



**CONSOLIDATED  
WATER**

2021  
ANNUAL REPORT

# FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED DECEMBER 31,

(IN U.S. DOLLARS)

	2021	2020
<b>Total revenue</b>	<b>\$ 66,863,502</b>	<b>\$ 72,628,126</b>
<b>Net income from continuing operations</b>	<b>\$ 3,449,658</b>	<b>\$ 8,613,771</b>
Total (loss) from discontinued operations	\$ (2,574,079)	\$ (4,902,243)
Income from operations	\$ 2,010,996	\$ 8,347,554
Net cash provided by operating activities - continuing operations	\$ 8,587,602	\$ 18,970,938
Net cash used in operating activities - discontinued operations	\$ (1,621,292)	\$ (1,635,646)
Total assets	\$ 177,027,054	\$ 179,555,552
<b>Total equity</b>	<b>\$ 165,665,423</b>	<b>\$ 169,012,549</b>
Dividends declared per common and redeemable preferred shares	\$ 0.34	\$ 0.34
Basic earnings per share - continuing operations	\$ 0.23	\$ 0.56
Basic earnings (loss) per share - discontinued operations	\$ (0.17)	\$ (0.32)
Diluted earnings per share - continuing operations	\$ 0.23	\$ 0.56
Diluted earnings (loss) per share - discontinued operations	\$ (0.17)	\$ (0.32)
Net income from continuing operations as a % of total revenues	5.16%	11.86%
Income from operations as a % of total revenues	3.01%	11.49%
Net cash provided by operating activities - continuing operations as a % of total revenues	12.84%	26.12%

## TRADING IN SHARES

	2021	2020
Class A common stock outstanding at year end	\$ 15,243,693	\$ 15,143,683
Low closing share price during year	\$ 10.50	\$ 10.06
High closing share price during year	\$ 15.27	\$ 18.64
Closing share price at year end	\$ 10.64	\$ 12.05

Consolidated Water Co. Ltd. develops and operates advanced water supply and treatment plants and water distribution systems. The company operates water production facilities in the Cayman Islands, The Bahamas and the British Virgin Islands and operates water treatment facilities in the United States. The company also manufactures and services a wide range of products and provides design, engineering, management, operating and other services applicable to commercial and municipal water production, supply and treatment, and industrial water and wastewater treatment.

## Dear Shareholders,

Our 2021 fiscal year was one of progress and continuing challenges. Our retail segment performed below historical levels due to the continued impact of the COVID-19 pandemic on tourism to Grand Cayman. Weakening economic conditions causing delays in new projects and supply chain disruptions adversely impacted our manufacturing segment results. Nevertheless, we reported the following positive financial results in 2021:

- Bulk water supply revenue increased 10.2% to \$26.8 million.
- Services revenue increased 7.3% to \$13.9 million.
- Net income from continuing operations attributable to company stockholders was \$3.4 million or \$0.23 per share.
- As of December 31, 2021, cash and cash equivalents totaled \$40.4 million, working capital was \$69.2 million, debt was \$0.2 million, with stockholders' equity at \$157.6 million.
- Paid quarterly cash dividends of \$0.085 per share (\$0.34 on an annualized basis), totaling \$5.8 million in dividends paid.

Although the operating results for our retail and manufacturing segments fell below pre-pandemic levels, we made significant progress in various areas of our business, progress that bodes well for our future results.

Our bulk segment improved its performance, increasing its revenue by \$2.5 million and its operating income by \$1.6 million – results which were driven both by rising energy costs and a 5% increase in the volume of water sold by our Bahamas subsidiary.

We continued to diversify our manufactured products, customer base, and during the year integrated our sales teams across our four business segments. This integrated sales approach will support further diversification of our manufacturing segment's client base and geographical markets. Our manufacturing subsidiary, Aerex, is now pursuing projects in the southwest United States in addition to its primary Florida market, and we are confident that our manufacturing segment revenue and results will improve in 2022.

Our services segment, led by our California-based PERC Water subsidiary, has also seen increased activity in increasingly robust markets for its services, and during the year we took steps to aggressively pursue this potential new business. Project bidding in its primary markets for infrastructure construction contracts and operations agreements has picked up, as PERC Water is currently pursuing more than a dozen potential design-build and operations contracts as of the first quarter of 2022.

We are very encouraged by the return of tourism to the Cayman Islands as the country's reopening plan continues. Several major airlines resumed their flights to the islands and cruise ships were welcomed back to the islands in March 2022. We experienced a 7% year-over-year increase in water sales in our Grand Cayman retail service areas during the first two months of 2022. We expect the resurgence of tourism to help our retail water sales return to normal levels, as hotels and businesses begin to serve the thousands of tourists and vacationers coming back to the islands.

We remain very optimistic about the future of Consolidated Water, despite the adversity of 2021. Our extensive experience, excellent track record and novel approach to designing, building, and operating both seawater desalination facilities and wastewater treatment and recycling plants—as well as our strong financial position, efficient cost structure, and the inherent synergies between the four segments of our business—provide us with numerous competitive advantages as we pursue new opportunities in growing markets for our products and services.

On behalf of our Board of Directors, management and staff, I would like to thank our shareholders and the other stakeholders in our business for your investment and confidence in our company, and for the honor and pleasure of serving as your chairman.

Yours truly,



Wilmer F. Pergande  
Chairman of the Board  
March 29, 2022



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, 2021

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 definitions 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, 2021, was \$169,038,813.

As of March 24, 2022, 15,267,104 shares of the registrant's common shares were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the registrant's Proxy Statement related to its 2022 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 revenue, 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, particularly on our retail and manufacturing segments;
- 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 the 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 2021, our retail water operations generated approximately 33% 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 2021, our bulk water operations generated approximately 40% 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 2021, our services operations generated approximately 21% 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 2021, our manufacturing operations generated approximately 6% 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, 2021, 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<sup>(1)</sup></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<sup>(1)</sup></u>
USA . . . . .	28	52.6

(1) In estimated millions of gallons per day.

#### Strategy

We are a comprehensive 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.

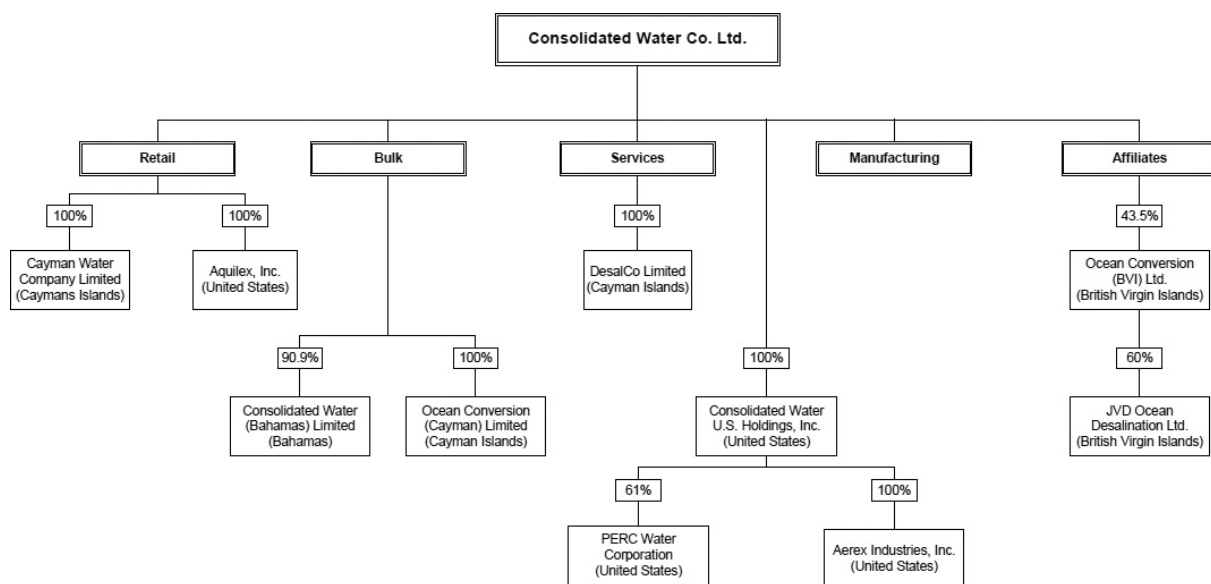
Key elements of our strategy include:

*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 comprehensive water solutions 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.

## 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, 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 our consolidated financial statements.

## **Our Operations**

For fiscal year 2021, our retail water, bulk water, services and manufacturing segments generated approximately 33%, 40%, 21% and 6%, 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 2021 and 2020, our retail water operations accounted for approximately 33%, and 32%, 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 1A. 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.

Our distribution system is connected to the distribution system of the WAC. In prior years, during emergencies, 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 100 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 45 days after the billing date. Receivables not collected within 45 days subject the customer to disconnection from water service. In 2021 and 2020, 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 significantly reduced demand for our water. In November 2021, the Cayman Islands government eliminated certain travel restrictions for COVID-19 vaccinated travelers that allowed tourists to enter the Cayman Islands for the first time since March 2020. 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 2021 and 2020, our bulk water operations accounted for approximately 40% and 33%, respectively, of our consolidated revenue. These operations produce potable water from seawater and sell this water to government-owned utilities in the Cayman Islands and The Bahamas, which then distribute the water to end users.

#### *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.

Our agreement with the WAC for the North Sound and Red Gate plants expires in 2024. Our agreement with the WAC for the NSWW plant expires in 2026.

### *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.

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 2021 and 2020, our services operations accounted for approximately 21% and 18%, 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 1998. 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 2021 and 2020, our manufacturing operations accounted for approximately 6% and 17%, 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.

### **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 whenever possible locates its equipment in concealed areas and in aesthetically pleasing buildings that minimize foul odors.

### **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 key components for some of our desalination plants 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 significantly reduced demand for our water. In November 2021, the Cayman Islands government eliminated certain travel restrictions for COVID-19 vaccinated travelers that allowed tourists to enter the Cayman Islands for the first time since March 2020. 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 with 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 2021 to be 69,656. According to the figures published by the Department of Tourism Statistics Information Center, in 2021 as compared to 2020, tourist air arrivals decreased by 86% to approximately 17,000 and cruise ship tourist arrivals decreased to zero.

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 significantly reduced demand for our water. In

November 2021, the Cayman Islands government eliminated certain travel restrictions for COVID-19 vaccinated travelers that allowed tourists to enter the Cayman Islands for the first time since March 2020. 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 to approximately 575,000 and 335,000, respectively. In 2021, cruise ship arrivals decreased 20% to approximately 465,000 and air arrivals increased from approximately 335,000 to approximately 650,000.

*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/ 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/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/Veolia 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/ Veolia, 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. We have historically experienced low employee turnover.

As of March 24, 2022, we employed a total of 197 persons, 60 in the Cayman Islands, 116 in the United States, 19 in The Bahamas and two in The Netherlands. We also managed the five employees of OC-BVI in the British Virgin Islands. We have 14 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.

During the COVID-19 pandemic, we have 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.

## **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, temporarily ceased due to closing of the country to tourist arrivals by air and sea travel. In November 2021, the Cayman Islands government eliminated certain travel restrictions for COVID-19 vaccinated travelers that allowed tourists to enter the Cayman Islands for the first time since March 2020. Our retail water revenues continue to be significantly lower than pre-pandemic levels. Tourists arrivals to The Bahamas by air and sea declined significantly due to the pandemic and continue to be lower than pre-pandemic numbers due to the continued reluctance of people to travel internationally. Overall economic activity in the United States has also declined.

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 COVID-19 pandemic is adversely impacting our customers. Such adverse impacts, should they continue for a prolonged period, 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 2021 and 2020, we generated approximately 33% and 32%, respectively, of our consolidated revenue and 47% and 44%, 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 the 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 and results of operations.

**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 \$21.5 million as of December 31, 2021. Approximately 76% of this December 31, 2021 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, 2021, we have not provided an allowance for doubtful accounts for CW-Bahamas’ accounts receivable from the WSC.

Presently, Moody’s Investors Service and Standard & Poor’s have assigned a credit rating to The Bahamas of Ba3 and B+, respectively.

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, 2021, we generated revenue of approximately \$12.4 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 26% of PERC's revenue for the year ended December 31, 2021 was generated under O&M contracts that expire at various dates through December 31, 2022. 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 would be adversely affected.

**If the future financial performance of either Aerex or PERC falls short of our most recent financial projections for these subsidiaries, we may be required to record impairment losses to reduce the carrying values of the goodwill and intangible assets of our manufacturing and/or services reporting units.**

Approximately 80% of Aerex's revenue, and 89% of Aerex's gross profit, for the year ended December 31, 2020 were generated from sales to one customer. While Aerex sells various products to this customer, Aerex's revenue from this customer has historically been derived primarily from one specialized product. In October 2020, this customer informed Aerex that, for inventory management purposes, it was suspending its purchases of the specialized product from Aerex following 2020 for a period of approximately one year. This customer informed Aerex at that time that it expected to recommence its purchases of the specialized product from Aerex beginning with the first quarter of 2022. 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 assumed, in part, that Aerex's major customer would recommence its purchases from Aerex in 2022 but at a reduced aggregate amount, as compared to 2020. Based upon these updated projections, we tested our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. As a result of these impairment tests, we determined that the estimated fair value of our manufacturing reporting unit exceeded its carrying value by approximately 31% as of December 31, 2020.

In late July 2021, this former major customer communicated to Aerex that it expected to recommence its purchases of the specialized product from Aerex in 2022 and subsequent years, but informed Aerex that such purchases would be at substantially reduced annual amounts, as compared to the amounts it had purchased from Aerex in 2020 and prior years (based upon the most recent communications from the customer such purchases may not recommence until 2023). Our updated sales estimate for this customer based on this new information was also substantially below the anticipated sales to this customer for 2022 and subsequent years that we used in the discounted cash flow projections we prepared for purposes of testing our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020. Furthermore, Aerex's efforts to replace the revenue previously generated from this customer with revenue from existing and new customers have been adversely impacted by the continuing negative economic impacts of the COVID-19 pandemic, which have increased Aerex's raw material costs, resulted in raw material shortages and extended delivery times for such materials, and also adversely affected Aerex's current and prospective customer base. Accordingly, in light of this new information from Aerex's former major customer and the on-going weak economic conditions, we updated our projections of future cash flows for the manufacturing reporting unit and tested its goodwill for possible impairment as of June 30, 2021 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. Based upon this testing, we determined that the carrying value of our manufacturing reporting unit exceeded its fair value by \$2.9 million, and we recorded an impairment loss to reduce our manufacturing reporting unit's goodwill by this amount for the three months ended June 30, 2021.

The accounting estimates and assumptions we employ to estimate the fair values of our manufacturing and reporting units 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 (for example, should interest rates rise significantly in the future we would likely be required to increase the discount rate we use under the discounted cash flow method we use to estimate the fair values of our reporting units, and such increased discount rate in and of itself could decrease the estimated fair value of our reporting units under the discounted cash flow method); and
- the impact of the estimates and assumptions on financial condition and results of operations is material.

We believe the inherent uncertainties associated with the accounting estimates and assumptions we use for our estimates of our reporting units' fair values have increased due to recent, less predictable economic conditions, which have resulted in increasing raw material prices, extended and unexpected delays in the procurement and delivery of our raw materials, and have also, we believe, adversely affected our customers.

Based upon our most recent estimation prepared as of December 31, 2021, the fair value of our manufacturing reporting unit exceeded its carrying value by only 15%. If we determine in the future that Aerex's discounted future cash inflows will be less than our present expectations, we may be required to record additional impairment losses to reduce the remaining carrying values as of December 31, 2021 of our manufacturing reporting unit's goodwill of \$1,985,211 and its remaining unamortized intangible assets balances of \$847,778 recorded as a result of the acquisition of Aerex. Any such impairment losses could have a material adverse impact on our consolidated results of operations.

Based upon our most recent estimation prepared as of December 31, 2021, the fair value of our services reporting unit exceeded its carrying value by only 15%. If we determine in the future that PERC's discounted future cash inflows will be less than our present expectations, we may be required to record impairment losses to reduce the carrying values as of December 31, 2021 of our services reporting unit's goodwill of \$5,320,416 and its remaining unamortized intangible assets balances of \$2,553,888 recorded as a result of the acquisition of PERC. Any such impairment losses could have a material adverse impact on our consolidated results of operations.

**Current economic conditions are adversely impacting the supply chain for our operations and could have a material adverse impact on our financial results.**

As a result of the economic conditions resulting from the COVID-19 pandemic and the Russian invasion of Ukraine, we are experiencing issues with our supply chain for the raw materials, components, chemicals, and capital expenditures used in our operations, including rapidly increasing prices, scarcities/shortages, and longer fulfillment times and unexpected delays for our orders to suppliers. Should these economic conditions and issues continue, our operations could be adversely affected, which could have a material adverse impact on our consolidated financial condition, results of operations and cash flows.

**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 36% of our consolidated revenue for the year ended December 31, 2021. 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 through November 2021 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.

**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 desalinated 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 consolidated financial condition, results of operations, and cash flows.

**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 consolidated financial condition, results of operations and cash flows.

**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, 2024. 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 customers, 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 confidential employee 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 consolidated financial condition, results of operations, and cash flows.

**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 consolidated financial condition, results of operations and cash flows, 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, 2021, the average daily trading volume of our common stock was approximately 89,500 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 or delay a change in the composition of our Board.**

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 to change the composition of our Board, should an investor desire to do so.

**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 on June 30, 2023.

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 sub-leases approximately 4,100 square feet of office space in Fountain Valley, California that serves as its corporate headquarters. This sub-lease expired in August 2021 and is currently on a month-to-month basis.

### **Mexico Properties**

NSC and AdR own 20.1 hectares and 0.18 hectares of land, respectively, 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 court, 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 (which was resolved in December 2019, and ordered the revocation of the order of the Tenth Civil Judge granting EWG 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. EWG challenged such resolution, arguing that its notification was not lawful. The Tenth Civil Judge dismissed such challenge, and thereafter EWG filed a remedy against such dismissal. NSC appeared

before the court to vigorously oppose such remedy, which has been dismissed. To date, the referral to arbitration has not occurred and, as such, the procedure is currently suspended.

Notwithstanding the resolution of the Tenth Civil Judge to move to arbitration, subparagraphs a) and b) that follow describe certain separate amparo claims, and appeal remedies arising from or relating to such ordinary mercantile claim and amparo claims, all in chronological order. Due to the global COVID-19 pandemic, most tribunals in Mexico suspended their activities intermittently since March 2020, with certain such tribunals partially restarting on different dates and with different special rules. As such, several resolutions are pending issuance.

*a) Amparo filed by EWG against a resolution of the Tenth Civil Judge.*

In July 2021, EWG filed an amparo claim against the resolution of the Tenth Civil Judge dismissing the remedy filed by EWG against the October 1, 2020 resolution within the mentioned ordinary mercantile claim. NSC has filed before the corresponding amparo court a writ vigorously opposing this claim. Considering the foregoing, and that AdR was only named as a third party with interest, it is unnecessary for it to submit arguments against EWG in this claim. Further, CW-Cooperatief has not been notified of this amparo claim.

Within this amparo claim, the Third District Court in Tijuana granted a suspension in favor of EWG, merely for the effect of holding in place the referral to arbitration subject matter of the October 1, 2020 resolution mentioned above. Such suspension was conditioned on the posting of a guarantee in the amount of 50,000 Mexican pesos, which has not been posted. Regardless of the effects of the suspension and the lack of the posting of a guarantee, NSC has filed an appeal remedy against its granting.

To date, and following a final hearing that took place in March 2022, a resolution to this claim is pending issuance.

*b) Appeal filed by NSC against the suspension granted in favor of EWG.*

The appeal remedy mentioned in the second paragraph of item a) immediately above was admitted by the superior court on October 18, 2021 and is still pending to be resolved.

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 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 4, 2021, March 30, 2021 and January 3, 2022, we issued a total of 25,789 shares, 31,788 shares and 23,411 shares of our common stock, respectively, to Executive Officers under the 2008 Equity Incentive Plan. On November 22, 2021, we issued a total of 30,911 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 24, 2022, we had 725 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>2021</u>	<u>2020</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					
2021			2020		
Location	Plants	Capacity <sup>(1)</sup>	Location	Plants	Capacity <sup>(1)</sup>
Cayman Islands . . . . .	7	9.9	Cayman Islands	7	9.9
Bahamas . . . . .	2	14.8	Bahamas <sup>(2)</sup>	2	14.8
British Virgin Islands . . . . .	2	0.8	British Virgin Islands	2	0.8
	<u>11</u>	<u>25.5</u>		<u>11</u>	<u>25.5</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 28 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					
2021			2020		
Location	Plants	Capacity <sup>(1)</sup>	Location	Plants	Capacity <sup>(1)</sup>
USA . . . . .	28	52.6	USA	27	45.0

(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 7,450 retail residential and commercial connections 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 2021, we supplied approximately 4.4 billion gallons (2020: 4.2 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 \$21.5 million as of December 31, 2021. 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 of an acquired business over the fair value of the individual assets and liabilities 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 annually or upon the identification of a triggering event. 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, 2021 and 2020, 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, 2021 and 2020 by applying the guideline public company method.

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, 2021 and 2020 were 80% to the discounted cash flow method and 20% to the guideline public company method.

The fair values we estimated for our retail, bulk, services and manufacturing reporting units exceeded their carrying amounts by 32%, 51%, 15% and 15%, respectively, as of December 31, 2021. The fair values we estimated for our retail, bulk, and services reporting units exceeded their carrying amounts by 101%, 49%, and 17%, respectively, as of December 31, 2020. The significant decline in excess of fair value over carrying value for our retail unit from 2020 to 2021 reflects new estimates for future capital expenditures for our Cayman Water operations. While the fair value we estimated for our manufacturing reporting unit exceeded its carrying value by 31% as of December 31, 2020, due to new information we obtained in 2021, we were required to record an impairment loss for our manufacturing unit's goodwill in 2021, as discussed in paragraphs that follow.

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 our manufacturing reporting unit'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 manufacturing reporting unit's 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 manufacturing reporting unit's 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% of Aerex's revenue, and 89% of Aerex's gross profit, for the year ended December 31, 2020 were generated from sales to one customer. While Aerex sells various products to this customer, Aerex's revenue from this customer has historically been derived primarily from one specialized product. In October 2020, this customer informed Aerex that, for inventory management purposes, it was suspending its purchases of the specialized product from Aerex following 2020 for a period of approximately one year. This customer informed Aerex at that time that it expected to recommence its purchases of the specialized product from Aerex beginning with the first quarter of 2022. 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 assumed, in part, that Aerex's major customer would recommence its purchases from Aerex in 2022 but at a reduced aggregate amount, as compared to 2020. Based upon these updated projections, we tested our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. As a result of these impairment tests, we determined that the estimated fair value of our manufacturing reporting unit exceeded its carrying value by approximately 31% as of December 31, 2020.

In late July 2021, this former major customer communicated to Aerex that it expected to recommence its purchases of the specialized product from Aerex in 2022 and subsequent years, but informed Aerex that such

purchases would be at substantially reduced annual amounts, as compared to the amounts it had purchased from Aerex in 2020 and prior years (based upon the most recent communications from the customer, we now expect such purchases to recommence in late 2022 or early 2023). Our updated sales estimate for this customer based on this new information was substantially below the sales we anticipated to this customer for 2022 and subsequent years that we used in the discounted cash flow projections we prepared for purposes of testing our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020. Aerex's efforts to replace the revenue previously generated from this customer with revenue from existing and new customers have been adversely impacted by the continuing negative economic impacts of the COVID-19 pandemic, which have increased Aerex's raw material costs, resulted in raw material shortages and extended delivery times for such materials and, we believe, also adversely affected the overall financial condition of Aerex's current and prospective customer base. Accordingly, in light of this new information from Aerex's former major customer, and present weak economic conditions that we believe will continue into 2022, we updated our projections of future cash flows for the manufacturing reporting unit and tested its goodwill for possible impairment as of June 30, 2021 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. Based upon this testing, we determined that the carrying value of our manufacturing reporting unit exceeded its fair value by \$2.9 million, and we recorded an impairment loss to reduce our manufacturing reporting unit's goodwill by this amount for the three months ended June 30, 2021.

We believe the inherent uncertainties associated with the accounting estimates and assumptions we use for our estimates of our reporting units' fair values have increased due to recent, less predictable economic conditions, which have resulted in increasing raw material prices, extended and unexpected delays in the procurement and delivery of our raw materials, and have also, we believe, adversely affected our customers. Should interest rates rise significantly in the future we would likely be required to increase the discount rate we use under the discounted cash flow method we use to estimate the fair values of our reporting units, and such increased discount rate in and of itself could decrease the estimated fair value of our reporting units under the discounted cash flow method.

Based upon our most recent estimation prepared as of December 31, 2021, the fair value of our manufacturing reporting unit exceeded its carrying value by only 15%. If we determine in the future that Aerex's discounted future cash inflows will be less than our present expectations, we may be required to record additional impairment losses to reduce the remaining carrying values as of December 31, 2021 of our manufacturing reporting unit's goodwill of \$1,985,211 and its remaining unamortized intangible assets balances of \$847,778 recorded as a result of the acquisition of Aerex. Any such impairment losses could have a material adverse impact on our consolidated results of operations.

Based upon our most recent estimation prepared as of December 31, 2021, the fair value of our services reporting unit exceeded its carrying value by only 15%. If we determine in the future that PERC's discounted future cash inflows will be less than our present expectations, we may be required to record impairment losses to reduce the carrying values as of December 31, 2021 of our services reporting unit's goodwill of \$5,320,416 and its remaining unamortized intangible assets balances of \$2,553,888 recorded as a result of the acquisition of PERC. Any such impairment losses could have a material adverse impact on our consolidated results of operations.

#### *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 approximately (\$3.0 million) in 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, 2021 Compared to Year Ended December 31, 2020**

#### 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 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.

Following an assessment by the State of Baja, California (the "State") of the need for such a desalination plant and the passage of enabling legislation in November 2015, the State officially commenced the required public tender for the Project. 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 a new company 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 State Water Commission of 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. The APP Contract was subsequently amended by the parties in June 2018 to increase the scope of Phase 1 and to allow for changes in the water tariff due to the changes in the exchange rate for the peso,

interest rates and construction costs that had and would occur from the date the APP Contract was signed to the date construction commenced.

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 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 amparo claim, and such withdrawal was accepted by the federal district court in Tijuana. To date, AdR has not received a response from CEA or CESPT to its submission of non-recoverable expenses.

We believe CW-Cooperatief, as a Netherlands company, has certain rights relating to its investments in NSC and AdR under the *Agreement on Promotion, Encouragement and Reciprocal Protection of Investments between the Kingdom of the Netherlands and the United Mexican States* entered into force as of October 1, 1999 (the “Treaty”). On April 16, 2021, CW-Cooperatief submitted a letter to the President of Mexico and other Mexican federal government officials alleging that the State’s termination of the APP Contract constituted a breach by Mexico of its international obligations under the Treaty, entitling CW-Cooperatief to full reparation, including monetary damages. This letter invites Mexico to seek a resolution of this investment dispute through consultation and negotiation, but states that if the dispute cannot be resolved in this manner, CW-Cooperatief elects to refer the dispute to the International Centre for the Settlement of International Disputes for arbitration, as provided for in the Treaty. On June 29, 2021, the Mexican Ministry of Economy responded to CW-Cooperatief’s letter and proposed to hold a consultation meeting. Two such meetings were held on July 9, 2021 and August 2, 2021 on a confidential basis, without a resolution of our investment dispute.

On February 9, 2022, CW-Cooperatief, filed a Request for Arbitration with the International Centre for Settlement of International Disputes requesting that the United Mexican States pay CW-Cooperatief damages in excess of US\$51 million plus MXN\$137 million (with the exact amount to be quantified in the proceedings), plus fees, costs and pre- and post-award interest.

CW-Cooperatief intends to pursue vigorously the relief sought in the arbitration, in addition to pursuing all other legal remedies and courses of action available under the operative contracts and applicable law with respect to their rights, damages, fees and expenses. We cannot provide any assurances that CW Cooperatief will be able to obtain the relief sought in the arbitration, and we will incur legal and other arbitration-related expenses that we expect will be material to our consolidated results of operations and cash flows.

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, in 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, the impairment loss of approximately (\$3.0 million) recorded during 2020 for Project assets, and the costs for our legal and administrative activities to pursue reimbursement from the State of Baja California following the cancellation of the APP Contract, have been reclassified from the services segment to discontinued operations in the accompanying consolidated financial statements. Our net losses from discontinued operations for the years ended December 31, 2021 and 2020 were (\$2,574,079) and (\$4,902,243),

respectively. Our net loss from discontinued operations for 2021 and 2020 also consists of provisions of \$963,540 and \$316,217, respectively, for potentially uncollectible value added taxes paid that are reimbursable/receivable from the Mexican federal government. We recorded the 2021 provision as a result of the Mexican government's rejection of our most recent request for repayment of these value added taxes paid. We believe we are legally entitled to be repaid for these value added taxes and have engaged a firm to assist us in collecting the total amount of approximately \$1.6 million from the Mexican government. However, we ultimately may not be able to obtain such payment from the Mexican government and therefore may be required in the future to record another provision to write off the remaining balance of these receivables, which amounted to approximately \$340,910 as of December 31, 2021.

### Consolidated Results

Including discontinued operations, net income attributable to Consolidated Water Co. Ltd. stockholders for 2021 was \$875,579 (\$0.06 per share on a fully diluted basis), as compared to \$3,711,528 (\$0.24 per share on a fully diluted basis) for 2020.

The following discussion and analysis of our consolidated results of operations and results of operations by segment for the year ended December 31, 2021 as compared to the year ended December 31, 2020 relates only to our continuing operations.

Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders for 2021 was \$3,449,658 (\$0.23 per share on a fully diluted basis), as compared to \$8,613,771 (\$0.56 per share on a fully diluted basis) for 2020.

Total revenue for 2021 decreased to \$66,863,502 from \$72,628,126 in 2020, as the manufacturing segment experienced a significant revenue decline, which was not fully offset by revenue increases in our other segments. Gross profit for 2021 was \$23,507,191 (35% of total revenue) as compared to \$26,768,455 (37% of total revenue) for 2020. 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 remained relatively consistent at \$18,350,359 for 2021 as compared to \$18,434,898 for 2020.

Other income, net, increased to \$1,623,595 in 2021, as compared to \$1,082,946 in 2020. This increase is primarily attributable to a gain of \$818,000 in 2021 on the net put/call options associated with the acquisition of PERC as a result of the December 31, 2021 revaluation of these options. This net gain was offset by a reduction in 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 \$428,000 higher in 2020 than in 2021.

The COVID-19 pandemic had a material adverse impact on our consolidated results of operations for the years ended December 31, 2021 and 2020, and we believe the COVID-19 pandemic will continue to adversely impact our results of operations in future periods. See further discussion herein and at "LIQUIDITY AND CAPITAL RESOURCES — Material Commitments, Expenditures and Contingencies — COVID-19."

### Results by Segment

#### *Retail Segment:*

The retail segment incurred a net loss from operations of (\$2,044,094) as compared to a loss from operations of (\$1,004,924) for 2020.

Revenue generated by our retail water operations decreased to \$22,104,953 in 2021 from \$22,952,370 in 2020. The reduction in revenue reflects a 4% 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.

Retail segment gross profit decreased to \$11,044,016 (50% of retail revenue) for 2021 as compared to \$11,871,556 (52% of retail revenue) for 2020. This decrease in gross profit dollars is attributable to the revenue decline. The revenue decline also resulted in lower gross profit as a percentage of revenue for 2021 due to the resulting greater relative impact of fixed production and distribution costs.

Consistent with prior periods, we record all non-direct G&A expenses in our retail segment and do not allocate any of these non-direct costs to our other three business segments. Retail G&A expenses decreased to \$12,841,259 for 2021 as compared to \$12,879,445 for 2020.

*Bulk Segment:*

The bulk segment contributed \$7,677,362 and \$6,100,134 to our income from operations for 2021 and 2020, respectively.

Bulk segment revenue was \$26,800,869 and \$24,312,546 for 2021 and 2020, respectively. The increase in bulk segment revenue from 2020 to 2021 is primarily attributable to an increase in energy costs for CW-Bahamas, which increased the energy pass-through component of CW-Bahamas' rates and, to a lesser extent, a 5% increase in the volume of water sold by CW-Bahamas.

Gross profit for the bulk segment was \$9,041,597 (34% of bulk segment revenue) and \$7,352,983 (30% of bulk segment revenue) for 2021 and 2020, respectively. Gross profit in dollars and as a percentage of revenue increased in 2021 as compared to 2020 principally due to the increase in revenue.

Bulk segment G&A expenses remained relatively consistent at \$1,365,735 for 2021 as compared to \$1,260,062 for 2020.

*Services Segment:*

The services segment contributed \$414,394 and \$408,529 to our income from operations for 2021 and 2020, respectively.

Services segment revenue increased to \$13,884,857 for 2021 compared to \$12,937,859 for 2020 due to an increase of approximately \$3.2 million from operating and maintenance contracts attributable to new contracts, which served to more than offset a decline in plant construction revenue.

The gross profit for the services segment was \$3,177,614 (23% of services segment revenue) in 2021 as compared to \$3,239,645 (25% of services revenue) for 2020. The slight decrease in gross profit as a percentage of revenue reflects a shift in the contract mix.

G&A expenses for the services segment remained consistent at \$2,762,735 for 2021 as compared to \$2,834,917 for 2020.

*Manufacturing Segment:*

The manufacturing segment incurred a loss of (\$4,036,666) for 2021 as compared to generating an income from operations of \$2,843,815 for 2020.

Approximately 80% of our manufacturing segment revenue and 89% of our manufacturing segment gross profit for 2020 were generated from sales to one customer. While Aerex sells various products to this customer, Aerex's revenue from this customer has historically been derived from one specialized product. In October 2020, this customer informed Aerex that, for inventory management purposes, it was suspending its purchases of the specialized product from Aerex following 2020 for a period of approximately one year. This customer informed Aerex at that time that it presently expected to recommence its purchases from Aerex beginning with the first quarter of 2022. In late July 2021, this former major customer communicated to Aerex that it expected to recommence its purchases of the specialized product from Aerex in 2022 and subsequent years, but informed Aerex that such purchases would be at substantially reduced annual amounts, as compared to both the amounts it had purchased from Aerex in 2020 and prior years and the amounts we had anticipated the customer would purchase (based upon the most recent communications from the customer, we now expect such purchases to recommence in late 2022 or early 2023). Our efforts to replace the revenue previously generated from this customer with revenue from existing and new customers have been adversely impacted by the continuing negative economic conditions, which have increased Aerex's raw material costs, resulted in raw material shortages and extended delivery times for such materials and, we believe, also adversely affected the overall financial condition of Aerex's current and prospective customer base. Accordingly, in light of this new information from Aerex's former major customer, and present weak economic conditions that we believe will continue into 2022, we tested the carrying value of our manufacturing reporting unit for possible impairment as of June 30, 2021. Based upon this testing, we determined that the carrying value of our



manufacturing reporting unit exceeded its fair value by \$2.9 million, and we recorded an impairment loss to reduce our manufacturing reporting unit's goodwill by this amount for the three months ended June 30, 2021.

Manufacturing segment revenue was \$4,072,823 and \$12,425,351 for 2021 and 2020, respectively. Manufacturing segment revenue decreased from 2020 to 2021 due to the loss of orders from Aerex's former largest customer, and to date we have not been successful in replacing all of this lost revenue. Manufacturing revenue under certain contracts has been deferred due to significant product delivery delays requested by customers as well as continuing delayed shipments of raw materials and supplies to Aerex.

Manufacturing segment gross profit was \$243,964 (6% of manufacturing segment revenue) and \$4,304,271 (35% of manufacturing segment revenue) for 2021 and 2020, respectively. The decrease in manufacturing segment gross profit in dollars reflects the decrease in revenue. Gross profit as a percentage of revenue declined due to the greater impact of fixed factory overhead on this measure resulting from the revenue decrease, as we elected to continue the employment of all of our manufacturing personnel during 2021 despite the decrease in production activity.

G&A expenses for the manufacturing segment dropped to \$1,380,630 for 2021 as compared to \$1,460,474 for 2020 as a result of a decrease of \$115,000 in the amortization expenses resulting from the completion of the amortization period for certain intangible assets recorded in connection with the acquisition of Aerex.

As noted previously, the results of our manufacturing segment have been adversely affected by recent economic conditions which have resulted in increasing raw materials prices, extended and unexpected delays in the procurement and delivery of raw materials and, we believe, have also adversely affected its existing and prospective customer base. The current economic conditions could continue indefinitely (or further deteriorate) and therefore could continue to adversely impact the future results of our manufacturing segment.

## **FINANCIAL CONDITION**

The significant changes in the components of our consolidated balance sheet as of December 31, 2021 as compared to December 31, 2020 (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 increased by approximately \$5.9 million. This net increase reflects an increase in CW-Bahamas' accounts receivable of approximately \$4.7 million from the WSC and an increase of approximately \$770,000 of manufacturing accounts receivable due to timing.

Current inventory decreased by approximately \$709,000 primarily due to a decline in orders for Aerex.

Property, plant and equipment, net decreased by approximately \$4.7 million due to scheduled depreciation of fixed assets.

Operating lease right-of-use assets increased by approximately \$1.3 million, with a related increase in operating lease liabilities of approximately \$1.3 million, primarily due to a new office lease for Aquilex that began in March 2021.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity Position**

Our projected liquidity requirements for 2022 include capital expenditures for our existing operations of approximately \$9.5 million, which includes \$5.6 million to be incurred in 2022 for the replacement of the 26-year old West Bay seawater desalination plant in Grand Cayman which is expected to be completed in 2023 at a total cost of \$7.2 million, 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 \$5.8 million for the year ended December 31, 2021 and approximately \$5.1 million for the year ended December 31, 2020.

As of December 31, 2021, we had cash and cash equivalents of \$40.4 million and working capital of \$69.2 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 balance (which include accrued interest) due from the WSC amounted to \$21.5 million as of December 31, 2021. Approximately 76% of the December 31, 2021 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. Our most recent such discussions occurred during the week of March 7, 2022. 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, 2021, we have not provided an allowance for doubtful accounts for CW-Bahamas' accounts receivable from the WSC.

In February 2022, we received correspondence from the Ministry of Finance of the Government of the Bahamas that set forth a payment schedule providing for the gradual reduction over the course of 2022 of the CW-Bahamas' delinquent accounts receivable due from the WSC. Such correspondence also indicated that the Government intends to return all of CW-Bahamas' accounts receivable from the WSC to current status.

As of February 28, 2022, CW-Bahamas' accounts receivable from the WSC totaled \$26.4 million. During the first three weeks of March 2022, we received \$7.6 million in payments on these accounts receivable.

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, 2021**

Our cash and cash equivalents decreased to \$40,358,059 as of December 31, 2021 from \$43,794,150 as of December 31, 2020.

#### *Cash Flows from Operating Activities*

Net cash provided by our operating activities was \$6,966,310. This net cash provided reflects net income generated for the year ended December 31, 2021 from continuing and discontinued operations of \$1,508,494 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 \$6,921,233, an impairment loss for Aerex of \$2,900,000, a \$963,540 provision for potentially uncollectible value added tax receivables, and an increase in accounts receivable of \$5,878,771 (principally attributable to CW-Bahamas).

#### *Cash Flows from Investing Activities*

Net cash used by our investing activities was \$3,944,452. Cash used was primarily to purchase a certificate of deposit of \$2,500,000 and for additions to property, plant and equipment and construction in progress of \$1,490,012.

#### *Cash Flows from Financing Activities*

Net cash used by our financing activities was \$5,862,031, 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 of Cayman Islands’ seaports 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. In July 2021, this quarantine period was reduced to five days for fully vaccinated travelers who can provide proof of vaccination from Cayman Islands government approved sources.

In November 2021, the Cayman Islands began allowing vaccinated travelers to visit the islands without the need to quarantine. However, the testing requirements upon arrival on the islands, and the fact that families with unvaccinated children were still required to quarantine, continued to restrict the number of overseas visitors. Recently, the Cayman Islands began allowing children to take the vaccination status of their parents and eliminated the testing requirements upon arrival for vaccinated visitors. This easing of restrictions has positively impacted tourism to the Cayman Islands. However, tourism to the Cayman Islands continues to be well below pre-COVID-19 levels. 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 most 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.

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. However, OC-Cayman's operations could be adversely affected should a significant number of its operations personnel be required to miss work due to illness or a requirement to quarantine.

#### 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. Initially, 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. During the summer of 2020, travel restrictions were briefly lifted then reimposed. In November 2020, shelter-in-place regulations were loosened, and commercial and retail operations were permitted to open with limited capacity although working from home was still encouraged. The Emergency Powers Regulations expired on November 13, 2021 and the government then enacted new rules to prevent and manage community spread of COVID-19. Restrictions on economic activity have largely been lifted subject to businesses adhering to social distancing protocols, requiring customers to wear face masks and practicing regular sanitization. International travel to The Bahamas is permitted and individuals that wish to travel to The Bahamas must obtain a travel health visa which will be issued upon receipt of a negative COVID-19 test taken no more than three days prior to the date of arrival; the nature of the test depends on whether the individual travelling is fully vaccinated or not. Any visitor who is not fully vaccinated must complete a mandatory daily health questionnaire during their stay. Home port cruise ship departures from the Port of Nassau commenced in June 2021 and cruise ship arrivals into The Bahamas commenced in July 2021. Cruise ships are no longer required to disclose passenger and crew vaccination status.

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 notwithstanding the downturn in economic activity on New Providence due to preventative measures taken by the government in March 2020 and continuing thereafter in various forms. 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

Aerex presently has 13 manufacturing employees. Should a number of these employees become ill or be required to enter quarantine because 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.

As a result of current economic conditions (resulting in part from the COVID-19 pandemic), in late March 2021 Aerex began experiencing issues with its supply chain for the raw materials and components used in its manufacturing operations, including higher prices, scarcities/shortages, and longer fulfillment times for its orders to suppliers. These conditions, and a decline in projected future sales to Aerex's former largest customer, required us to record an impairment loss of (\$2.9 million) for the three months ended June 30, 2021 to reduce the carrying value of our manufacturing reporting unit's goodwill. While these economic conditions and issues continue, Aerex could have difficulty completing its orders from its customers and obtaining new

business, which could have a material adverse impact on our consolidated revenue, results of operations and cash flows, and could require us to record additional impairment losses to reduce the carrying value of the goodwill recorded for our manufacturing reporting unit. Any such impairment losses could have a material adverse impact on our consolidated financial condition and results of operations.

## 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 76% of PERC's revenue of \$13.4 million for the year ended December 31, 2021 was generated in California under contracts with government entities. The State of California has publicly acknowledged on-going difficulties due to 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 2021 and 2020, we generated approximately 33% and 32%, respectively, of our consolidated revenue and 47% and 44%, 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 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 the 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 loss 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 the 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 February 1, 2021, we paid a dividend of \$0.085 to shareholders of record on January 4, 2021.
- On April 30, 2021, we paid a dividend of \$0.085 to shareholders of record on April 1, 2021.
- On July 30, 2021, we paid a dividend of \$0.085 to shareholders of record on July 1, 2021.
- On October 29, 2021, we paid a dividend of \$0.085 to shareholders of record on October 1, 2021.
- On January 31, 2022, we paid a dividend of \$0.085 to shareholders of record on January 3, 2022.
- On February 22, 2022, our Board declared a dividend of \$0.085 payable on April 29, 2022 to shareholders of record on April 1, 2022.

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. Therefore,

the impact of inflation on our gross profit, measured in consistent dollars, historically has not been material. However, we have not increased our retail water rates since January 2018 (despite the inflation that has occurred since that date) due to the lack of a resolution of our negotiations with OfReg for a new retail license. This lack of a rate increase has contributed to a decline in the gross profit generated by our retail segment. Furthermore, our manufacturing segment has been adversely impacted by recent significant increases in raw material costs. Should the current inflationary trend continue, our results of operations and cash flows could be materially adversely affected.

Increases in fuel and energy costs and other items 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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<b>CONSOLIDATED WATER CO. LTD.</b>	
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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, 2021 and 2020, the related consolidated statements of income, stockholders’ equity and cash flows for each of the two years in the period ended December 31, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, 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.

#### *Evaluation of Goodwill for All Reporting Units*

At December 31, 2021, the Company’s goodwill balance was \$10,425,013. As discussed in Note 2 to the consolidated financial statements, the Company evaluates the possible impairment of goodwill at least annually, or upon a triggering event, for each of its four reporting units — retail, bulk, services, and manufacturing.

The Company estimated the fair value of their 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. The 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.

The Company also estimated the fair value of each reporting units by applying the guideline public company method.

The Company weighted the fair values estimated for each reporting units under each method and summed such weighted fair values to estimate the overall fair value for each reporting unit. The weighted approach applied 80% to the discounted cash flow method and 20% to the guideline public company method.

Management identified a triggering event, which required an evaluation of the fair value of goodwill recorded in the manufacturing reporting unit as of June 30, 2021. The fair value of the manufacturing reporting unit did not exceed its carrying value as of this measurement date and, therefore, an impairment expense of \$2,900,000 was recognized as of June 30, 2021. The Company also evaluated the fair value of goodwill recorded for all four reporting units as of December 31, 2021 noting that the fair value of the reporting units exceeded its carrying value as of this measurement date and, therefore, no additional impairment was recognized.

Management's goodwill impairment assessments for the separate reporting units involves subjective management assumptions. These assumptions are forward-looking and are affected by shifts in the evolving market landscape. Changes in these assumptions can have a material effect on the determination of the fair value of each reporting unit. The most subjective and significant assumptions used in the valuing each reporting unit are the estimated discount rates, selection of guideline companies, and future operating projections. Given the significant judgments made by management to estimate the fair value of each reporting unit, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the projections of future operating results required a high degree of auditor judgment and an increased extent of effort.

Our audit procedures to test management's goodwill impairment evaluations included the following, among others:

- We utilized our internal valuation specialists to assess the valuation methodologies and significant assumptions discussed above. This includes assessing the discount rates and guideline public companies.
- We evaluated the reasonableness of management's revenue and operating projections for all reporting units by comparing the projections to the Company's historical operating results, reviewing internal communications between management and prospective customers, and comparing to underlying source documents (if available) such as customer contracts included within the Company's backlogs.
- We recalculated and tested the estimated fair values of the Company's reporting units.
- We assessed management's sensitivity analysis regarding the significant assumptions used in the valuation.
- We reviewed the results of our audit procedures performed throughout the course of the engagement and compared our results to the goodwill impairment analysis to verify that there is no contradictory evidence that would result in a change to the overall assumptions or conclusions reached by management.

**/s/ Marcum LLP**

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

West Palm Beach, Florida  
March 29, 2022

**CONSOLIDATED WATER CO. LTD.**

**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2021	2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents . . . . .	\$ 40,358,059	\$ 43,794,150
Certificate of deposit . . . . .	2,500,000	—
Accounts receivable, net . . . . .	27,349,307	21,483,976
Inventory . . . . .	2,504,832	3,214,178
Prepaid expenses and other current assets . . . . .	2,558,822	2,412,282
Contract assets . . . . .	489,961	516,521
Current assets of discontinued operations . . . . .	1,173,741	1,511,099
<b>Total current assets</b> . . . . .	76,934,722	72,932,206
Property, plant and equipment, net . . . . .	52,946,539	57,687,984
Construction in progress . . . . .	710,863	440,384
Inventory, noncurrent . . . . .	4,733,010	4,506,842
Investment in OC-BVI . . . . .	1,715,905	2,092,146
Goodwill . . . . .	10,425,013	13,325,013
Intangible assets, net . . . . .	3,401,666	4,148,333
Operating lease right-of-use assets . . . . .	2,681,137	1,329,561
Net asset arising from put/call options . . . . .	128,000	—
Other assets . . . . .	2,204,013	1,926,594
Long-term assets of discontinued operations . . . . .	21,146,186	21,166,489
<b>Total assets</b> . . . . .	\$177,027,054	\$179,555,552
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable, accrued expenses and other current liabilities . . . . .	\$ 2,831,925	\$ 2,740,191
Accounts payable – related parties . . . . .	163,947	200,558
Accrued compensation . . . . .	1,435,542	1,434,106
Dividends payable . . . . .	1,320,572	1,300,022
Current maturities of operating leases . . . . .	592,336	455,788
Current portion of long-term debt . . . . .	62,489	42,211
Contract liabilities . . . . .	513,878	461,870
Deferred revenue . . . . .	583,646	115,936
Current liabilities of discontinued operations . . . . .	182,322	188,434
<b>Total current liabilities</b> . . . . .	7,686,657	6,939,116
Long-term debt, noncurrent . . . . .	152,038	126,338
Deferred tax liabilities . . . . .	1,236,723	1,440,809
Noncurrent operating leases . . . . .	2,137,394	982,076
Net liability arising from put/call options . . . . .	—	690,000
Other liabilities . . . . .	141,000	362,165
Long-term liabilities of discontinued operations . . . . .	7,819	2,499
<b>Total liabilities</b> . . . . .	11,361,631	10,543,003
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Consolidated Water Co. Ltd. stockholders' equity		
Redeemable preferred stock, \$0.60 par value. Authorized 200,000 shares; issued and outstanding 28,635 and 31,068 shares, respectively . . . . .	17,181	18,641
Class A common stock, \$0.60 par value. Authorized 24,655,000 shares; issued and outstanding 15,243,693 and 15,143,683 shares, respectively . . . . .	9,146,216	9,086,210
Class B common stock, \$0.60 par value. Authorized 145,000 shares; none issued . . . . .	—	—
Additional paid-in capital . . . . .	87,812,432	86,893,486
Retained earnings . . . . .	60,603,056	64,910,709
<b>Total Consolidated Water Co. Ltd. stockholders' equity</b> . . . . .	157,578,885	160,909,046
Non-controlling interests . . . . .	8,086,538	8,103,503
<b>Total equity</b> . . . . .	165,665,423	169,012,549
<b>Total liabilities and equity</b> . . . . .	\$177,027,054	\$179,555,552

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

**CONSOLIDATED WATER CO. LTD.**

**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,	
	2021	2020
<b>Revenue</b> . . . . .	\$66,863,502	\$72,628,126
<b>Cost of revenue</b> (including purchases from related parties of \$437,857 in 2021 and \$1,349,331 in 2020) . . . . .	43,356,311	45,859,671
<b>Gross profit</b> . . . . .	23,507,191	26,768,455
General and administrative expenses (including purchases from related parties of \$77,190 in 2021 and \$0 in 2020) . . . . .	18,350,359	18,434,898
Gain (loss) on asset dispositions and impairments, net . . . . .	(3,145,836)	13,997
<b>Income from operations</b> . . . . .	2,010,996	8,347,554
<b>Other income (expense):</b>		
Interest income . . . . .	684,809	540,096
Interest expense . . . . .	(10,248)	(9,669)
Profit-sharing income from OC-BVI . . . . .	22,275	135,675
Equity in the earnings of OC-BVI . . . . .	55,984	371,019
Net unrealized gain (loss) on put/call options . . . . .	818,000	(26,000)
Other . . . . .	52,775	71,825
<b>Other income, net</b> . . . . .	1,623,595	1,082,946
<b>Income before income taxes</b> . . . . .	3,634,591	9,430,500
<b>Provision (benefit) for income taxes</b> . . . . .	(447,982)	86,724
<b>Net income from continuing operations</b> . . . . .	4,082,573	9,343,776
<b>Income from continuing operations attributable to non-controlling interests</b> . . . . .	632,915	730,005
<b>Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders</b> . . . . .	3,449,658	8,613,771
<b>Total loss from discontinued operations</b> . . . . .	(2,574,079)	(4,902,243)
<b>Net income attributable to Consolidated Water Co. Ltd. stockholders</b> . . . . .	\$ 875,579	\$ 3,711,528
<b>Basic earnings (loss) per common share attributable to Consolidated Water Co. Ltd. common stockholders</b>		
Continuing operations . . . . .	\$ 0.23	\$ 0.56
Discontinued operations . . . . .	(0.17)	(0.32)
<b>Basic earnings per share</b> . . . . .	\$ 0.06	\$ 0.24
<b>Diluted earnings (loss) per common share attributable to Consolidated Water Co. Ltd. common stockholders</b>		
Continuing operations . . . . .	\$ 0.23	\$ 0.56
Discontinued operations . . . . .	(0.17)	(0.32)
<b>Diluted earnings per share</b> . . . . .	\$ 0.06	\$ 0.24
<b>Dividends declared per common and redeemable preferred shares</b> . . . . .	\$ 0.34	\$ 0.34
<b>Weighted average number of common shares used in the determination of:</b>		
Basic earnings per share . . . . .	15,213,816	15,119,305
Diluted earnings per share . . . . .	15,310,145	15,223,955

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	Non-controlling interests	Total stockholders' equity
	Shares	Dollars	Shares	Dollars				
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
Dividends declared . . . . .	—	—	—	—	—	(5,153,552)	—	(5,153,552)
Acquisitions of non-controlling interests . . . . .	—	—	—	—	(2,579,882)	—	(6,820,118)	(9,400,000)
Stock-based compensation . . . . .	—	—	—	—	1,163,261	—	—	1,163,261
Balance as of December 31, 2020 . . . . .	31,068	18,641	15,143,683	9,086,210	86,893,486	64,910,709	8,103,503	169,012,549
Issuance of share capital . . . . .	8,632	5,179	88,488	53,093	(58,272)	—	—	—
Conversion of preferred stock . . . . .	(11,522)	(6,913)	11,522	6,913	—	—	—	—
Buyback of preferred stock . . . . .	(1,649)	(989)	—	—	(15,810)	—	—	(16,799)
Net income . . . . .	—	—	—	—	—	875,579	632,915	1,508,494
Exercise of options . . . . .	2,106	1,263	—	—	15,796	—	—	17,059
Dividends declared . . . . .	—	—	—	—	—	(5,183,232)	(649,880)	(5,833,112)
Stock-based compensation . . . . .	—	—	—	—	977,232	—	—	977,232
Balance as of December 31, 2021 . . . . .	28,635	\$17,181	15,243,693	\$9,146,216	\$87,812,432	\$60,603,056	\$ 8,086,538	\$165,665,423

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

**CONSOLIDATED WATER CO. LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>		
Net income attributable to Consolidated Water Co. Ltd. stockholders . . . . .	\$ 875,579	\$ 3,711,528
Income from continuing operations attributable to non-controlling interests . . . . .	632,915	730,005
<b>Net income</b> . . . . .	<b>1,508,494</b>	<b>4,441,533</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment loss for Mexico assets – discontinued operations . . . . .	963,540	3,351,842
Depreciation and amortization – discontinued operations . . . . .	4,545	4,545
Foreign currency transaction adjustment – discontinued operations . . . . .	53,039	3,528
Loss from discontinued operations . . . . .	1,552,955	1,542,328
Depreciation and amortization . . . . .	6,921,233	7,406,509
Deferred income tax benefit . . . . .	(204,086)	(221,829)
Provision for doubtful accounts . . . . .	—	129,107
Unrealized (gain) loss on net put/call option . . . . .	(818,000)	26,000
Compensation expense relating to stock and stock option grants . . . . .	977,232	1,163,261
Loss (gain) on asset dispositions and impairments, net . . . . .	245,836	(13,997)
Profit-sharing and equity in earnings of OC-BVI . . . . .	(78,259)	(506,694)
Distribution of earnings from OC-BVI . . . . .	454,500	318,150
Impairment of goodwill . . . . .	2,900,000	—
Change in:		
Accounts receivable and contract assets . . . . .	(5,878,771)	2,541,096
Inventory . . . . .	293,254	(102,551)
Prepaid expenses and other assets . . . . .	(711,615)	(629,734)
Accounts payable (including related parties), accrued expenses and other current liabilities, and contract liabilities . . . . .	(112,598)	(480,456)
Operating lease liabilities . . . . .	48,593	—
Deferred revenue . . . . .	467,710	(1,700)
<b>Net cash provided by operating activities – continuing operations</b> . . . . .	<b>8,587,602</b>	<b>18,970,938</b>
<b>Net cash used in operating activities – discontinued operations</b> . . . . .	<b>(1,621,292)</b>	<b>(1,635,646)</b>
<b>Net cash provided by operating activities</b> . . . . .	<b>6,966,310</b>	<b>17,335,292</b>
<b>Cash flows from investing activities</b>		
Purchase of certificate of deposit . . . . .	(2,500,000)	—
Additions to property, plant and equipment and construction in progress . . . . .	(1,490,012)	(1,728,393)
Proceeds from asset dispositions . . . . .	45,560	8,638
Purchase of non-controlling interest in Aerex . . . . .	—	(8,500,000)
Purchase of non-controlling interest in PERC . . . . .	—	(900,000)
<b>Net cash used in investing activities</b> . . . . .	<b>(3,944,452)</b>	<b>(11,119,755)</b>
<b>Cash flows from financing activities</b>		
Dividends paid to common shareholders . . . . .	(5,151,667)	(5,133,727)
Dividends paid to preferred shareholders . . . . .	(11,015)	(11,990)
Dividends paid to non-controlling interests . . . . .	(649,880)	—
Repurchase of redeemable preferred stock . . . . .	(16,799)	(1,728)
Proceeds received from exercise of stock options . . . . .	17,059	10,161
Principal repayments on long-term debt . . . . .	(49,729)	(32,642)
<b>Net cash used in financing activities</b> . . . . .	<b>(5,862,031)</b>	<b>(5,169,926)</b>
<b>Net (decrease) increase in cash and cash equivalents</b> . . . . .	<b>(2,840,173)</b>	<b>1,045,611</b>
<b>Cash and cash equivalents at beginning of period</b> . . . . .	<b>43,794,150</b>	<b>42,071,083</b>
<b>Cash and cash equivalents at beginning of period – discontinued operations</b> . . . . .	<b>154,130</b>	<b>831,586</b>
<b>Less: cash and cash equivalents at end of period – discontinued operations</b> . . . . .	<b>(750,048)</b>	<b>(154,130)</b>
<b>Cash and cash equivalents at end of period</b> . . . . .	<b>\$40,358,059</b>	<b>\$ 43,794,150</b>

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 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 pesos 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 \$32,594 and \$68,818 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 include \$7.4 million and \$8.5 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, 2021, the Company had deposits in U.S. banks in excess of federally insured limits of approximately \$7.8 million. As of December 31, 2021, the Company held cash in foreign bank accounts of approximately \$33.1 million, which includes a \$2.5 million certificate of deposit with an original maturity of six months.

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, 2021, the equivalent United States dollar cash balances for deposits held in The Bahamas were approximately \$6.4 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



## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2. Accounting policies – (continued)

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.

**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

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. Additions to construction in progress are comprised of the cost of the contracted services, direct labor and materials.

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, 2021 or 2020.

**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 of an acquired business over the fair value of the individual assets and liabilities 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 annually or upon the identification of a triggering event. 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 retail, bulk, services, and manufacturing, 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, 2021 and 2020, 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

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2. Accounting policies – (continued)

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.

The Company also estimated the fair value of each of its reporting units for the years ended December 31, 2021 and 2020 by applying the guideline public company method.

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, 2021 and 2020 were 80% to the discounted cash flow method and 20% to the guideline public company method.

The fair values the Company estimated for its retail, bulk, services and manufacturing reporting units exceeded their carrying amounts by 32%, 51%, 15%, and 15% respectively, as of December 31, 2021. The fair values the Company estimated for its retail, bulk, and services reporting units exceeded their carrying amounts by 101%, 49% and 17%, respectively, as of December 31, 2020. While the fair value the Company estimated for its manufacturing reporting unit exceeded its carrying value by 31% as of December 31, 2020, due to new information the Company obtained in 2021, the Company was required to record an impairment loss for its manufacturing reporting unit's goodwill in 2021, as discussed in paragraphs that follow.

Approximately 80% of Aerex's revenue, and 89% of Aerex's gross profit, for the year ended December 31, 2020 were generated from sales to one customer. While Aerex sells various products to this customer, Aerex's revenue from this customer has historically been derived primarily from one specialized product. In October 2020, this customer informed Aerex that, for inventory management purposes, it was suspending its purchases of the specialized product from Aerex following 2020 for a period of approximately one year. This customer informed Aerex at that time that it expected to recommence its purchases of the specialized product from Aerex beginning with the first quarter of 2022. As a result of this anticipated loss of revenue for Aerex, the Company updated its projections for its manufacturing reporting unit's future cash flows. Such projections assumed, in part, that Aerex's major customer would recommence its purchases from Aerex in 2022 but at a reduced aggregate amount, as compared to 2020. Based upon these updated projections, the Company tested its manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. As a result of these impairment tests, the Company determined that the estimated fair value of its manufacturing reporting unit exceeded its carrying value by approximately 31% as of December 31, 2020.

In late July 2021, this former major customer communicated to Aerex that it expected to recommence its purchases of the specialized product from Aerex in 2022 and subsequent years, but informed Aerex that such purchases would be at substantially reduced annual amounts, as compared to the amounts it had purchased from Aerex in 2020 and prior years. The Company's updated sales estimate for this customer based on this new information was substantially below the sales the Company anticipated to this customer for 2022 and subsequent years that the Company used in the discounted cash flow projections the Company prepared for purposes of testing its manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020. Aerex's efforts to replace the revenue previously generated from this customer with revenue from existing and new customers have been adversely impacted by continuing negative economic conditions, which have increased Aerex's raw material costs, resulted in raw material shortages and extended delivery times for such materials and, the Company believes, also adversely affected the overall financial condition of Aerex's current and prospective customer base. Accordingly, in light of this new information from Aerex's former major customer, and present weak economic conditions that the Company believes will continue into 2022, the Company updated its projections of future cash flows for the manufacturing reporting unit and tested its goodwill for possible impairment as of June 30, 2021 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. Based upon this testing, the Company determined that the carrying value of its manufacturing reporting unit exceeded its

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2. Accounting policies – (continued)

fair value by \$2.9 million, and the Company recorded an impairment loss to reduce its manufacturing reporting unit's goodwill by this amount for the three months ended June 30, 2021.

Based upon its most recent estimation prepared as of December 31, 2021, the fair value of the Company's manufacturing reporting unit exceeded its carrying value by only 15%. If the Company determines in the future that Aerex's discounted future cash inflows will be less than its present expectation, the Company may be required to record additional impairment losses to reduce the remaining carrying values as of December 31, 2021 of its manufacturing reporting unit's goodwill of \$1,985,211 and its remaining unamortized intangible assets balances of \$847,778 recorded as a result of the acquisition of Aerex. Any such impairment losses could have a material adverse impact on the Company's consolidated results of operations.

Based upon its most recent estimation prepared as of December 31, 2021, the fair value of the Company's services reporting unit exceeded its carrying value by only 15%. If the Company determines in the future that PERC's discounted future cash inflows will be less than its present expectation, the Company may be required to record impairment losses to reduce the carrying values as of December 31, 2021 of its services reporting unit's goodwill of \$5,320,416 and its remaining unamortized intangible assets balances of \$2,553,888 recorded as a result of the acquisition of PERC. Any such impairment losses could have a material adverse impact on the Company's consolidated results of operations.

**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 reduce the amount of 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, 2021 and 2020. Accumulated amortization for these costs was approximately \$2.7 million and \$2.5 million as of December 31, 2021 and 2020, respectively. Amortization expense for these costs was \$179,353 for the years ended December 31, 2021 and 2020.

**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.

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Accounting policies – (continued)**

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

	Year Ended December 31,	
	2021	2020
Retail revenue . . . . .	\$22,104,953	\$22,952,370
Bulk revenue . . . . .	26,800,869	24,312,546
Services revenue . . . . .	13,884,857	12,937,859
Manufacturing revenue . . . . .	4,072,823	12,425,351
<b>Total revenue</b> . . . . .	<b>\$66,863,502</b>	<b>\$72,628,126</b>

*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 45 days after the billing date. Receivables not collected within 45 days subject the customer to disconnection from water service. In 2021 and 2020, 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 Providence. CW-Bahamas also sold water to a private resort on Bimini through December 18, 2020, which generated revenue of approximately \$127,000 for the year ended December 31, 2020.

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 designs, 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.

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2. Accounting policies – (continued)

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 construction and services revenue from DesalCo and PERC, and generates manufacturing revenue from Aerex.

The Company recognizes revenue for its construction and its 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, materials and amounts payable to subcontractors. The Company follows this method since it can make reasonably dependable estimates of the revenue and costs applicable to the 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 2020 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, 2021 and 2020, the equivalent United States dollars of the Company's cash and cash equivalents, including those accounts denominated in currencies other than the U.S. dollar, are as follows:

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. Cash and cash equivalents – (continued)**

	December 31,	
	2021	2020
<b>Bank accounts:</b>		
United States dollar . . . . .	\$15,888,445	\$14,001,264
Cayman Islands dollar . . . . .	12,784,358	5,650,874
Bahamian dollar . . . . .	3,944,208	14,863,287
Bermudian dollar . . . . .	2,832	2,832
	32,619,843	34,518,257
<b>Short-term deposits:</b>		
United States dollar . . . . .	5,324,258	5,796,582
Cayman Islands dollar . . . . .	2,413,958	2,413,547
Bahamian dollar . . . . .	—	1,065,764
	7,738,216	9,275,893
Total cash and cash equivalents . . . . .	\$40,358,059	\$43,794,150

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,	
	2021	2020
Trade accounts receivable . . . . .	\$27,409,029	\$21,422,782
Receivable from OC-BVI . . . . .	40,877	62,171
Other accounts receivable . . . . .	180,262	269,133
	27,630,168	21,754,086
Allowance for doubtful accounts . . . . .	(280,861)	(270,110)
Accounts receivable, net . . . . .	\$27,349,307	\$21,483,976

The activity for the allowance for doubtful accounts consisted of:

	December 31,	
	2021	2020
Opening allowance for doubtful accounts . . . . .	\$270,110	\$142,236
Provision for doubtful accounts . . . . .	—	129,107
Accounts written off during the year . . . . .	—	(1,233)
Recovery of accounts written off . . . . .	10,751	—
Ending allowance for doubtful accounts . . . . .	\$280,861	\$270,110

Significant concentrations of credit risk are disclosed in Note 18.

**CONSOLIDATED WATER CO. LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. Inventory**

	December 31,	
	2021	2020
Water stock . . . . .	\$ 34,587	\$ 27,938
Consumables stock . . . . .	138,547	105,540
Spare parts stock . . . . .	7,064,708	7,587,542
Total inventory . . . . .	7,237,842	7,721,020
Less current portion . . . . .	2,504,832	3,214,178
Inventory (non-current) . . . . .	<u>\$4,733,010</u>	<u>\$4,506,842</u>

**6. Contracts in progress**

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

	December 31,	
	2021	2020
Revenue recognized to date on contracts in progress . . . . .	\$ 6,109,396	\$ 17,534,449
Amounts billed to date on contracts in progress . . . . .	(6,370,855)	(17,791,928)
Retainage . . . . .	237,542	312,130
Net contract asset (liability) . . . . .	<u>\$ (23,917)</u>	<u>\$ 54,651</u>

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

	December 31,	
	2021	2020
Contract assets . . . . .	\$ 489,961	\$ 516,521
Contract liabilities . . . . .	(513,878)	(461,870)
Net contract asset (liability) . . . . .	<u>\$ (23,917)</u>	<u>\$ 54,651</u>

As of December 31, 2021, the Company had unsatisfied or partially unsatisfied performance obligations for contracts in progress representing approximately \$5.7 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 \$4.8 million during the year ending December 31, 2022 and \$0.9 million thereafter.

**CONSOLIDATED WATER CO. LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**7. Property, plant and equipment and construction in progress**

	December 31,	
	2021	2020
Land . . . . .	\$ 3,316,537	\$ 3,566,537
Buildings . . . . .	23,255,925	23,250,843
Plant and equipment . . . . .	64,324,377	63,734,860
Distribution system . . . . .	39,780,272	39,149,063
Office furniture, fixtures and equipment . . . . .	3,051,814	3,083,811
Vehicles . . . . .	2,079,874	1,999,463
Leasehold improvements . . . . .	287,980	274,230
Lab equipment . . . . .	12,456	12,456
	136,109,235	135,071,263
Less accumulated depreciation . . . . .	83,162,696	77,383,279
Property, plant and equipment, net . . . . .	\$ 52,946,539	\$ 57,687,984
Construction in progress . . . . .	\$ 710,863	\$ 440,384

As of December 31, 2021, the Company had outstanding capital commitments of approximately \$2.7 million. The Company maintains insurance for loss or damage to all fixed assets that it deems susceptible to loss. During the years ended December 31, 2021 and 2020, \$644,224 and \$1,653,501, respectively, of construction in progress was placed in service. Depreciation expense was \$5,995,213 and \$6,335,489 for the years ended December 31, 2021 and 2020, respectively.

**8. Discontinued operations**

*Mexico project development*

In 2010, the Company began the pursuit, through its Netherlands subsidiary, Consolidated Water Cooperatief, U.A. (“CW-Cooperatief”), and its Mexico subsidiary, N.S.C. Agua, S.A. de C.V. (“NSC”), of a project (the “Project”) that 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.

Following an assessment by the State of Baja, California (the “State”) of the need for such a desalination plant and the passage of enabling legislation in November 2015, the State officially commenced the required public tender for the Project. 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 a new company 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, 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, the State Water Commission of Baja California (“CEA”), the Government of Baja



## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 8. Discontinued operations – (continued)

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. The APP Contract was subsequently amended by the parties in June 2018 to increase the scope of Phase 1 and to allow for changes in the water tariff due to the changes in the exchange rate for the peso, interest rates and construction costs that had and would occur from the date the APP Contract was signed to the date construction commenced.

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 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 amparo claim, and such withdrawal was accepted by the federal district court in Tijuana. To date, AdR has not received a response from CEA or CESPT to its submission of non-recoverable expenses.

The Company believes CW-Cooperatief, as a Netherlands company, has certain rights relating to its investments in NSC and AdR under the *Agreement on Promotion, Encouragement and Reciprocal Protection of Investments between the Kingdom of the Netherlands and the United Mexican States* entered into force as of October 1, 1999 (the “Treaty”). On April 16, 2021, CW-Cooperatief submitted a letter to the President of Mexico and other Mexican federal government officials alleging that the State’s termination of the APP Contract constituted a breach by Mexico of its international obligations under the Treaty, entitling CW-Cooperatief to full reparation, including monetary damages. This letter invites Mexico to seek a resolution of this investment dispute through consultation and negotiation, but states that if the dispute cannot be resolved in this manner, CW-Cooperatief elects to refer the dispute to the International Centre for the Settlement of International Disputes for arbitration, as provided for in the Treaty. On June 29, 2021, the Mexican Ministry of Economy responded to CW-Cooperatief’s letter and proposed to hold a consultation meeting. Two such meetings were held on July 9, 2021 and August 2, 2021 on a confidential basis, without a resolution of the Company’s investment dispute.

On February 9, 2022, CW-Cooperatief, filed a Request for Arbitration with the International Centre for Settlement of International Disputes requesting that the United Mexican States pay CW-Cooperatief damages in excess of US\$51 million plus MXN\$137 million (with the exact amount to be quantified in the proceedings), plus fees, costs and pre- and post-award interest.

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Discontinued operations – (continued)**

CW-Cooperatief intends to pursue vigorously the relief sought in the arbitration, in addition to pursuing all other legal remedies and courses of action available under the operative contracts and applicable law with respect to their rights, damages, fees and expenses. The Company cannot provide any assurances that CW-Cooperatief will be able to obtain the relief sought in the arbitration, and CW-Cooperatief will incur legal and other arbitration-related expenses that the Company expects will be material to its consolidated results of operations and cash flows.

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.

As a result of the cancellation of the APP Contract, in 2020 the Company 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, the impairment loss of approximately (\$3.0 million) recorded during 2020 for Project assets, and the costs for legal and administrative activities to pursue reimbursement from the State of Baja California following the cancellation of the APP Contract, have been reclassified from the services segment to discontinued operations in the accompanying consolidated financial statements. The Company's net losses from discontinued operations for the years ended December 31, 2021 and 2020 were (\$2,574,079) and (\$4,902,243), respectively. The Company's net loss from discontinued operations for 2021 and 2020 also includes provisions of \$963,540 and \$316,217, respectively, for potentially uncollectible value added taxes paid that are reimbursable/receivable from the Mexican federal government. The Company recorded the 2021 provision as a result of the Mexican government's rejection of its most recent request for repayment of these value added taxes paid. The Company believes it is legally entitled to be repaid for these value added taxes and has engaged a firm to assist it in collecting these amounts from the Mexican government. However, the Company ultimately may not be able to obtain such payment from the Mexican government and therefore may be required in the future to record another provision to write off the remaining balance of these receivables, which amounted to \$340,910 as of December 31, 2021.

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

	December 31,	
	2021	2020
Cash . . . . .	\$ 750,048	\$ 154,130
Prepaid expenses and other current assets . . . . .	82,783	88,978
Value added taxes receivable (net of allowance of \$1,279,757 and \$316,217, respectively) . . . . .	340,910	1,267,991
Property, plant and equipment, net . . . . .	—	5,682
Land . . . . .	21,126,898	21,126,898
Other assets . . . . .	19,288	33,909
Total assets of discontinued operations . . . . .	\$22,319,927	\$22,677,588
Total liabilities of discontinued operations . . . . .	\$ 190,141	\$ 190,933
	Year Ended December 31,	
	2021	2020
Revenue . . . . .	\$ —	\$ —
Income from operations . . . . .	\$ —	\$ —
Net loss from discontinued operations . . . . .	\$2,574,079	\$4,902,243
Depreciation expense . . . . .	\$ 4,545	\$ 4,545

## 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 court, 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 (which was resolved in December 2019, and ordered the revocation of the order of the Tenth Civil Judge granting EWG 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. EWG challenged such resolution, arguing that its notification was not lawful. The Tenth Civil Judge dismissed such challenge, and thereafter EWG filed a remedy against such dismissal. NSC appeared before the court to vigorously oppose such remedy, which has been dismissed. To date, the referral to arbitration has not occurred and, as such, the procedure is currently suspended.

Notwithstanding the resolution of the Tenth Civil Judge to move to arbitration, subparagraphs a) and b) that follow describe certain separate amparo claims, and appeal remedies arising from or relating to such ordinary

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 8. Discontinued operations – (continued)

mercantile claim and amparo claims, all in chronological order. Due to the global COVID-19 pandemic, most tribunals in Mexico suspended their activities intermittently since March 2020, with certain such tribunals partially restarting on different dates and with different special rules. As such, several resolutions are pending issuance.

*a) Amparo filed by EWG against a resolution of the Tenth Civil Judge.*

In July 2021, EWG filed an amparo claim against the resolution of the Tenth Civil Judge dismissing the remedy filed by EWG against the October 1, 2020 resolution within the mentioned ordinary mercantile claim. NSC has filed before the corresponding amparo court a writ vigorously opposing this claim. Considering the foregoing, and that AdR was only named as a third party with interest, it is unnecessary for it to submit arguments against EWG in this claim. Further, CW-Cooperatief has not been notified of this amparo claim.

Within this amparo claim, the Third District Court in Tijuana granted a suspension in favor of EWG, merely for the effect of holding in place the referral to arbitration subject matter of the October 1, 2020 resolution mentioned above. Such suspension was conditioned on the posting by EWG of a guarantee in the amount of 50,000 Mexican pesos, which has not been posted. Regardless of the effects of the suspension and the lack of the posting of a guarantee, NSC has filed an appeal remedy against its granting.

To date, and following a final hearing that took place in March 2022, a resolution to this claim is pending issuance.

*b) Appeal filed by NSC against the suspension granted in favor of EWG.*

The appeal remedy mentioned in the second paragraph of item a) immediately above was admitted by the superior court on October 18, 2021 and has yet to be resolved.

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.

#### 9. Intangible assets

The Company's purchase transactions for Aerex and PERC identified certain intangible assets. The remaining intangible assets and their respective useful lives are as follows: non-compete agreements (3 and 5 years), trade names (15 years), customer backlog (2 years), and facility management contracts (6 years).

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

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**9. Intangible assets – (continued)**

	December 31,	
	2021	2020
<b>Cost:</b>		
Non-compete agreements . . . . .	\$ 530,000	\$ 530,000
Trade names . . . . .	2,700,000	2,700,000
Customer backlogs . . . . .	360,000	360,000
Facility management contracts . . . . .	2,200,000	2,200,000
	5,790,000	5,790,000
<b>Accumulated amortization:</b>		
Non-compete agreements . . . . .	(493,889)	(443,889)
Trade names . . . . .	(740,000)	(560,000)
Customer backlogs . . . . .	(360,000)	(210,000)
Facility management contracts . . . . .	(794,445)	(427,778)
	(2,388,334)	(1,641,667)
Intangible assets, net . . . . .	\$ 3,401,666	\$ 4,148,333

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

2022 . . . . .	\$ 582,778
2023 . . . . .	546,667
2024 . . . . .	546,667
2025 . . . . .	485,554
2026 . . . . .	180,000
Thereafter . . . . .	1,060,000
	\$3,401,666

Amortization expense was \$746,667 and \$891,667 for the years ended December 31, 2021 and 2020, 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 the lease payments over the term. Many of these leases contain rental escalation clauses which are factored into the determination of the 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 the 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 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 is owned by the Company or leased to the Company for immaterial annual amounts and are not included in the lease amounts presented in the consolidated balance sheets.

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**10. Leases – (continued)**

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 March 9, 2021, the Company entered into a new office lease for the existing office located in Coral Springs, Florida under similar terms compared to the prior lease. This new lease expires, including all renewal options, on March 8, 2031.

*Lease assets and liabilities*

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

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
<b>Current</b>		
Prepaid expenses and other current assets . . . . .	\$ —	\$ 108,303
Current assets of discontinued operations . . . . .	2,654	—
<b>Noncurrent</b>		
Operating lease right-of-use assets . . . . .	2,681,137	1,329,561
Long-term assets of discontinued operations . . . . .	16,898	33,909
Total lease right-of-use assets . . . . .	<u>\$2,700,689</u>	<u>\$1,471,773</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Current maturities of operating leases . . . . .	\$ 592,336	\$ 455,788
Current liabilities of discontinued operations . . . . .	11,195	29,432
<b>Noncurrent</b>		
Noncurrent operating leases . . . . .	2,137,394	982,076
Noncurrent liabilities of discontinued operations . . . . .	7,819	2,499
Total lease liabilities . . . . .	<u>\$2,748,744</u>	<u>\$1,469,795</u>
<u>Weighted average remaining lease term:</u>		
Operating leases . . . . .	7.0 years	3.4 years
Operating leases – discontinued operations . . . . .	1.6 years	1.1 years
<u>Weighted average discount rate:</u>		
Operating leases . . . . .	5.03%	4.15%
Operating leases – discontinued operations . . . . .	4.77%	3.48%

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**10. Leases – (continued)**

The components of lease cost were as follows:

	Year Ended December 31,	
	2021	2020
Operating lease costs . . . . .	\$656,130	\$773,756
Short-term lease costs . . . . .	79,606	5,518
Lease costs – discontinued operations . . . . .	31,281	127,983
Total lease costs . . . . .	\$767,017	\$907,257

Supplemental cash flow information related to leases is as follows:

	Year Ended December 31,	
	2021	2020
<b>Cash paid for amounts included in measurement of liabilities:</b>		
Operating cash outflows for operating leases . . . . .	\$710,024	\$708,095
Operating cash outflows for operating leases – discontinued operations . . . . .	38,246	127,153

Future lease payments relating to the Company’s operating lease liabilities from continuing operations as of December 31, 2021 were as follows:

Years ending December 31,	Total
2022 . . . . .	\$ 665,817
2023 . . . . .	643,234
2024 . . . . .	390,629
2025 . . . . .	268,056
2026 . . . . .	227,541
Thereafter . . . . .	1,025,239
Total future lease payments . . . . .	3,220,516
Less: imputed interest . . . . .	(490,786)
Total lease obligations . . . . .	2,729,730
Less: current obligations . . . . .	(592,336)
Noncurrent lease obligations . . . . .	\$2,137,394

**11. Income taxes**

The components of income before income taxes for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended December 31,	
	2021	2020
Foreign (not subject to income taxes) . . . . .	\$ 5,780,692	\$ 6,475,693
Mexico . . . . .	(1,767,915)	(4,903,988)
United States . . . . .	(2,952,265)	2,956,552
	1,060,512	4,528,257
Less discontinued operations . . . . .	2,574,079	4,902,243
	\$ 3,634,591	\$ 9,430,500

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**11. Income taxes – (continued)**

The Company's provision (benefit) for income taxes for the years ended December 31, 2021 and 2020, which related to U.S. operations, consisted of the following:

	Year Ended December 31,	
	2021	2020
Current:		
Federal . . . . .	\$ 202,444	\$ 191,322
State . . . . .	(895)	87,630
Foreign . . . . .	—	—
Total . . . . .	201,549	278,952
Deferred:		
Federal . . . . .	(524,733)	(132,957)
State . . . . .	(124,798)	(59,271)
Foreign . . . . .	—	—
Total . . . . .	(649,531)	(192,228)
Total provision (benefit) . . . . .	\$(447,982)	\$ 86,724

A reconciliation of the U.S. statutory federal tax rate to the effective rate for the years ended December 31, 2021 and 2020 is as follows:

	Year Ended December 31,	
	2021	2020
U.S. statutory federal rate . . . . .	21.00%	21.00%
State taxes, net of federal effect . . . . .	2.72%	4.00%
Nontaxable foreign income . . . . .	(43.36)%	(17.28)%
Research & development tax credit . . . . .	(7.39)%	(11.73)%
Permanent items . . . . .	(6.26)%	(0.67)%
Goodwill impairment . . . . .	20.31%	—%
Valuation allowance for deferred tax assets . . . . .	0.65%	5.60%
	(12.33)%	0.92%

The tax effects of significant items comprising the Company's net long-term deferred tax liability as of December 31, 2021 and 2020 were as follows:



**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**11. Income taxes – (continued)**

	December 31,	
	2021	2020
<b>Continuing Operations</b>		
Deferred tax assets:		
Research & development tax credits . . . . .	\$ 398,413	\$ 613,003
Loss carry forward . . . . .	300,545	—
Accrued compensation . . . . .	112,446	110,092
Valuation allowances . . . . .	(139,207)	(496,343)
	672,197	226,752
Deferred tax liabilities:		
Property and equipment . . . . .	254,301	252,800
Intangible assets . . . . .	982,422	1,188,009
	1,236,723	1,440,809
Net deferred tax liability . . . . .	\$ 564,526	\$ 1,214,057
<b>Discontinued Operations</b>		
Deferred tax assets:		
Operating loss carryforwards – Mexico . . . . .	\$ 4,230,398	\$ 4,296,453
Land basis difference – Mexico . . . . .	1,602,470	1,262,159
Start-up costs – Mexico . . . . .	4,693,395	4,904,337
Valuation allowances . . . . .	(10,526,263)	(10,462,949)
	\$ —	\$ —

As of December 31, 2021, continuing operations has a federal net loss carryforward of \$1.2 million and a state net loss carryforward of \$1.1 million, both of which have an indefinite expiration date. Discontinued operations has a net loss carryforward of \$14.1 million that will begin to expire, if unused, in various amounts between 2022 and 2041.

**12. Earnings per share**

Earnings per share (“EPS”) is computed on a basic and diluted basis. Basic EPS is computed by dividing net income (loss) (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:

	Year Ended December 31,	
	2021	2020
Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders . . . . .	\$ 3,449,658	\$ 8,613,771
Less: preferred stock dividends . . . . .	(10,796)	(11,740)
Net income from continuing operations available to common shares in the determination of basic earnings per common share . . . . .	3,438,862	8,602,031
Total loss from discontinued operations . . . . .	(2,574,079)	(4,902,243)
Net income available to common shares in the determination of basic earnings per common share . . . . .	\$ 864,783	\$ 3,699,788
Weighted average number of common shares in the determination of basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders . . . . .	15,213,816	15,119,305
Plus:		
Weighted average number of preferred shares outstanding during the period . .	30,348	33,814
Potential dilutive effect of unexercised options and unvested stock grants . . . .	65,981	70,836
Weighted average number of shares used for determining diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders . . . . .	15,310,145	15,223,955

**13. Dividends**

Interim dividends declared on Class A common stock and redeemable preferred stock for each quarter of the respective years ended December 31, 2021 and 2020 were as follows:

	2021	2020
First Quarter . . . . .	\$0.085	\$0.085
Second Quarter . . . . .	0.085	0.085
Third Quarter . . . . .	0.085	0.085
Fourth Quarter . . . . .	0.085	0.085
	\$ 0.34	\$ 0.34

**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.

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.

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**14. Segment information – (continued)**

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, 2021				
	Retail	Bulk	Services	Manufacturing	Total
Revenue . . . . .	\$22,104,953	\$26,800,869	\$13,884,857	\$ 4,072,823	\$66,863,502
Cost of revenue . . . . .	11,060,937	17,759,272	10,707,243	3,828,859	43,356,311
Gross profit . . . . .	11,044,016	9,041,597	3,177,614	243,964	23,507,191
General and administrative expenses . . . . .	12,841,259	1,365,735	2,762,735	1,380,630	18,350,359
Gain (loss) on asset dispositions and impairments, net . . . . .	(246,851)	1,500	(485)	(2,900,000)	(3,145,836)
Income (loss) from operations . . . . .	\$ (2,044,094)	\$ 7,677,362	\$ 414,394	\$ (4,036,666)	2,010,996
Other income, net . . . . .					1,623,595
Income before income taxes . . . . .					3,634,591
Benefit from income taxes . . . . .					(447,982)
Net income from continuing operations . . . . .					4,082,573
Income from continuing operations attributable to non-controlling interests . . . . .					632,915
Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders . . . . .					3,449,658
Net loss from discontinued operations . . . . .					(2,574,079)
Net income attributable to Consolidated Water Co. Ltd. stockholders . . . . .					\$ 875,579

Depreciation and amortization expenses for the year ended December 31, 2021 for the retail, bulk, services and manufacturing segments were \$2,517,407, \$3,331,554, \$782,882 and \$289,390, respectively.

	As of December 31, 2021				
	Retail	Bulk	Services	Manufacturing	Total
Accounts receivable, net . . . . .	\$ 2,601,619	\$21,682,951	\$ 1,698,797	\$1,365,940	\$ 27,349,307
Inventory, current and non-current . . . . .	\$ 2,787,277	\$ 3,860,808	\$ —	\$ 589,757	\$ 7,237,842
Property, plant and equipment, net . . . . .	\$26,357,390	\$24,476,936	\$ 512,493	\$1,599,720	\$ 52,946,539
Construction in progress . . . . .	\$ 617,334	\$ 31,737	\$ —	\$ 61,792	\$ 710,863
Intangibles, net . . . . .	\$ —	\$ —	\$ 2,553,888	\$ 847,778	\$ 3,401,666
Goodwill . . . . .	\$ 1,170,511	\$ 1,948,875	\$ 5,320,416	\$1,985,211	\$ 10,425,013
Total segment assets . . . . .	\$61,736,441	\$68,723,405	\$16,049,001	\$8,198,280	\$154,707,127
Assets of discontinued operations . . . . .					\$ 22,319,927
Total assets . . . . .					\$177,027,054

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**14. Segment information – (continued)**

	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>	<u>8,347,554</u>
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 . . . . .					<u>(4,902,243)</u>
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.

	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

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**14. Segment information – (continued)**

Revenues earned by major geographic region were:

	Year ended December 31,	
	2021	2020
Cayman Islands . . . . .	\$24,935,746	\$25,640,169
Bahamas . . . . .	24,031,547	21,654,153
United States . . . . .	17,489,851	24,918,527
Revenues earned from management services agreement with OC-BVI . . . . .	406,358	415,277
	<u>\$66,863,502</u>	<u>\$72,628,126</u>

Revenues earned from major customers were:

	Year ended December 31,	
	2021	2020
Revenue earned from the Water and Sewerage Corporation (“WSC”) . . . . .	\$24,031,547	\$21,527,487
Percentage of consolidated revenue earned from the WSC . . . . .	36%	30%
Revenue earned from one manufacturing segment customer . . . . .	\$ 406,073	\$ 9,965,041
Percentage of consolidated revenue earned from the one manufacturing segment customer . . . . .	1%	14%

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

	December 31,	
	2021	2020
Cayman Islands . . . . .	\$26,687,944	\$28,474,748
The Bahamas . . . . .	24,004,707	26,975,427
United States . . . . .	2,253,888	2,237,809
	<u>\$52,946,539</u>	<u>\$57,687,984</u>

**15. Cost of revenue and general and administrative expenses**

	Year Ended December 31,	
	2021	2020
<b>Cost of revenue consist of:</b>		
Electricity . . . . .	\$ 5,698,148	\$ 5,389,361
Depreciation . . . . .	5,855,073	6,202,012
Fuel oil . . . . .	5,742,056	4,157,393
Employee costs . . . . .	12,439,042	11,465,514
Maintenance . . . . .	2,092,776	2,859,262
Retail license royalties . . . . .	1,418,820	1,489,862
Insurance . . . . .	1,625,862	1,491,799
Materials . . . . .	1,952,764	5,786,698
Other . . . . .	6,531,770	7,017,770
	<u>\$43,356,311</u>	<u>\$45,859,671</u>

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**15. Cost of revenue and general and administrative expenses – (continued)**

	Year Ended December 31,	
	2021	2020
<b>General and administrative expenses consist of:</b>		
Employee costs . . . . .	\$ 9,562,125	\$10,086,588
Insurance . . . . .	1,813,026	1,436,957
Professional fees . . . . .	1,506,423	1,488,948
Directors' fees and expenses . . . . .	851,775	865,555
Depreciation . . . . .	140,140	133,477
Amortization of intangible assets . . . . .	746,667	891,667
Other . . . . .	3,730,203	3,531,706
	\$18,350,359	\$18,434,898

**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 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, 2021 and 2020 totaled 8,632 and 6,123, 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, 2021 and 2020 totaled 3,400 and 2,100, 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

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. Stock-based compensation – (continued)**

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, 2021 and 2020 totaled 30,911 and 19,712 shares, respectively. The Company recognized stock-based compensation for these share grants of \$319,002 and \$318,991 for the years ended December 31, 2021 and 2020, 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 \$137,215 and \$125,487 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 were as follows:

	<b>2021</b>	<b>2020</b>
Risk free interest rate . . . . .	0.20%	0.17%
Expected option life (years) . . . . .	1.2	1.1
Expected volatility . . . . .	31.92%	51.19%
Expected dividend yield . . . . .	2.87%	2.42%

A summary of the Company’s stock option activity for the year ended December 31, 2021 is as follows:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value<sup>(1)</sup></b>
Outstanding at beginning of period . . . . .	10,030	\$12.98		
Granted . . . . .	12,032	9.33		
Exercised . . . . .	(2,106)	8.10		
Forfeited/expired . . . . .	(9,466)	9.44		
Outstanding as of December 31, 2021 . . . . .	10,490	\$12.98	2.30 years	\$ —
Exercisable as of December 31, 2021 . . . . .	—	\$ —	— years	\$ —

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. Stock-based compensation – (continued)**

(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 \$10.64 on the Nasdaq Global Select Market on December 31, 2021, exceeds the exercise price of the option.

As of December 31, 2021, 10,490 non-vested options were outstanding, with weighted average exercise price of \$12.98, and average remaining contractual life of 2.30 years. The total remaining unrecognized compensation costs related to unvested stock-based arrangements were \$16,554 as of December 31, 2021 and are expected to be recognized over a weighted average period of 2.30 years.

As of December 31, 2021, unrecognized compensation costs relating to redeemable preferred stock rights outstanding were \$147,074 and are expected to be recognized over a weighted average period of 1.17 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, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Options granted with an exercise price below market price on the date of grant:		
Employees – preferred stock . . . . .	\$ 3.71	\$ 2.70
Overall weighted average . . . . .	3.71	2.70
Options granted with an exercise price at market price on the date of grant:		
Management employees . . . . .	\$ —	\$ —
Employees – common stock . . . . .	2.89	2.45
Overall weighted average . . . . .	2.89	2.45
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 . . . . .	\$7,876	\$3,891

**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 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 grant rights, which are issued on January 1 of each year, vest in one-third increments at the end of each year over a three-year period. The number of non-performance-based stock grant rights issued on January 1, 2021 and 2020 were 26,403 and 23,458, respectively. These stock grant rights vest in one-third increments over the three-year periods ending December 31, 2023 and 2022, respectively. The total number of vested shares issued under prior years' non-performance stock grant rights totaled 25,789 and 28,891 in the years ended December 31, 2021 and 2020, respectively. For the years ended December 31, 2021 and 2020, the Company recognized \$306,250 and \$344,940 in stock-based compensation expense, respectively, related to the incremental vesting of the non-performance stock grant rights.

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.



## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 16. Stock-based compensation – (continued)

A total of 18,419 stock grant rights were earned as of December 31, 2021 based upon the Company's actual financial performance relative to the cumulative financial performance targets for the three-year period ended December 31, 2021, and the Company recognized \$214,765 in stock-based compensation for the year ended December 31, 2021 related to these grants. The shares associated with these grants will be issued in 2022.

A total of 31,788 stock grant rights 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 were issued in 2021.

#### 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 \$584,278 and \$576,096 for the years ended December 31, 2021 and 2020, 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.

##### Fair values:

As of December 31, 2021 and 2020, 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

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**18. Financial instruments – (continued)**

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, 2021 and 2020:

		December 31, 2021			
		Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Recurring					
Certificate of deposit . . . . .	\$	—	\$2,500,000	\$ —	\$2,500,000
Net asset arising from put/call options . . . . .		—	—	128,000	128,000
		December 31, 2020			
		Level 1	Level 2	Level 3	Total
<b>Liabilities:</b>					
Recurring					
Net liability arising from put/call options . . . . .	\$	—	\$ —	\$(690,000)	\$(690,000)

The activity for the Level 3 asset for the year ended December 31, 2021:

**Net (liability)/asset arising from put/call options**

Balance as of December 31, 2020 . . . . .	\$(690,000)
Unrealized gain . . . . .	818,000
Balance as of December 31, 2021 . . . . .	\$ 128,000

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, 2024 and provide for, among other things, base annual salaries in an aggregate amount of approximately \$3.9 million, performance bonuses and various employee benefits.

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 19. Commitments and contingencies – (continued)

The Company has purchase obligations totaling approximately \$5.1 million through December 31, 2022.

#### 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, temporarily ceased due to closing of the country to tourist arrivals by air and sea travel and has yet to return to pre-pandemic levels. Tourist arrivals to The Bahamas by air and sea also declined significantly due to the pandemic and continue to be less than pre-pandemic numbers due to the continued reluctance of people to travel internationally. Overall economic activity in the United States has also 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, net income and overall liquidity as compared to pre-pandemic periods.

Furthermore, the prolonged extension of the economic downturn created by the COVID-19 pandemic could further adversely affect the markets for the Company's products and services. Such adverse market effects could further 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 continue to 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 2021 and 2020, the Company generated approximately 33% and 32%, respectively, of its consolidated revenue and 47% and 44%, respectively, of its 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 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

## CONSOLIDATED WATER CO. LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 19. Commitments and contingencies – (continued)

regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for the 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 \$21.5 million and \$16.8 million as of December 31, 2021 and 2020.

From time to time (including presently), 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, 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, 2021, the Company has not provided an allowance for doubtful accounts for CW-Bahamas' accounts receivable from the WSC. The Bahamas government and the WSC continue to make intermittent payments on these accounts receivable, and such payments amounted to approximately \$22.9 million for the year ended December 31, 2021.

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. 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, 2021 and 2020, the Company made total purchases of services of approximately \$438,000 and \$1,349,000 from these companies, respectively. These total purchases are included in the Company's cost of revenue in the accompanying consolidated statements of income.

On February 1, 2021, PERC entered into a sublease agreement with a related company commencing March 14, 2021 and ending August 31, 2021. This lease has been extended on a month-to-month basis subsequent to August 31, 2021. During the year ended December 31, 2021, the Company recognized approximately \$77,000 of expense related to this lease. This lease amount is included in the Company's general and administrative expenses in the accompanying consolidated statements of income.

**CONSOLIDATED WATER CO. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**20. Related party transactions – (continued)**

The total amount of accounts payable outstanding to these companies as of December 31, 2021 and 2020, was approximately \$164,000 and \$201,000, respectively.

**21. Supplemental disclosure of cash flow information**

	Year Ended December 31,	
	2021	2020
Interest paid in cash . . . . .	\$ 10,248	\$ 9,669
Non-cash transactions: . . . . .		
Dividends declared but not paid . . . . .	\$1,298,148	\$1,289,854
Transfers from inventory to property, plant and equipment and construction in progress . . . . .	\$ 189,924	\$ 73,464
Transfers from construction in progress to property, plant and equipment . . . . .	\$ 644,224	\$1,653,501
Right-of-use assets obtained in exchange for new operating lease liabilities . . . . .	\$1,852,608	\$ 299,992
Purchases of equipment through issuance of long-term debt . . . . .	\$ 95,707	\$ 122,292

**22. 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 consolidated financial position, results of operations or cash flows.

**23. 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, 2021. 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, 2021, 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.

**ITEM 9B. OTHER INFORMATION**

None.

**ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

## 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 2022 Annual Meeting of Shareholders to be filed with the SEC (the “Proxy Statement”) under the heading “Proposal 1 — Election of Group I 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 I 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 I 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 7 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**

Number	Exhibit Description
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)

Number	Exhibit Description
10.6	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)
10.7*	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)
10.8*	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)
10.9*	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)
10.10**	Water Supply Agreement dated March 5, 2018 between Cayman Water Company Limited and Cayman Shores Development Ltd.
10.11	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)
10.12.1†	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)
10.12.2†	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)
10.12.3†	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)
10.13.1	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)
10.13.2	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)
10.13.3	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)
10.13.4	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)
10.14	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)

Number	Exhibit Description
10.15	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.

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\* 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 29, 2022

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 29, 2022
By: <u>/s/ Frederick W. McTaggart</u> Frederick W. McTaggart	Director, Chief Executive Officer and President (Principal Executive Officer)	March 29, 2022
By: <u>/s/ David W. Sasnett</u> David W. Sasnett	Executive Vice President & Chief Financial Officer (Principal Financial and Accounting Officer)	March 29, 2022
By: <u>/s/ Linda Beidler-D'Aguilar</u> Linda Beidler-D'Aguilar	Director	March 29, 2022
By: <u>/s/ Brian E. Butler</u> Brian E. Butler	Director	March 29, 2022
By: <u>/s/ Carson K. Ebanks</u> Carson K. Ebanks	Director	March 29, 2022
By: <u>/s/ Richard L. Finlay</u> Richard L. Finlay	Director	March 29, 2022
By: <u>/s/ Clarence B. Flowers, Jr.</u> Clarence B. Flowers, Jr.	Director	March 29, 2022
By: <u>/s/ Leonard J. Sokolow</u> Leonard J. Sokolow	Director	March 29, 2022
By: <u>/s/ Raymond Whittaker</u> Raymond Whittaker	Director	March 29, 2022

**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 CI\$0.50 (approximately US\$0.60) per share, 145,000 Class B ordinary shares, par value CI\$0.50 (approximately US\$0.60) per share, and 200,000 redeemable preference shares, par value CI\$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.

**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, 2021. All subsidiaries of the Registrant appearing in the following table are included in the consolidated financial statements of the Registrant.

<b>Subsidiaries</b>	<b>Jurisdiction of Organization</b>
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



**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 29, 2022, with respect to our audits of the consolidated financial statements of Consolidated Water Co. Ltd. as of December 31, 2021 and 2020 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, 2021.

**/s/ Marcum LLP**

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West Palm Beach, Florida

March 29, 2022

**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, 2021, 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, 2021;
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 29, 2022

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, 2021, 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, 2021;
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 29, 2022

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, 2021 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 29, 2022

By:           /s/ Frederick W. McTaggart          

Name: Frederick W. McTaggart

Title: Chief Executive Officer  
(Principal Executive Officer)



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# 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 15<sup>th</sup> 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*

**Brent A. Brodie**  
*Executive Vice President of Business*  
*Development*

**Armando V. Averhoff**  
*Vice President of Information Technology*

**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](mailto:info@cwco.com)  
[www.cwco.com](http://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](http://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](http://WWW.CWCO.COM)

