income attributable to Consolidated Water Co. Ltd. stockholders | | | | | <u>\$ 3,711,528</u> |

Depreciation and amortization expenses for the year ended December 31, 2020 for the retail, bulk, services and manufacturing segments were \$2,388,781, \$3,869,377, \$762,182 and \$386,169, respectively.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Segment information – (continued)

| | As of December 31, 2020 | | | | |
|--|-------------------------|--------------|--------------|---------------|---------------|
| | Retail | Bulk | Services | Manufacturing | Total |
| Accounts receivable, net | \$ 2,444,455 | \$17,022,813 | \$ 1,420,609 | \$ 596,099 | \$ 21,483,976 |
| Inventory, current and non-current | \$ 2,787,163 | \$ 3,795,544 | \$ — | \$ 1,138,313 | \$ 7,721,020 |
| Property, plant and equipment, net | \$27,947,545 | \$27,611,567 | \$ 487,973 | \$ 1,640,899 | \$ 57,687,984 |
| Construction in progress | \$ 305,110 | \$ 31,737 | \$ — | \$ 103,537 | \$ 440,384 |
| Intangibles, net | \$ — | \$ — | \$ 3,200,555 | \$ 947,778 | \$ 4,148,333 |
| Goodwill | \$ 1,170,511 | \$ 1,948,875 | \$ 5,320,416 | \$ 4,885,211 | \$ 13,325,013 |
| Total segment assets | \$56,425,159 | \$74,771,798 | \$14,470,322 | \$11,210,685 | \$156,877,964 |
| Assets of discontinued operations | | | | | \$ 22,677,588 |
| Total assets | | | | | \$179,555,552 |

| | Year Ended December 31, 2019 | | | | |
|--|------------------------------|---------------------|-------------------|---------------------|---------------------|
| | Retail | Bulk | Services | Manufacturing | Total |
| Revenue | \$26,456,022 | \$26,986,108 | \$1,759,446 | \$13,592,075 | \$68,793,651 |
| Cost of revenue | 11,611,165 | 18,606,805 | 1,215,193 | 9,086,140 | 40,519,303 |
| Gross profit | 14,844,857 | 8,379,303 | 544,253 | 4,505,935 | 28,274,348 |
| General and administrative expenses | 13,422,821 | 1,238,296 | 392,425 | 1,947,622 | 17,001,164 |
| Gain on asset dispositions and impairments, net | 398,041 | 47,000 | — | — | 445,041 |
| Income from operations | <u>\$ 1,820,077</u> | <u>\$ 7,188,007</u> | <u>\$ 151,828</u> | <u>\$ 2,558,313</u> | 11,718,225 |
| Other income, net | | | | | 786,552 |
| Income before income taxes | | | | | 12,504,777 |
| Provision for income taxes | | | | | 66,621 |
| Net income from continuing operations | | | | | 12,438,156 |
| Income from continuing operations attributable to non-controlling interests | | | | | 1,549,978 |
| Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders | | | | | 10,888,178 |
| Net income from discontinued operations | | | | | 1,287,915 |
| Net income attributable to Consolidated Water Co. Ltd. stockholders | | | | | <u>\$12,176,093</u> |

Depreciation and amortization expenses for the year ended December 31, 2019 for the retail, bulk, services and manufacturing segments were \$2,364,994, \$3,795,320, \$120,761 and \$922,027, respectively.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Segment information – (continued)

| | As of December 31, 2019 | | | | |
|--|-------------------------|--------------|--------------|---------------|---------------|
| | Retail | Bulk | Services | Manufacturing | Total |
| Accounts receivable, net | \$ 2,891,165 | \$18,883,493 | \$ 678,119 | \$ 500,882 | \$ 22,953,659 |
| Inventory, current and non-current . . | \$ 2,668,902 | \$ 3,628,443 | \$ — | \$ 1,394,588 | \$ 7,691,933 |
| Property, plant and equipment, net . . | \$29,177,718 | \$30,281,647 | \$ 158,358 | \$ 1,621,029 | \$ 61,238,752 |
| Construction in progress | \$ 396,214 | \$ 869,792 | \$ — | \$ 69,591 | \$ 1,335,597 |
| Intangibles, net | \$ — | \$ — | \$ 3,877,222 | \$ 1,162,778 | \$ 5,040,000 |
| Goodwill | \$ 1,170,511 | \$ 1,948,875 | \$ 5,320,416 | \$ 4,885,211 | \$ 13,325,013 |
| Total segment assets | \$65,554,640 | \$69,423,770 | \$12,895,385 | \$14,854,557 | \$162,728,352 |
| Assets of discontinued operations . . | | | | | \$ 29,289,022 |
| Total assets | | | | | \$192,017,374 |

Revenues earned by major geographic region were:

| | Year ended December 31, | |
|--|-------------------------|--------------|
| | 2020 | 2019 |
| Cayman Islands | \$25,640,169 | \$30,327,139 |
| Bahamas | 21,654,153 | 23,114,860 |
| Indonesia | — | 131 |
| United States | 24,918,527 | 14,968,868 |
| Revenues earned from management services agreement with OC-BVI | 415,277 | 382,653 |
| | \$72,628,126 | \$68,793,651 |

Revenues earned from major customers were:

| | Year ended December 31, | |
|---|-------------------------|--------------|
| | 2020 | 2019 |
| Revenue earned from the Water and Sewerage Corporation (“WSC”) | \$21,527,487 | \$22,877,741 |
| Percentage of consolidated revenue earned from the WSC | 30% | 33% |
| Revenue earned from one manufacturing segment customer | \$ 9,965,041 | \$ 9,238,476 |
| Percentage of consolidated revenue earned from the one manufacturing segment customer | 14% | 13% |

Property, plant and equipment, net by major geographic region were:

| | December 31, | |
|--------------------------|--------------|--------------|
| | 2020 | 2019 |
| Cayman Islands | \$28,474,748 | \$29,059,294 |
| The Bahamas | 26,975,427 | 30,245,741 |
| United States | 2,237,809 | 1,933,717 |
| | \$57,687,984 | \$61,238,752 |

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Cost of revenue and general and administrative expenses

| | Year Ended December 31, | |
|------------------------------------|-------------------------|--------------|
| | 2020 | 2019 |
| Cost of revenue consist of: | | |
| Electricity | \$ 5,389,361 | \$ 7,438,218 |
| Depreciation | 6,202,012 | 6,046,810 |
| Fuel oil | 4,157,393 | 5,315,676 |
| Employee costs | 11,308,833 | 6,597,755 |
| Maintenance | 2,859,262 | 2,076,501 |
| Retail license royalties | 1,489,862 | 1,701,724 |
| Insurance | 1,491,799 | 1,279,997 |
| Materials | 5,786,698 | 6,151,064 |
| Other | 7,174,451 | 3,911,558 |
| | \$45,859,671 | \$40,519,303 |

| | Year Ended December 31, | |
|--|-------------------------|--------------|
| | 2020 | 2019 |
| General and administrative expenses consist of: | | |
| Employee costs | \$10,025,658 | \$ 9,335,247 |
| Insurance | 1,436,957 | 866,457 |
| Professional fees | 1,549,878 | 1,178,621 |
| Directors' fees and expenses | 865,555 | 969,279 |
| Depreciation | 133,477 | 135,272 |
| Amortization of intangible assets | 891,667 | 841,667 |
| Other | 3,531,706 | 3,674,621 |
| | \$18,434,898 | \$17,001,164 |

16. Stock-based compensation

The Company has the following stock compensation plans that form part of its employees' and Directors' remuneration:

Employee Share Incentive Plan (Preferred Stock)

Employees (i.e. other than Directors and Officers), after four consecutive years of employment, become eligible to receive shares of the Company's preferred stock for \$nil consideration under its Employee Share Incentive Plan. Once an individual becomes eligible, these shares of preferred stock are awarded each subsequent year of the individual's employment (the grant date) for as long as the individual remains employed with the Company. If these employees remain with the Company through the fourth anniversary of a grant date, the preferred stock can be converted into shares of the Company's common stock on a one for one basis. In addition, at the time the preferred stock is granted, the employees receive options to purchase an equal number of shares of preferred stock at a discount to the average trading price of the Company's common stock for the first seven days of the October immediately preceding the date of the preferred stock grant. If these options are exercised, the shares of preferred stock obtained may also be converted to shares of common stock if the employee remains with the Company through the fourth anniversary of a grant (or option exercise) date. Each employee's option to purchase shares of preferred stock must be exercised within 30 days of the grant date, which is the 90th day after the date of the independent registered public accountants' audit opinion on the Company's consolidated financial statements. Shares of preferred stock not subsequently converted to shares

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Stock-based compensation – (continued)

of common stock are redeemable only at the discretion of the Company. Shares of preferred stock granted under this plan during the years ended December 31, 2020 and 2019 totaled 6,123 and 7,293, respectively, and an equal number of preferred stock options was granted in each of these years.

Employee Share Option Plan (Common Stock Options)

The Company has an employee stock option plan for certain long-serving employees of the Company. Under the plan, these employees are granted in each calendar year, as long as the employee is a participant in the Employee Share Incentive Plan, options to purchase common shares. The price at which the option may be exercised is the closing market price on the grant date, which is the 40th day after the date of the Company's Annual Shareholder Meeting. The number of options each employee is granted is equal to five times the sum of (i) the number of shares of preferred stock that employee receives for \$nil consideration and (ii) the number of preferred stock options that employee exercises in that given year. Options may be exercised during the period commencing on the fourth anniversary of the grant date and ending on the thirtieth day after the fourth anniversary of the grant date. Options granted under this plan during the years ended December 31, 2020 and 2019 totaled 2,100 and 2,575, respectively.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding. The Company uses historical data to estimate stock option exercises and forfeitures within its valuation model. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

2008 Equity Incentive Plan

On May 14, 2008, the Company's stockholders approved the 2008 Equity Incentive Plan (the "2008 Plan") and reserved 1,500,000 shares of the Company's Class A common shares for issuance under this plan. All Directors, executives and key employees of the Company or its affiliates are eligible for participation in the 2008 Plan which provides for the issuance of options, restricted stock and stock equivalents at the discretion of the Board.

Non-Executive Directors' Share Plan

This stock grant plan provides part of Directors' remuneration. Under this plan, non-Executive Directors receive a combination of cash and common stock for their participation in Board meetings. The number of shares of common stock granted is calculated based upon the market price of the Company's common stock on October 1 of the year preceding the grant. Common stock granted under this plan during the years ended December 31, 2020 and 2019 totaled 19,712 and 22,034 shares, respectively. The Company recognized stock-based compensation for these share grants of \$318,991 and \$322,036 for the years ended December 31, 2020 and 2019, respectively.

The Company measures and recognizes compensation expense at fair value for all share-based payments, including stock options. Stock-based compensation for the Employee Share Incentive Plan, Employee Share Option Plan and the 2008 Equity Incentive Plan totaled \$125,487 and \$142,632 for the years ended December 31, 2020 and 2019, respectively, and is included in general and administrative expenses in the accompanying consolidated statements of income.

The significant weighted average assumptions for the years ended December 31, 2020 and 2019 were as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| Risk free interest rate | 0.17% | 2.11% |
| Expected option life (years) | 1.1 | 1.1 |
| Expected volatility | 51.19% | 34.59% |
| Expected dividend yield | 2.42% | 2.44% |

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Stock-based compensation – (continued)

A summary of the Company's stock option activity for the year ended December 31, 2020 is as follows:

| | <u>Options</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Contractual Life (Years)</u> | <u>Aggregate Intrinsic Value⁽¹⁾</u> |
|---|----------------|--|--|--|
| Outstanding at beginning of period | 10,650 | \$13.08 | | |
| Granted | 8,223 | 10.67 | | |
| Exercised | (835) | 10.10 | | |
| Forfeited/expired | (8,008) | 11.04 | | |
| Outstanding as of December 31, 2020 | <u>10,030</u> | <u>\$12.98</u> | 2.07 years | <u>\$ —</u> |
| Exercisable as of December 31, 2020 | <u>—</u> | <u>\$ —</u> | — years | <u>\$ —</u> |

(1) The intrinsic value of a stock option represents the amount by which the fair value of the underlying stock, measured by reference to the closing price of the common shares of \$12.05 on the Nasdaq Global Select Market on December 31, 2020, exceeds the exercise price of the option.

As of December 31, 2020, 10,030 non-vested options were outstanding, with weighted average exercise price of \$12.98, and average remaining contractual life of 2.07 years. The total remaining unrecognized compensation costs related to unvested stock-based arrangements were \$14,427 as of December 31, 2020 and are expected to be recognized over a weighted average period of 2.07 years.

As of December 31, 2020, unrecognized compensation costs relating to redeemable preferred stock rights outstanding were \$142,328 and are expected to be recognized over a weighted average period of 1.15 years.

The following table summarizes the weighted average fair value of options at the date of grant and the intrinsic value of options exercised during the years ended December 31, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|---|-------------|-------------|
| Options granted with an exercise price below market price on the date of grant: | | |
| Employees – preferred stock | \$ 2.70 | \$ 3.73 |
| Overall weighted average | 2.70 | 3.73 |
| Options granted with an exercise price at market price on the date of grant: | | |
| Management employees | \$ — | \$ — |
| Employees – common stock | 2.45 | 3.23 |
| Overall weighted average | 2.45 | 3.23 |
| Options granted with an exercise price above market price on the date of grant: | | |
| Management employees | \$ — | \$ — |
| Employees – preferred stock | — | — |
| Overall weighted average | — | — |
| Total intrinsic value of options exercised | \$3,891 | \$5,857 |

Executive Long-Term Incentive Compensation

The Board of Directors approved changes to the long-term incentive compensation for the Company's Executive Officers effective for 2015 and thereafter to better align the interests of its Executive Officers with those of its shareholders. The revised long-term compensation plan includes a combination of performance

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Stock-based compensation – (continued)

and non-performance-based grants of common stock from the shares of Company stock provided for issuance under the 2008 Equity Incentive Plan.

The non-performance-based stock grants vest in one-third increments at the end of each year over a three-year period. Non-performance-based stock grants under this plan totaled 25,789 and 28,891 for the years ended December 31, 2020 and 2019, respectively and the shares associated with these grants were issued in 2021 and 2020, respectively. The Company recognized \$344,940 and \$337,032 in stock-based compensation expense related to these non-performance stock grants for the years ended December 31, 2020 and 2019, respectively.

The performance-based grants may be earned at the end of each year based upon the Company's three-year cumulative financial performance relative to three-year cumulative financial performance targets.

A total of 31,788 common stock grants were earned as of December 31, 2020 based upon the Company's actual financial performance relative to the cumulative financial performance targets for the three-year period ended December 31, 2020, and the Company recognized \$373,843 in stock-based compensation for the year ended December 31, 2020 related to these grants. The shares associated with these grants will be issued in 2021.

A total of 36,007 common stock grants were earned as of December 31, 2019 based upon the Company's actual financial performance relative to the cumulative financial performance targets for the three-year period ended December 31, 2019, and the Company recognized \$390,524 in stock-based compensation for the year ended December 31, 2019 related to these grants. The shares associated with these grants were issued in 2020.

17. Retirement benefits

Retirement plans are offered to all employees in California, Florida, Cayman Islands and Bahamas. The plans are administered by third parties and are defined contribution plans pursuant to which the Company matches participating employees' contributions up to certain amounts. The Company matches contributions of up to 5% of a maximum salary amount of \$104,400 for Cayman Islands employees, fully matches all contributions made by employees in the Bahamas, and matches contributions of up to 6% of salary for Florida employees. For California employees, the Company matches contribution amounts up to 2% of the employee's salary and matches 25% of contributions above this 2% threshold, up to 10% of the employee's salary. The Company's expense for these plans was \$576,096 and \$450,732 for the years ended December 31, 2020 and 2019, respectively.

18. Financial instruments

Credit risk:

The Company is not exposed to significant credit risk on its retail customer accounts as its policy is to cease supply of water to customers' accounts that are more than 45 days overdue. The Company's exposure to credit risk is concentrated on receivables from its bulk water, services, and manufacturing customers. The Company considers these receivables fully collectible and therefore has not recorded an allowance for these receivables.

Interest rate risk:

The Company is not subject to significant interest-rate risk arising from fluctuations in interest rates.

Foreign exchange risk:

All relevant foreign currencies other than the Mexican peso and the euro have been fixed to the dollar for more than 20 years and as a result, the Company does not employ a hedging strategy against exchange rate risk associated with the reporting in dollars. If any of these fixed exchange rates becomes a floating exchange rate or if any of the foreign currencies in which the Company conducts business depreciate significantly against the dollar, the Company's consolidated results of operations could be adversely affected.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Financial instruments – (continued)

Fair values:

As of December 31, 2020 and 2019, the carrying amounts of cash equivalents, accounts receivable, accounts payable, accrued expenses, accrued compensation, dividends payable and other current liabilities approximate their fair values due to the short-term maturities of these instruments.

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

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

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

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

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

The following table presents the Company’s fair value hierarchy for assets and liabilities measured at fair value as of December 31, 2020 and 2019:

| | December 31, 2020 | | | |
|---|-------------------|---------|-----------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Liabilities: | | | | |
| Recurring | | | | |
| Net liability arising from put/call options | \$ — | \$ — | \$690,000 | \$690,000 |

| | December 31, 2019 | | | |
|---|-------------------|---------|-----------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Liabilities: | | | | |
| Recurring | | | | |
| Net liability arising from put/call options | \$ — | \$ — | \$664,000 | \$664,000 |

The activity for the Level 3 asset for the year ended December 31, 2020:

| | |
|--|-----------|
| Net liability arising from put/call options | |
| Balance as of December 31, 2019 | \$664,000 |
| Unrealized loss | 26,000 |
| Balance as of December 31, 2020 | \$690,000 |

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Financial instruments – (continued)

Put/call options are reported at fair value as either assets or liabilities in the consolidated balance sheets. These fair values are calculated using discounted cash flow analysis valuation techniques that incorporate unobservable inputs, such as future cash flows, weighted-average cost of capital, and expected future volatility. The inputs to these valuations are considered Level 3 inputs.

19. Commitments and contingencies

Commitments

The Company has entered into employment agreements with certain executives, which expire through December 31, 2023 and provide for, among other things, base annual salaries in an aggregate amount of approximately \$4.7 million, performance bonuses and various employee benefits.

The Company has purchase obligations totaling approximately \$1.8 million through December 31, 2021.

Contingencies

COVID-19

The worldwide coronavirus (COVID-19) pandemic was formally recognized by the World Health Organization on March 11, 2020. In response to this pandemic, the governments of the countries in which the Company operates — the Cayman Islands, The Bahamas, and the United States — implemented preventative measures to slow the spread of COVID-19, measures which have had profound adverse consequences for the economies of those countries. Tourism, a major economic driver for the Cayman Islands and The Bahamas, has temporarily ceased in those countries due to closing of these countries to air and sea travel. Overall economic activity in the United States has declined.

As a result of the impact of the COVID-19 pandemic on the economies of the countries in which the Company operates, the Company has experienced, and could continue to experience decreases in consolidated revenue, cash flows generated from operations, and overall liquidity as compared to comparable prior periods.

Furthermore, a prolonged extension of the economic downturn created by the COVID-19 pandemic could adversely affect the markets for the Company's products and services. Such adverse market effects could adversely impact the Company's expected future cash flows from its four reporting units and could require the Company to record impairment losses to reduce the carrying values of one or more of these reporting units due to a decline in their fair values.

Although the Company cannot presently quantify the future financial impacts of the COVID-19 pandemic, such impacts will likely have a material adverse impact on the Company's consolidated financial condition, results of operations, and cash flows. Given the uncertainty associated with the resolution of this pandemic, the Company cannot presently determine how long such adverse financial impacts may last.

Cayman Water

The Company sells water through its retail operations under a license issued in July 1990 by the Cayman Islands government (the "1990 license") that granted Cayman Water the exclusive right to provide potable water to customers within its licensed service area. Although the 1990 license was not expressly extended after January 2018, the Company continues to supply water under the terms of the 1990 license, as further discussed in the following paragraph. Pursuant to the 1990 license, Cayman Water has the exclusive right to produce potable water and distribute it by pipeline to its licensed service area, which consists of two of the three most populated areas of Grand Cayman Island: Seven Mile Beach and West Bay. In 2020 and 2019, we generated approximately 32% and 38%, respectively, of our consolidated revenue and 44% and 53%, respectively, of our consolidated gross profit from the retail water operations conducted under the 1990 license.

The 1990 license was originally scheduled to expire in July 2010 but was extended several times by the Cayman Islands government in order to provide the parties with additional time to negotiate the terms of a new license

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Commitments and contingencies – (continued)

agreement. The most recent express extension of the 1990 license expired on January 31, 2018. The Company continues to operate under the terms of the 1990 license, providing water services to the level and quality specified in the 1990 license and in accordance with its understanding of its legal obligations, treating those obligations set forth in the 1990 license as operative notwithstanding the expiration of the express extension. The Company continues to pay the royalty required under the 1990 license.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office (“OfReg”). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for economic regulation of the water utility sector and the negotiations with the Company for a new retail license from the WAC to OfReg in May 2017. The Company began license negotiations with OfReg in July 2017 and such negotiations are ongoing. The Company has been informed during its retail license negotiations, both by OfReg and its predecessor in these negotiations, that the Cayman Islands government seeks to restructure the terms of its license in a manner that could significantly reduce the operating income and cash flows the Company has historically generated from its retail license.

The Company is presently unable to determine what impact the resolution of its retail license negotiations will have on its cash flows, financial condition or results of operations but such resolution could result in a material reduction (or the loss) of the operating income and cash flows the Company has historically generated from Cayman Water’s retail operations and could require the Company to record impairment losses to reduce the carrying values of its retail segment assets. Such impairment losses could have a material adverse impact on the Company’s consolidated financial condition and results of operations.

CW-Bahamas

CW-Bahamas’ accounts receivable balances (including accrued interest) due from the WSC amounted to \$16.8 million and \$18.4 million as of December 31, 2020 and 2019, respectively.

Historically, CW-Bahamas has experienced delays in collecting its accounts receivable from the WSC. When these delays occur, the Company holds discussions and meetings with representatives of the WSC and The Bahamas government, and as a result, payment schedules are developed for WSC’s delinquent accounts receivable. All previous delinquent accounts receivable from the WSC were eventually paid in full. Based upon this payment history, CW-Bahamas has never been required to provide an allowance for doubtful accounts for any of its accounts receivable, despite the periodic accumulation of significant delinquent balances. As of December 31, 2020, the Company has not provided an allowance for doubtful accounts for CW-Bahamas’ accounts receivable from the WSC.

If CW-Bahamas continues to be unable to collect a significant portion of its delinquent accounts receivable, one or more of the following events may occur: (i) CW-Bahamas may not have sufficient liquidity to meet its obligations; (ii) the Company may be required to cease the recognition of revenue on CW-Bahamas’ water supply agreements with the WSC; and (iii) the Company may be required to provide an allowance for doubtful accounts for CW-Bahamas’ accounts receivable. Any of these events could have a material adverse impact on the Company’s consolidated financial condition, results of operations, and cash flows.

20. Acquisition of PERC

On October 24, 2019, the Company, through its wholly-owned subsidiary, CW-Holdings, entered into a stock purchase agreement (the “Purchase Agreement”) with PERC and its various shareholders (collectively, the “Sellers”). Pursuant to the terms of the Purchase Agreement, CW-Holdings purchased a 51% ownership interest in PERC for approximately \$4.1 million in cash. After giving effect to the transactions contemplated by the Purchase Agreement, CW-Holdings owned 51% of the outstanding capital stock of PERC, and three

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Acquisition of PERC – (continued)

members of PERC’s management and one additional shareholder (the “Remaining Shareholders”) owned the remaining 49% of the outstanding capital stock of PERC. In August 2020, CW-Holdings acquired an additional 10% of PERC for \$900,000 increasing the Company’s ownership to 61% of the outstanding capital stock of PERC. The remaining 39% is still owned by three members of PERC’s management and one additional shareholder. CW-Holdings also acquired from the Remaining Shareholders an option to compel the Remaining Shareholders to sell, and granted to the Remaining Shareholders an option to require CW-Holdings to purchase, the Remaining Shareholders’ 39% ownership interest in PERC at a price based upon the fair market value of PERC at the time of the exercise of the option. CW-Holdings’ option is exercisable on or after October 24, 2022 and the Remaining Shareholders’ option is exercisable on or after October 24, 2024.

PERC is a water infrastructure company headquartered in Fountain Valley, California that develops, designs, builds, and manages wastewater and water reuse infrastructure.

In connection with the Purchase Agreement, CW-Holdings, and the Remaining Shareholders entered into a shareholders’ agreement, pursuant to which CW-Holdings and the Remaining Shareholders agreed to certain rights and obligations with respect to the governance of PERC.

The purchase price for PERC is summarized as follows:

| | |
|--|--------------------|
| Cash consideration | |
| Purchase price (excluding working capital) | \$4,088,817 |
| Cash acquired | (941,379) |
| Total cash consideration | <u>\$3,147,438</u> |

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

| | |
|---|---------------------|
| Financial assets | \$ 1,371,532 |
| Contract assets | 20,854 |
| Property, plant and equipment | 86,287 |
| Identifiable intangible assets | 3,990,000 |
| Deferred tax liability | (1,117,200) |
| Accounts payable and accrued liabilities | (1,260,722) |
| Working capital adjustment payable | (23,467) |
| Deferred revenue | (117,636) |
| Contract liabilities | (760,992) |
| Net liability arising from put/call options | (744,000) |
| Total identifiable net assets | <u>1,444,656</u> |
| Non-controlling interest in PERC | (3,617,634) |
| Goodwill | <u>5,320,416</u> |
| | <u>\$ 3,147,438</u> |

The fair value of noncontrolling interest was calculated using the discounted cash flow method. The discounted cash flow method relied upon nine-year discrete projections of operating results, working capital and capital expenditures, along with a terminal value subsequent to the discrete period. These projections were based upon historical and anticipated future results, general economic and market conditions, and considered the impact of planned business and operational strategies. The discount rates for the calculations represented

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Acquisition of PERC – (continued)

the estimated cost of capital for market participants at the time of each analysis. An 8.4% discount for marketability was applied to the noncontrolling interest calculated under the discounted cash flow method. This marketability discount was calculated using an average-price put option model.

The identifiable intangible assets consisted of the following items:

| | <u>Amount</u> | <u>Useful life</u> |
|---|--------------------|--------------------|
| Non-compete agreement | \$ 130,000 | 3 years |
| Trade name | 1,300,000 | 15 years |
| Customer backlog | 360,000 | 2 years |
| Facility management contracts | 2,200,000 | 6 years |
| | <u>\$3,990,000</u> | |

The results of operations of PERC included in the Company’s results of operations for the period October 24, 2019 to December 31, 2019 are as follows:

| | |
|---|-------------|
| Revenue | \$1,376,793 |
| Gross profit | 407,604 |
| Amortization of intangibles, net of tax benefit | (81,200) |
| Net income | 37,924 |

The following unaudited pro forma financial information presents the results of operations of the Company for the year ended December 31, 2019, as if the acquisition of PERC had taken place on January 1, 2019. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which would have actually occurred had the transaction taken place on January 1, 2019, nor do they purport to be indicative of future results of operations.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Acquisition of PERC – (continued)

| | December 31, 2019 |
|--|------------------------------|
| Revenue | \$77,615,958 |
| Cost of revenue | 47,162,564 |
| Gross profit | 30,453,394 |
| General and administrative expenses | 21,620,106 |
| Gain (loss) on asset dispositions and impairments, net | 447,681 |
| Income from operations | 9,280,969 |
| Other income (expense), net | 805,093 |
| Income before income taxes | 10,086,062 |
| Provision for (benefit from) income taxes | 72,814 |
| Net income from continuing operations | 10,013,248 |
| Income from continuing operations attributable to non-controlling interests | 1,505,068 |
| Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders | 8,508,180 |
| Gain on sale of discontinued operations | 3,621,170 |
| Net income from discontinued operations | — |
| Total income from discontinued operations | 3,621,170 |
| Net income attributable to Consolidated Water Co. Ltd. stockholders | \$12,129,350 |
| Basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders | |
| Continuing operations | \$ 0.57 |
| Discontinued operations | 0.24 |
| Basic earnings per share | \$ 0.81 |
| Diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders | |
| Continuing operations | \$ 0.56 |
| Discontinued operations | 0.24 |
| Diluted earnings per share | \$ 0.80 |
| Weighted average number of common shares used in the determination of: | |
| Basic earnings per share | 15,025,639 |
| Diluted earnings per share | 15,137,076 |

21. Related party transactions

The Company, through PERC and the services segment, purchases engineering and technology support services from various companies with a minority shareholder who is also a minority shareholder of PERC. During the years ended December 31, 2020 and 2019, the Company made total purchases of services of approximately \$1,349,000 and \$10,000 from these companies, respectively. These total purchases are included in the Company's cost of revenues in the accompanying consolidated statements of income. The total amount of accounts payable outstanding to these companies as of December 31, 2020 and 2019, was approximately \$201,000 and \$57,000, respectively.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Supplemental disclosure of cash flow information

| | <u>Year Ended December 31,</u> | |
|--|--------------------------------|-------------|
| | <u>2020</u> | <u>2019</u> |
| Interest paid in cash | \$ 9,669 | \$ 1,332 |
| Non-cash transactions: | | |
| Dividends declared but not paid | \$1,289,854 | \$1,282,086 |
| Transfers from inventory to property, plant and equipment and construction in progress | \$ 73,464 | \$ 443,018 |
| Transfers from construction in progress to property, plant and equipment | \$1,653,501 | \$7,755,375 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | \$ 299,992 | \$2,429,305 |
| Purchase of equipment through issuance of long term debt | \$ 122,292 | \$ 78,899 |

23. Impact of recent accounting standards

Adoption of New Accounting Standards:

None.

Effect of newly issued but not yet effective accounting standards:

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848), which provides optional expedients and exceptions to the current guidance on contract modifications and hedging relationships to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. The guidance was effective upon issuance and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The Company is currently evaluating the impact of the new guidance on the consolidated financial statements, however the adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

24. Subsequent events

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the possible controls and procedures.

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

Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Company management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and Directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework (2013)*.

Based on our assessment, management has concluded that, as of December 31, 2020, the Company's internal control over financial reporting was effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

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

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item with respect to our Directors and the nomination process is contained in the proxy statement for our 2021 Annual Meeting of Shareholders to be filed with the SEC (the “Proxy Statement”) under the heading “Proposal 1 — Election of Group III Directors” and is incorporated by reference in this Annual Report.

Information required by this item with respect to our Executive Officers is set forth in the Proxy Statement under the heading “Executive Officers.”

Information required by this item with respect to our audit committee and our audit committee financial expert is contained in the Proxy Statement under the heading “Proposal 1 — Election of Group III Directors — Committees of the Board of Directors — Audit Committee” and is incorporated by reference in this Annual Report.

Information required by this item with respect to compliance with Section 16(a) of the Exchange Act is contained in the Proxy Statement under the heading “Executive Compensation — Delinquent Section 16(a) Reports” and is incorporated by reference in this Annual Report.

The Board of Directors has adopted a Code of Business Conduct and Ethics (the “Code”) that applies to all of the Company’s Directors, Officers (including the Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer) and employees. Information related to the Code is contained in the Proxy Statement under the heading “Proposal 1 — Election of Group III Directors — Governance of the Company” and is incorporated by reference in this Annual Report.

We intend to disclose future amendments to certain provisions of the Code, or waivers of such provisions granted to Executive Officers and Directors, on our website within four business days following the date of such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item with respect to executive compensation and director compensation is contained in the Proxy Statement under the heading “Executive Compensation” and is incorporated by reference in this Annual Report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item with respect to security ownership of certain beneficial owners and management is contained in the Proxy Statement under the heading “Security Ownership of Certain Beneficial Owners and Management and Related Shareholders Matters” and is incorporated by reference in this Annual Report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item with respect to such contractual relationships and director independence is contained in the Proxy Statement under the headings “Executive Compensation — Transactions With Related Persons” and is incorporated by reference in this Annual Report.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information with respect to principal accounting fees and services are contained in the Proxy Statement under the heading “Proposal 3 Ratification of the Selection of Independent Accountants — Principal Accounting Fees and Services” and is incorporated by reference in this Annual Report.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

1. Financial Statements

The Consolidated Water Co. Ltd. Financial statements found in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA are incorporated herein by reference.

2. Financial Statement Schedules

None

3. Exhibits

The Exhibits listed in the Exhibit Index immediately preceding the Signatures are filed as part of this Annual Report on Form 10-K.

CONSOLIDATED WATER CO. LTD.
INDEX TO EXHIBITS FILED WITH 10-K

| <u>Number</u> | <u>Exhibit Description</u> |
|---------------|--|
| 3.1 | Amended and Restated Memorandum of Association of Consolidated Water Co. Ltd. dated May 14, 2008 (incorporated by reference to Exhibit 3.1 filed as part of our Form 8-K filed June 6, 2008, Commission File No. 0-25248) |
| 3.2 | Amended and Restated Articles of Association of Consolidated Water Co. Ltd. dated May 10, 2006 (incorporated by reference to Exhibit 4.2 filed as part of our Form F-3 filed October 12, 2006, Commission File No. 333-137970) |
| 3.3 | Amendment to Articles of Association of Consolidated Water Co. Ltd. dated May 11, 2007 (incorporated by reference to Exhibit 3.1 filed as part of our Form 8-K filed May 14, 2007, Commission File No. 0-25248) |
| 3.4 | Amendment to Articles of Association of Consolidated Water Co. Ltd. dated May 26, 2009 (incorporated by reference to Exhibit 3.1 filed as part of our Form 8-K filed May 27, 2009, Commission File No. 0-25248) |
| 4.1 | Description of Securities |
| 10.1.1 | License Agreement dated July 11, 1990 between Cayman Water Company Limited and the Government of the Cayman Islands (incorporated herein by reference to the exhibit filed as a part of our Form 20-F dated December 7, 1994, Commission File No. 0-25248) |
| 10.1.2 | First Amendment to License Agreement dated September 18, 1990 between Cayman Water Company Limited and the Government of the Cayman Islands. (incorporated herein by reference to the exhibit filed as a part of our Form 20-F dated December 7, 1994, Commission File No. 0-25248) |
| 10.1.3 | Second Amendment to License Agreement dated February 14, 1991 between Cayman Water Company Limited and the Government of the Cayman Islands. (incorporated herein by reference to the exhibit filed as a part of our Form 20-F dated December 7, 1994, Commission File No. 0-25248) |
| 10.1.4 | Third Amendment to a License to Produce Potable Water dated August 15, 2001 between Consolidated Water Co. Ltd. by the Government of the Cayman Islands (incorporated herein by reference to Exhibit 10.4 filed as a part of our Form 10-K for the fiscal year ended December 31, 2001, Commission File No. 0-25248) |
| 10.1.5 | Fourth Amendment to a License to Produce Potable Water dated February 1, 2003 between Consolidated Water Co. Ltd. by the Government of the Cayman Islands (incorporated herein by reference to Exhibit 10.5 filed as a part of our Form 10-K for the fiscal year ended December 31, 2002, Commission File No. 0-25248) |
| 10.1.6 | Amendment to License Agreement dated July 20, 2010 between the Government of the Cayman Islands and Cayman Water Company Limited (incorporated herein by reference to Exhibit 10 filed as a part of our Form 8-K filed July 23, 2010, Commission File No. 0-25248) |
| 10.1.7 | Amendment to a License to Produce Potable Water dated July 11, 2012 between Cayman Water Company Limited and the Government of the Cayman Islands (incorporated herein by reference to Exhibit 10.1 filed as a part of our Form 10-Q for the second quarter ended June 30, 2012, Commission File No. 0-25248) |
| 10.1.8 | Amendment to License Agreement dated December 31, 2012 between the Government of the Cayman Islands and Cayman Water Company Limited (incorporated herein by reference to Exhibit 10.1 filed as a part of our Form 8-K filed March 4, 2013, Commission File No. 0-25248) |

| Number | Exhibit Description |
|---------|---|
| 10.1.9 | Amendment to License Agreement dated April 24, 2013 between the Government of the Cayman Islands and Cayman Water Company Limited (incorporated herein by reference to Exhibit 10.1.9 filed as a part of our Form 10-K for the fiscal year ended December 31, 2013, Commission File No. 0-25248) |
| 10.1.10 | Amendment to License Agreement dated November 6, 2013 between the Government of the Cayman Islands and Cayman Water Company Limited (incorporated herein by reference to Exhibit 10.1.10 filed as a part of our Form 10-K for the fiscal year ended December 31, 2013, Commission File No. 0-25248) |
| 10.1.11 | Amendment to License Agreement dated June 30, 2014 between the Government of the Cayman Islands and Cayman Water Company Limited (incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed July 14, 2014, Commission File No. 0-25248) |
| 10.1.12 | Amendment to License Agreement dated January 20, 2015 between the Government of the Cayman Islands and Cayman Water Company Limited (incorporated herein by reference to Exhibit 10.1.12 filed as a part of our Form 10-K for the fiscal year ended December 31, 2014, Commission File No. 0-25248) |
| 10.1.13 | Amendment to License Agreement dated August 5, 2015 between the Government of the Cayman Islands and Cayman Water Company Limited (incorporated herein by reference to Exhibit 10.1.13 filed as a part of our Form 10-K for the fiscal year ended December 31, 2015, Commission File No. 0-25248) |
| 10.1.14 | Amendment to License Agreement dated April 11, 2016 between the Government of the Cayman Islands and Cayman Water Company Limited (incorporated by reference to Exhibit 10.1 filed as part of our Form 10-Q for the fiscal quarter ended June 30, 2016, Commission File No. 0-25248) |
| 10.2 | Water Supply Agreement dated December 18, 2000 between Consolidated Water Co. Ltd. and South Bimini International Ltd. (incorporated herein by reference to Exhibit 10.12 filed as a part of our Form 10-K for the fiscal year ended December 31, 2000, Commission File No. 0-25248) |
| 10.3.1* | Employment contract dated December 5, 2003 between Frederick McTaggart and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.18 filed as a part of our Form 10-K for the fiscal year ended December 31, 2003, Commission File No. 0-25248) |
| 10.3.2* | Amendment of Engagement Agreement dated September 14, 2007 between Frederick W. McTaggart and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.2 to our Form 8-K filed September 19, 2007, Commission File No. 0-25248) |
| 10.3.3* | Third Amendment of Engagement Agreement dated September 9, 2009 between Frederick W. McTaggart and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed September 10, 2009, Commission File No. 0-25248) |
| 10.4* | Engagement Agreement dated January 15, 2008 between David Sasnett and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.1 filed as part of our Form 8-K filed January 22, 2008, Commission File No. 0-25248) |
| 10.5.1* | Employment contract dated January 14, 2008 between Ramjeet Jerrybandan and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.11 filed as part of our Form 10-K for the fiscal year ended December 31, 2008, Commission File No. 0-25248) |
| 10.5.2* | First Amendment to Employment Contract dated March 29, 2017 between Ramjeet Jerrybandan and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.2 filed as part of our Form 8-K filed April 4, 2017, Commission File No. 0-25248) |
| 10.6.1* | Engagement Agreement dated July 12, 2011 between John Tonner and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.1 filed as a part of our Form 8-K filed |

| Number | Exhibit Description |
|----------|--|
| | August 5, 2011, Commission File No. 0-25248) |
| 10.6.2* | Amended and Restated Engagement Agreement dated March 29, 2017 between John Tonner and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.1 filed as part of our Form 8-K filed April 4, 2017, Commission File No. 0-25248) |
| 10.7 | Specimen Service Agreement between Cayman Water Company Limited and consumers (incorporated herein by reference to the exhibit filed as part of our Registration Statement on Form F-1 dated March 26, 1996) |
| 10.8* | Summary Share Grant Plan for Directors (incorporated herein by reference to Exhibit 10.24 filed as part of our Registration Statement on Form F-2 dated May 17, 2000, Commission File No. 333-35356) |
| 10.9* | Employee Share Option Plan (incorporated herein by reference to Exhibit 10.26 filed as a part of our Form 10-K for the fiscal year ended December 31, 2001, Commission File No. 0-25248) |
| 10.10* | 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 filed as part of our Form 10-Q for the fiscal quarter ended September 30, 2008, Commission File No. 0-25248) |
| 10.11 | Agreement dated February 1, 2002 between Consolidated Water Co. Ltd. and Cayman Hotel and Golf Inc. (incorporated herein by reference to Exhibit 10.31 filed as a part of our Form 10-K for the fiscal year ended December 31, 2001, Commission File No. 0-25248) |
| 10.12 | Lease dated December 10, 2001 between Cayman Hotel and Golf Inc. and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.52 filed as a part of our Form 10-K for the fiscal year ended December 31, 2001, Commission File No. 0-25248) |
| 10.13.1† | Form of Agreement for Desalinated Water Supply dated May 2005 among Water and Sewerage Corporation, Consolidated Water Co. Ltd. and Consolidated Water (Bahamas) Limited (incorporated herein by reference to Exhibit 10.1 filed as a part of our Form 8-K filed February 4, 2011, File No. 0-25248) |
| 10.13.2† | Letter of Acceptance dated January 25, 2011 (effective January 31, 2011) between Water and Sewerage Corporation and Consolidated Water Co. Ltd. (incorporated herein by reference to Exhibit 10.2 filed as a part of our Form 8-K filed February 4, 2011, File No. 0-25248) |
| 10.13.3† | Proposal letter dated December 8, 2010 addressed to the Water and Sewerage Corporation (incorporated herein by reference to Exhibit 10.3 filed as a part of our Form 8-K filed February 4, 2011, File No. 0-25248) |
| 10.14.1 | N.S.C. Agua S.A. de C.V. agreement for the purchase of 12 hectares of land dated May 16, 2013 (incorporated herein by reference to Exhibit 10.32.1 filed as a part of our Form 10-K for the fiscal year ended December 31, 2013, Commission File No. 0-25248) |
| 10.14.2 | Appendix to N.S.C. Agua S.A. de C.V. agreement for the purchase of 12 hectares of land dated May 16, 2013 (incorporated herein by reference to Exhibit 10.32.2 filed as a part of our Form 10-K for the fiscal year ended December 31, 2013, Commission File No. 0-25248) |
| 10.14.3 | Exhibit Index to N.S.C. Agua S.A. de C.V. agreement for the purchase of 12 hectares of land dated May 16, 2013 (incorporated herein by reference to Exhibit 10.32.3 filed as a part of our Form 10-K for the fiscal year ended December 31, 2013, Commission File No. 0-25248) |
| 10.14.4 | Exhibits to N.S.C. Agua S.A. de C.V. agreement for the purchase of 12 hectares of land dated May 16, 2013 (incorporated herein by reference to Exhibit 10.32.4 filed as a part of our Form 10-K for the fiscal year ended December 31, 2013, Commission File No. 0-25248) |

| Number | Exhibit Description |
|-----------|--|
| 10.15 | Public-Private Partnership Contract dated August 22, 2016 among Aguas de Rosarito S.A.P.I. de C.V., the State Water Commission of Baja California, the Government of Baja California represented by the Secretary of Planning and Finance, and the Public Utilities Commission of Tijuana. (incorporated herein by reference to Exhibit 10.1 to be filed as a part of our Amendment No. 1 to Form 8-K filed August 26, 2016, File No. 0-25248) |
| 10.16 | Letter dated June 29, 2020 from the Director General of the Comisión Estatal del Agua de Baja California to Aguas de Rosarito, S.A.P.I. de C.V. (incorporated herein by reference to Exhibit 10.1 filed as a part of our Form 8-K filed July 6, 2020, File No. 0-25248) |
| 21.1** | Subsidiaries of the Registrant |
| 23.1** | Consent of Marcum LLP — Consolidated Water Co. Ltd. |
| 31.1** | Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2** | Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1** | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2** | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS** | XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH** | XBRL Taxonomy Extension Schema |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF** | XBRL Taxonomy Extension Definition Document |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase |
| 104** | Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |

* Indicates a management contract or compensatory plan.

** Filed herewith.

† Portions of these Exhibits have been omitted pursuant to a request for confidential treatment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ Wilmer F. Pergande
Wilmer F. Pergande
Chairman of the Board of Directors

Dated: March 31, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|----------------|
| By: <u>/s/ Wilmer F. Pergande</u> Wilmer F. Pergande | Chairman of the Board of Directors | March 31, 2021 |
| By: <u>/s/ Frederick W. McTaggart</u> Frederick W. McTaggart | Director, Chief Executive Officer and President (Principal Executive Officer) | March 31, 2021 |
| By: <u>/s/ David W. Sasnett</u> David W. Sasnett | Executive Vice President & Chief Financial Officer (Principal Financial and Accounting Officer) | March 31, 2021 |
| By: <u>/s/ Linda Beidler-D'Aguilar</u> Linda Beidler-D'Aguilar | Director | March 31, 2021 |
| By: <u>/s/ Brian E. Butler</u> Brian E. Butler | Director | March 31, 2021 |
| By: <u>/s/ Carson K. Ebanks</u> Carson K. Ebanks | Director | March 31, 2021 |
| By: <u>/s/ Richard L. Finlay</u> Richard L. Finlay | Director | March 31, 2021 |
| By: <u>/s/ Clarence B. Flowers, Jr.</u> Clarence B. Flowers, Jr. | Director | March 31, 2021 |
| By: <u>/s/ Leonard J. Sokolow</u> Leonard J. Sokolow | Director | March 31, 2021 |
| By: <u>/s/ Raymond Whittaker</u> Raymond Whittaker | Director | March 31, 2021 |

CONSOLIDATED WATER CO. LTD.
DESCRIPTION OF SECURITIES

The following description of the terms of our securities is not complete and is qualified in its entirety by reference to our Memorandum of Association, as amended (the "Memorandum of Association"), and our Articles of Association, as amended (the "Articles of Association"), both of which are exhibits to our Annual Reports on Form 10-K.

Under our Memorandum of Association and Articles of Association we are authorized to issue 25,000,000 shares of capital stock, consisting of 24,655,000 ordinary shares, par value C\$0.50 (approximately US\$0.60) per share, 145,000 Class B ordinary shares, par value C\$0.50 (approximately US\$0.60) per share, and 200,000 redeemable preference shares, par value C\$0.50 (approximately US\$0.60) per share.

The ordinary shares (common stock) are listed on the Nasdaq Global Select Market under the symbol "CWCO." All outstanding ordinary shares are validly issued, fully paid, and nonassessable.

Ordinary Shares

Voting Rights

Holders of ordinary shares may cast one vote for each share held of record at all shareholder meetings. All voting is non-cumulative. Holders of more than 50% of the outstanding shares present and voting at an annual meeting at which a quorum is present are able to elect all of our directors.

Dividends and Liquidation Rights

Holders of ordinary shares are entitled to receive ratably dividends, if any, distributed out of our accumulated profits. Subject to the preferential rights of holders of the redeemable preference shares, upon liquidation, all holders of ordinary shares are entitled to participate pro rata in our assets which are available for distribution.

Other Rights

Holders of ordinary shares do not have preemptive rights or rights to convert their ordinary shares into any other securities, and our common stock is not subject to any redemption or sinking fund provisions.

Redeemable Preference Shares

Voting

Holders of redeemable preference shares may cast one vote for each share held of record at all shareholder meetings. All voting is on a non-cumulative basis.

Dividends and Liquidation Rights

Upon the event of our liquidation, the redeemable preference shares rank in preference to the ordinary shares with respect to the repayment of the par value of redeemable preference shares plus any premium paid or credited on the purchase of the shares.

Other Rights

Under our employee share incentive plan, we may redeem any redeemable preference shares issued to an employee under certain circumstances. The ordinary shares and the redeemable preference shares rank equally in all other respects.

Class B Ordinary Shares

Special Rights

Holders of Class B ordinary shares are entitled to the same dividends paid on Class A ordinary shares and redeemable preference shares, and we cannot pay a dividend on the Class A ordinary shares without paying the same dividend on the Class B ordinary shares, and vice versa. We cannot redeem the Class B ordinary shares, and the holders of the Class B ordinary shares are not entitled to any repayments of capital upon our dissolution.

If we enter into a transaction in which Class A ordinary shares are exchanged for securities or other consideration of another company, then the Class B ordinary shares will also be exchanged pursuant to a formula. The Class B ordinary shares and the Class A ordinary shares rank equally in all other respects.

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CONSOLIDATED WATER CO. LTD.**Subsidiaries of the Registrant**

The following list includes all of the Registrant's wholly-owned subsidiaries, majority-owned subsidiaries and affiliates as of December 31, 2020. All subsidiaries of the Registrant appearing in the following table are included in the consolidated financial statements of the Registrant.

| Subsidiaries | Jurisdiction of Organization |
|---|-------------------------------------|
| Aguas de Rosarito S.A.P.I. de C.V. (100%) | Mexico |
| Aerex Industries, Inc. (100%) | United States of America |
| Aquilex, Inc. (100%) | United States of America |
| Cayman Water Company Limited (100%) | Cayman Islands |
| Consolidated Water (Bahamas) Limited (90.9%) | The Bahamas |
| Consolidated Water Cooperatief, U.A. (100%) | Netherlands |
| Consolidated Water U.S. Holdings, Inc. (100%) | United States of America |
| DesalCo Limited (100%) | Cayman Islands |
| N.S.C. Agua, S.A. de C.V. (99.9%) | Mexico |
| Ocean Conversion (BVI) Ltd. (Affiliate) | The British Virgin Islands |
| Ocean Conversion (Cayman) Limited (100%) | Cayman Islands |
| PERC Water Corporation (61%) | United States of America |

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Independent Registered Public Accounting Firm's Consent

We consent to the incorporation by reference in the Registration Statement of Consolidated Water Co. Ltd. on Form S-8 (File No. 333-187261) of our report dated March 31, 2021, with respect to our audits of the consolidated financial statements of Consolidated Water Co. Ltd. as of December 31, 2020 and 2019 and for each of the years in the two year period ended, which report is included in this Annual Report on Form 10-K of Consolidated Water Co. Ltd. for the year ended December 31, 2020.

/s/ Marcum LLP

West Palm Beach, Florida
March 31, 2021

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**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

In connection with the Form 10-K of Consolidated Water Co. Ltd. for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof, I, Frederick W. McTaggart, certify, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, that:

1. I have reviewed the Form 10-K of Consolidated Water Co. Ltd. for the fiscal year ended December 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2021

By: /s/ Frederick W. McTaggart

Name: Frederick W. McTaggart

Title: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

In connection with the Form 10-K of Consolidated Water Co. Ltd. for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof, I, David W. Sasnett, certify, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, that:

1. I have reviewed the Form 10-K of Consolidated Water Co. Ltd. for the fiscal year ended December 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2021

By: /s/ David W. Sasnett

Name: David W. Sasnett

Title: Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the Form 10-K of Consolidated Water Co. Ltd. for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frederick W. McTaggart, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 31, 2021

By: /s/ Frederick W. McTaggart

Name: Frederick W. McTaggart

Title: Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Form 10-K of Consolidated Water Co. Ltd. for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David W. Sasnett, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 31, 2021

By: /s/ David W. Sasnett

Name: David W. Sasnett

Title: Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

BOARD OF DIRECTORS

Wilmer F. Pergande
Independent Consultant
WF Pergande Consulting LLC
United States of America
Chairman of the Board
Consolidated Water Co. Ltd.

Frederick W. McTaggart
President and Chief Executive Officer
Consolidated Water Co. Ltd.

Linda Beidler-D'Aguilar
Partner
Glinton Sweeting O'Brien
Counsel & Attorneys-at-Law
The Bahamas

Brian E. Butler
Property Developer
Butler Development Group
Cayman Islands

Carson K. Ebanks, MBE, JP
*Retired Permanent Secretary of
Finance Tourism and Development*
Cayman Islands Government

Richard L. Finlay
Attorney-at-Law and Notary Public
Cayman Islands

Clarence B. Flowers, Jr.
Real Estate Developer
Orchid Development Company Ltd.
Director
C.L. Flowers & Sons
Cayman Islands

Leonard J. Sokolow
CEO and President
Newbridge Financial, Inc.
United States of America

Raymond Whittaker
Principal
FCM, Ltd.
Cayman Islands

INDEPENDENT ACCOUNTANTS

Marcum LLP
525 Okeechobee Boulevard, Suite 750
West Palm Beach, FL 33401

LEGAL COUNSEL

Duane Morris LLP
200 South Biscayne Boulevard,
Suite 3400
Miami, FL 33131 USA

PRINCIPAL BANKERS

Scotiabank & Trust (Cayman) Ltd.
P.O. Box 689
Grand Cayman, KY1-1107
Cayman Islands

Transfer Agents & Registrar
American Stock Transfer &
Trust Company
6201 15th Avenue
Brooklyn, NY 11219

CORPORATE OFFICERS

Frederick W. McTaggart
President and Chief Executive Officer

David W. Sasnett
*Executive Vice President and
Chief Financial Officer*

Ramjeet Jerrybandan
*Executive Vice President and
Chief Operating Officer*

John B. Tonner
*Executive Vice President and
Chief Commercial Officer*

Armando V. Averhoff
Vice President of Information Technology

Brent A. Brodie
Vice President of Sales and Marketing

Jamie Bryan
Vice President of Manufacturing

Todd Redding
Vice President of Purchasing & Logistics

Douglas R. Vizzini
Vice President of Finance

REGISTERED AND PRINCIPAL OFFICE

Consolidated Water Co. Ltd.
Regatta Office Park
Windward Three, 4th Floor
West Bay Road
P.O. Box 1114
Grand Cayman, KY1-1102
Cayman Islands
TEL: (345) 945-4277
FAX: (345) 949-2957
EMAIL: info@cwco.com
www.cwco.com

STOCK EXCHANGE LISTING

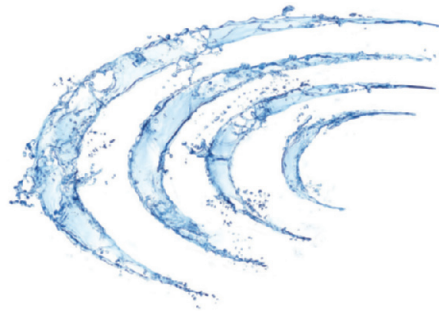
The Company's common shares trade on the NASDAQ Global Select Market. The trading symbol is "CWCO." "The Nasdaq Stock Market, Inc." or "NASDAQ" is a highly regulated electronic securities market comprising of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting, and execution systems.

FORMS 10-Q AND 10-K

The Company files Quarterly and Annual Reports with the U.S. Securities and Exchange Commission on Form 10-Q and 10-K, pursuant to the Securities Exchange Act of 1934.

A copy of these reports may be obtained by calling or writing to the Company's principal offices at the address shown on overleaf, attention: Investor Relations Department, or alternatively online at the SEC website www.sec.gov.





CONSOLIDATED WATER

Consolidated Water Co. Ltd.

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

WWW.CWCO.COM