CONSOLIDATED WATER CO LTD
Form 10-K/A
June 26, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K/A
(Amendment No. 2)

(Mark One)

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

For the fiscal year ended **December 31, 2002**

OR

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

For the transition period from _______________ to _______________

Commission File Number: **0-25248**

CONSOLIDATED WATER CO. LTD.

(Exact name of Registrant as specified in its charter)

CAYMAN ISLANDS	**N/A**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Trafalgar Place, West Bay Road, P.O. Box 1114GT, Grand Cayman, B.W.I.	**N/A**
(Address of principal executive offices)	(Zip Code)

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

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

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

ORDINARY SHARES, PAR VALUE CI$1.00

(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this 10-K or any amendments to this Form 10-K. [**Not Applicable**]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act. Yes o No x

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing sales price for the registrant s ordinary shares, as reported on the Nasdaq National Market on June 25, 2003, was $47,691,472.

As at June 25, 2003, there were 4,275,568 shares of the registrant s ordinary shares outstanding.

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Explanatory Note

This annual report on Form 10-K/A is being filed to amend Item 6. Selected Financial Data , Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data. Accordingly, pursuant to Rule 12b-15 under the Securities Act of 1934, as amended, this Form 10-K/A contains the complete text of Item 6. Selected Financial Data , Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data. as amended.

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Item 6. ***Selected Financial Data***

As a result of a management decision we have voluntarily adopted accounting principles generally accepted in the United States of America (US-GAAP) effective January 1, 2000. Previously, annual financial statements were prepared in accordance with International Accounting Standards (IAS). As a result all prior periods financial information presented in the selected financial data have been prepared in accordance with US-GAAP .

The consolidated financial statements include the accounts of our wholly-owned subsidiaries Belize Water Limited, Cayman Water Company Limited and Hurricane Hide-A-Way Ltd. The operating results of Belize Water Limited have been included in the financial statements since the date of the acquisition on July 21, 2000. All inter-company balances and transactions have been eliminated.

Set forth below is selected financial data based upon our consolidated financial statements, which does not reflect the acquisitions completed on February 7, 2003. The table contains information, expressed in US dollars, derived from our audited consolidated financial statements for the five-year period ended December 31, 2002. This selected financial data should be read in conjunction with the more detailed financial statements and related notes thereto contained elsewhere in this Annual Report. The audited consolidated financial statements for the years ended December 31, 1999 and 1998 and accountant s reports thereon are not included in this Annual Report.

	Year Ended December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
Statement of Income Data:					
Water Sales	$12,154,689	$11,248,105	$ 9,795,751	$ 7,936,118	$ 7,925,232
Net Income (1)	2,576,310	2,764,573	2,404,820	1,569,717	1,451,933
Balance Sheet Data:					
Total Assets	25,507,637	22,721,178	21,845,672	16,431,321	15,594,021
Long Term Debt Obligation	2,074,609	1,213,804	1,131,986	1,926,786	2,470,112
Long Term Purchase Obligation					320,141
Redeemable preferred stock	23,688	30,234	40,361	49,270	52,686
Dividends Declared Per Share	0.42	0.40	0.34	0.20	0.19
Basic Earnings Per Share	0.65	0.71	0.68	0.51	0.47
Based on Number of Shares	3,969,861	3,897,969	3,532,501	3,044,293	3,055,845
Diluted Earnings Per Share	0.63	0.69	0.67	0.49	0.45
Based on Weighted Number of Shares	4,087,532	3,999,691	3,616,271	3,188,048	3,191,583

(1) Net Income represents income after a cumulative change in accounting principle in 1999 of $117,576 as Statement of Position 98-5 Reporting on the Costs of Start-Up Activities requires start up costs to be expensed as incurred rather than deferred.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Overview

Our objective is to provide water services in areas where the supply of potable water is scarce and where the use of RO technology to produce potable water is economically feasible. By focusing on this market, we believe that we can provide a superior financial return to our investors. To increase share value and maintain dividend payouts in accordance with current company policy, we need to expand our revenues by developing new business opportunities both within our current service areas, and in new areas. We need to maintain our high operating efficiencies by adhering to our strict equipment maintenance and water loss mitigation programs in order to achieve gross profit margins between 40% and 45%. We further believe that many Caribbean basin and adjacent countries, while being water scarce, also present opportunities for operation of our plants in limited regulatory settings which are less restrictive than the highly regulated markets of North America, which promotes cost effective operation of our equipment.

Our business operations and activities after our acquisitions in February 2003, are conducted in five countries: the Cayman Islands, Belize, Barbados, the British Virgin Islands and the Bahamas. The recent acquisitions increase our daily water production capacity in the Cayman

Islands and the Bahamas and expand our geographic presence to include Barbados and the British Virgin Islands.

Operations Before and After Recent Acquisitions

Operations Before Recent Acquisitions			Operations After Recent Acquisitions		
Location	**Plants**	**Capacity***	**Location**	**Plants**	**Capacity***
Cayman Islands	3	2.4	Cayman Islands	6	5.3
Bahamas	1	0.1	Bahamas	2	2.7
Belize	1	0.4	Belize	1	0.4
			Barbados	1	1.3
			British Virgin Islands	1	1.2
Total	5	2.9	Total	11	10.9

* Million U.S. gallons of water per day.

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Cayman Islands

We have been operating our business on Grand Cayman Island since 1973 and have been using RO technology to convert seawater to potable water since 1989. There is a limited natural supply of fresh water on the Cayman Islands. We currently 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 Seven Mile Beach and West Bay, Grand Cayman. Prior to our acquisition of Ocean Conversion (Cayman) Limited, our Cayman Islands operations consisted of three reverse osmosis seawater conversion plants in Grand Cayman: the Governor s Harbour plant, the West Bay plant and the Britannia plant. The combined capacity of these plants is 2.4 million U.S. gallons per day. Our pipeline system in the Cayman Islands covers the Seven Mile Beach and West Bay areas of Grand Cayman and consists of approximately 65 miles of polyvinyl chloride pipe. Sales in Grand Cayman are made within our licensed area to approximately 3,100 customers. During 2002, we supplied approximately 523 million U.S. gallons of water in Grand Cayman.

As a result of our recent acquisition of Ocean Conversion (Cayman) Limited, we now operate an additional three reverse osmosis seawater conversion plants in Grand Cayman with a total installed capacity of 2.9 million U.S. gallons per day. Ocean Conversion (Cayman) Limited provides water on a take or pay basis to the Water Authority-Cayman, a government regulatory agency, and to us under various licenses and agreements. Revenues of Ocean Conversion (Cayman) Limited were $6.2 million for the year ended December 31, 2002.

DesalCo Limited provides management, engineering and construction services for desalination projects and is the exclusive agent for sales of DWEER energy recovery systems for desalination plants in the Caribbean basin for the next seven years. DesalCo Limited, which is recognized by suppliers as an original equipment manufacturer, also acts as the purchasing agent for all companies affiliated with our company. DesalCo Limited s revenues were $3.4 million for the year ended December 31, 2002.

Belize

Our Belize operation, which was acquired on July 21, 2000, consists of one reverse osmosis seawater conversion plant on Ambergris Caye, Belize, Central America, which is capable of producing 420,000 U.S. gallons per day. We sell water to one customer, Belize Water Services Limited, which then distributes the water through its own distribution system to residential, commercial and tourist properties on Ambergris Caye. During 2002, we supplied approximately 113 million U.S. gallons of water in Belize. Revenues of our wholly owned subsidiary, Belize Water Limited, were $1.5 million for the year ended December 31, 2002.

Bahamas

Prior to our acquisition of operational control of Waterfields Company Limited, our Bahamas operations consisted of one reverse osmosis seawater conversion plant in Bimini, Bahamas. Our Bimini plant is capable of producing 115,000 U.S. gallons per day and provides potable water to Bimini Sands Resort and to the Bimini Beach Hotel. During 2002, we supplied approximately five million U.S. gallons of water in the Bahamas and revenues were $0.1 million for the year ended December 31, 2002. We expect the demand for water from our plant in Bimini to increase as additional phases are completed at the Bimini Sands development.

As a result of our acquisition of Waterfields Company Limited, we acquired an additional reverse osmosis seawater conversion plant in the Bahamas. Waterfields produces potable water from one reverse osmosis seawater conversion plant in New Providence and has a total installed capacity of 2.64 million U.S. gallons per day. Waterfields Company Limited provides water on a take or pay basis to the Water and Sewerage Corporation of the Bahamas under a long-term build, own and operate supply agreement. Revenues for Waterfields Company Limited were $4 million for the year ended December 31, 2002.

Barbados

The recently acquired Barbados operation consists of one reverse osmosis seawater conversion plant with a capacity of 1.3 million U.S. gallons per day which is operated by DesalCo (Barbados) Ltd., the wholly

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owned subsidiary of DesalCo Limited. The plant provides water to the Sandy Lane Resort, and during 2002, supplied approximately 393 million U.S. gallons. DesalCo (Barbados) Ltd. had revenues of $0.7 million for the year ended December 31, 2002.

British Virgin Islands

We recently entered the market in the British Virgin Islands when our wholly-owned subsidiary, DesalCo Limited acquired operational control and shared management control of Ocean Conversion (BVI) Ltd., which produces potable water from one reverse osmosis seawater conversion plant in Tortola, British Virgin Islands. The plant has a total installed capacity of 1.2 million U.S. gallons per day. Ocean Conversion (BVI) Ltd. provides water on a take or pay basis to the Department of Water and Sewerage of the Ministry of Communications and Works under an agreement with the Government of the British Virgin Islands. Ocean Conversion (BVI) Ltd. s revenues were $5.4 million for the year ended December 31, 2002.

Our Operations Under the License in the Cayman Islands

Our exclusive operational license was issued to us by the Cayman Islands government under The Water (Production and Supply) Law of 1979. The license terminates, unless further renewed, on July 11, 2010.

Two years prior to the expiration of the license, we have the right to negotiate with the government to extend the license for an additional term. Unless we are in default under the license, the government may not grant a license to any other party without first offering the license to us on terms that are no less favorable than those which the government offers to a third party.

We must provide, within our licensed area, any requested piped water service which, in the opinion of the Executive Council of the Cayman Islands government, is commercially feasible. Where supply is not considered commercially feasible, we may require the potential customer to contribute toward the capital costs of pipe laying (Advances in Aid of Construction). We then repay these advances to the customer, without interest, by way of a discount of 10% on future billings for water sales until this advance in aid of construction has been repaid. We have been installing additional pipeline when we consider it to be commercially feasible, and the Cayman Islands government has never objected to our determination regarding commercial feasibility.

Under the license, we pay a royalty to the government of 7.5% of our gross US gallon potable water sales revenue. The base selling price of water under the license presently varies between $8.50 and $22.74 per 1,000 U.S. gallons, depending upon the type and location of the customer and the monthly volume of water purchased. The license provides for an automatic adjustment for inflation/deflation on an annual basis, subject to temporary limited exceptions, and an automatic adjustment for the cost of electricity on a monthly basis. The Water Authority (Cayman), on behalf of government, reviews and approves the calculations of the price adjustments for inflation and electricity costs.

If we want to increase our prices for any reason other than inflation, we have to request prior approval of the Executive Council of the Cayman Islands government. If the parties fail to agree, the matter is referred to arbitration. The last price increase that we requested, other than automatic inflation adjustments since 1990, was granted in full in June 1985.

Demand for Water in the Cayman Islands

In the past, demand on our pipeline distribution has varied throughout the year. However, an increase in year-round tourism in recent years has created more uniform demand for water throughout the year. Demand depends upon the number of tourists visiting the Cayman Islands and the amount of rainfall during any particular time of the year. In general, 75% of tourists come from the United States. Our operating results in any particular quarter are not indicative of the results to be expected for the full year. The table below lists the total volume of water we supplied on a quarterly basis for the five years ended December 31, 2002 to all of our customers:

	2002	2001	2000	1999	1998
			(in thousands of U.S. gallons)		
First Quarter	140,808	119,115	125,869	107,031	109,255
Second Quarter	145,392	129,305	117,766	113,007	108,334
Third Quarter	118,687	118,733	100,259	90,888	90,950
Fourth Quarter	118,108	106,985	107,404	90,421	92,011
Total	522,995	474,138	451,298	401,347	400,550

Our Operations Under the Contract in Belize

We have entered into a contract with BWSL to supply a minimum of 135,000 US gallons of water per day to BWSL expiring in 2011. At the expiry of the contract, BWSL may at its option extend the term of the agreement or purchase the plant outright.

The base price of water supplied, and adjustments thereto, are determined by the terms of the contract, which provides for adjustments based upon the movement in the government price indices specified in the contract, as well as, monthly adjustments for changes in the cost of diesel fuel and electricity.

We bill on a monthly basis based on metered consumption. Receivables are due within 21 days after the billing date. Interest of 1.5% per year is charged on any delayed payments. As at the date of this Annual Report, BWSL is current on its outstanding balance. We had no bad debts for our Belize sales for the year ended December 31, 2002.

BWSL distributes our water primarily to residential properties, small hotels, and businesses which serve the tourist market.

Demand for Water in Belize

We believe that water sales in Belize are cyclical, and on a similar cycle to sales in the Cayman Islands, since both operations cater to similar tourist markets. We also believe that water sales will be higher in the future since sales were limited before March 2000 because the production capacity of the water plant was lower than demand.

Our sales in Belize were restricted in August, September and October 2001 because of several major component failures at our San Pedro plant. We believe that we could have sold more water during these months if our plant had been able to operate at full capacity. We have taken action to ensure this does not occur again by increasing our inventory of critical spare parts.

The table below lists the total volume of water we supplied to BWSL on a quarterly basis for the three years ended December 31, 2002:

	2002	2001	2000
		(in thousands of U.S. gallons)	
First Quarter	24,751	24,589	17,455*
Second Quarter	30,206	26,519	20,928*
Third Quarter	30,028	21,404	19,507
Fourth Quarter	27,552	21,266	19,624
Total	112,537	93,778	77,514

* Sales made pre-acquisition by Seatec Belize Ltd. Used only for comparison purposes.

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Our Operations Under Contract in Bahamas

In 2000, we entered into a water supply agreement with South Bimini International Ltd. and began supplying water under this contract on July 11, 2001. Under our agreement South Bimini International Ltd. is committed to pay for a minimum of 3,000 US gallons of water per customer per month (36,000 US gallons per customer per year) on a take or pay basis in relation to the Bimini Sands Resort property in South Bimini Island, Bahamas. The price of water supplied is adjusted for inflation annually based on Bahamas government indices, and adjusted monthly for changes in the cost of electricity.

Demand for Water in Bahamas

We have only been supplying water in Bimini for approximately twenty-one months, to a resort property, which is partially completed and a small 40-room hotel. Currently the resort is comprised of 72 condominiums, and a developing 150-slip marina. By the end of 2003, we anticipate that we will be providing water to an additional 42 condominiums. The resort property is ultimately expected to include over 300 condominium units, a large hotel casino, and a marina that can accommodate twice as many boats as the existing facility. We believe that water sales in Bimini will be cyclical. We expect that our sales will be higher during the summer months when tourists and fisherman arrive from the United States by boat, and when several large angling tournaments are traditionally held in Bimini. We expect that our sales will be lower during winter months when the weather is not conducive to pleasure boat travel from the United States.

The table below lists the total volume of water we supplied to South Bimini International Ltd. on a quarterly basis for the year ended December 31, 2002 and the six month period ended December 31, 2001:

	2002	2001
	(in thousands of U.S. gallons)	
First Quarter	751	
Second Quarter	1,096	
Third Quarter	1,514	449
Fourth Quarter	1,123	551
Total	4,484	1,000

Critical Accounting Policies

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

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

Deferred expenditures: These costs were incurred in connection with the recent acquisitions and pending financing transactions. Costs relating to the acquisition will be included as part of the purchase price allocation and our company will seek to repay our existing debt with either new debt, equity or a hybrid financing. If we

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do not proceed with new financing, we may be required to expense the amounts relating to the financing transaction.

Property, plant and equipment: Management makes estimates for the useful life of assets and reviews its policies from time to time. In 2001, we carried out an extensive engineering analysis of our potable water production and distribution equipment in Grand Cayman. As a result of the analysis, management reassessed the useful economic lives of certain assets. The reassessment resulted in reduced depreciation of $197,472, or $0.05 per share on a basic and fully diluted basis for the year ended December 31, 2001.

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

Water Sales

Water sales income is comprised of retail water sales, via pipeline, to our individual Cayman Islands customers, and bulk water sales.

Expenses

Expenses include the cost of water sales (direct expenses) and our indirect, or general and administrative expenses. Direct expenses include royalty payments to the Cayman Islands government; electricity and chemical expenses; payments to Ocean Conversion (Cayman) Limited relating to the operation of the Governor s Harbour plant; production equipment and facility depreciation costs; equipment maintenance and expenses and operational staff costs. Indirect, or general and administrative, expenses consist primarily of salaries and employee benefits for administrative personnel, stock compensation expenses, office lease payments, depreciation on fixed assets used for administrative purposes and legal and professional fees. There are no income taxes in the Cayman Islands and we are currently exempt from taxes in Belize. We may be liable for gross revenue tax in the Bahamas as disclosed in Part I, Item 1, under our discussion of our Bahamas operations.

Quarterly Results of Operations

The following table presents unaudited quarterly results of operations for the eight quarters ended December 31, 2002. We believe that all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly such quarterly information.

	2002				2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Water Sales	3,168,846	3,291,929	2,915,066	2,778,847	2,909,449	3,052,742	2,706,792	2,579,121
Gross Profit	1,502,394	1,494,795	1,201,119	1,074,203	1,426,060	1,437,773	1,182,499	1,092,655
Net Income	926,500	811,259	604,769	233,782	830,890	771,429	646,253	412,099
Diluted Earnings Per Share	.23	.20	.15	.08	.21	.22	.16	.11

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Results of operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Water sales

Total water sales increased by 8.1% from $11,248,105 to $12,154,689 for the years ended December 31, 2001 and 2002, respectively. Total water sales increased as a result of several factors detailed below.

Our Cayman operation added $574,570 to water sales, which is an increase of 5.8% over the prior year and represents 63.4% of the total increase of water sales. The number of U.S. gallons we sold increased by 10.3% over the prior year. This is the result of supplying approximately 52 million U.S. gallons of water to the Hyatt Hotel and the Britannia golf course. Our water sales to customers other than the Hyatt Hotel and the Britannia golf course were essentially flat when compared to the prior year, despite a 9.4% reduction in tourist air arrivals to the Cayman Islands due to continued air travel concerns and the downturn of the U.S. economy.

Our Belize operation added $240,323 to water sales, which is an increase of 19.5% over the prior year and represents 26.5% of the total increase of water sales. In June 2002, the automatic inflation adjustment decreased our Belize water rates by an average of 0.08%. This was more than offset by a 20.0% increase in the number of U.S. gallons sold over the prior year. This increase occurred because during the year ended December 31, 2001, we experienced equipment malfunctions which temporarily reduced the production capacity of our plant by 50%.

The addition of the Bahamas operations increased water sales by $91,691, which is an increase of 348.2% over the prior year and represents 10.1% of the total increase of water sales. This was the result of a 348.4% increase in the number of U.S. gallons sold over the prior year.

Cost of water sales

Cost of water sales increased by 12.7% from $6,109,117 to $6,882,177 for the years ended December 31, 2001 and 2002, respectively, while water sales revenues increased by 8.1%.

Our Cayman operations increased cost of water sales by $526,748, which is an increase of 9.9% over the prior year and represents 68.1% of the total increase of cost of water sales. Water sales revenue for our Cayman operations increased 5.8%. The cost of water sales increased as a result of direct costs incurred to operate the Britannia plant, which was acquired on February 1, 2002. These costs included salaries and benefits for additional staff, equipment maintenance costs, electricity, chemicals and insurance, which will continue now that we operate the Britannia plant. Higher insurance costs also increased cost of water sales due to higher premium rates from our insurance provider, and additional insured values following the purchase of the Britannia plant and the insurance for the full replacement value of all our reverse osmosis desalination plants. Some of this increase was offset after the Britannia plant was purchased by a decrease in water purchase costs resulting from lower volume purchases from Ocean Conversion (Cayman). We were unable to take full advantage of the lower per gallon production costs of the Britannia plant as it only operated at 47.6% capacity in the eleven months that we owned the Britannia plant due to contractual minimum purchase requirements from Ocean Conversion (Cayman).

Our Belize operation increased cost of water sales by $144,334, which is an increase of 20.1% over the prior year and represents 18.7% of the total increase of cost of water sales. Water sales revenue for our Belize operation increased 19.5%. We completed rebuilding the second diesel engine, in accordance with the engine manufacturer s preventive maintenance recommendations, which increased our cost of water sales. Also increasing our cost of water sales were additional repairs and maintenance on the existing reverse osmosis equipment. We also settled various claims for compensation made by our customer in Belize in March 2002. These claims were the result of our equipment failures that occurred in August and September 2001 and a minor miscalculation in the annual inflation adjustment formula in our contract. The miscalculation dated back to November 1995, which was prior to our acquisition of Belize Water Limited, and upon correction, reduced our unit rate for water to our customer by $0.09 per 1,000 U.S. gallons.

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The addition of the Bahamas operations increased cost of water sales by $101,978, which is an increase of 218.7% over the prior year and represents 13.2% of the total increase of cost of water sales. Water sales revenue for our Bahamas operation increased 348.2%.

Gross profit

Gross profit margins decreased from 45.7% to 43.4% for the years ended December 31, 2001 and 2002, respectively.

Gross profit margins for our Cayman operations decreased from 46.5% to 44.4% for the years ended December 31, 2001 and 2002, respectively. The primary reasons for this decrease are (i) approximately two thirds of the water produced by our Britannia plant was sold to the Hyatt Hotel and Britannia golf course at a lower rate than our standard commercial water rate, (ii) due to flat water sales to other customers, we were only able to utilize approximately 47.6% of the production capacity of the Britannia plant, and (iii) we were not able to acquire water from our lowest price source as a result of minimum water purchase obligations that we had with Ocean Conversion (Cayman).

Gross profit margins for our Belize operations decreased from 41.7% to 41.4% for the years ended December 31, 2001 and 2002, respectively. The reason for the decrease in the gross profit margins is increased cost of water sales over prior year periods due to the settlement costs with Belize Water Services Ltd. as discussed above and additional repairs and maintenance on the reverse osmosis equipment in Belize.

Gross profit margins for our Bahamas operations increased from a negative 77.1% to a negative 25.9% for the year ended December 31, 2002. The low gross profit margins were due to low water sales resulting from a reduction of tourism and a relatively higher proportion of fixed costs such as depreciation, which we expected in the early phases of the Bimini Sands Resort development project. Both of these are temporary factors and are not expected to continue in the future. Our Bahamas operation has generated positive cash flow since January 2002.

Indirect expenses

Indirect expenses increased by 5.8% from $2,500,060 to $2,644,004 for the years ended December 31, 2001 and 2002, respectively. Indirect expenses were at 22.0% and 21.8% of total income for the year ended December 31, 2001 and 2002, respectively.

Our Cayman operations increased indirect expenses by $104,328, which is an increase of 4.5% over the prior year and represents 72.5% of the total increase of indirect expenses. We attribute this increase to our accounting for stock compensation costs, unanticipated professional fees relating to our December 31, 2001 audit and Form 10-K review together with increased insurance premiums on our commercial and directors and officers insurance. Stock compensation costs increased $266,773 as a result of an increase in our share price during the last fiscal quarter. Unanticipated professional fees relating to our December 31, 2001 audit and 10-K review were $59,311 and our commercial and directors and officers insurance increased by $78,503. We also had additional reporting costs in 2002 due to increased demand for our annual report and proxy statements. These increases were mostly offset by a reduction in bonus costs and subscription costs compared to the prior year.

Our Belize operations increased indirect expenses by $34,805, which is an increase of 18.2% over the prior year and represents 24.2% of the total increase of indirect expenses. We had additional costs as a result of higher insurance premiums and increased costs to repatriate funds.

The addition of the Bahamas operations as of July 11, 2001 increased indirect expenses by $4,811, which is an increase of 116.6% over the prior year and represents 3.3% of the total increase of indirect expenses. These costs relate to the administration of the Bahamas operations for a full year.

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Other income (expense)

Other income and expense consists of income earned from non-operational activity, interest income, and interest expense. Until February 1, 2002, other income also included settlement fee payments for the supply of water to the Britannia development by the Hyatt Hotel, which had its own water production facility.

Other income and expense decreased by 141.5% from income of $125,645 to expense of $52,198 for the years ended December 31, 2001 and 2002, respectively. This decrease was a result of the February 1, 2002 termination of the dispute settlement agreement with Cayman Hotel and Golf Inc., the owner of Hyatt Grand Cayman Resort and Britannia golf course.

Dividends

In March 2001, we increased our per share dividend to ordinary shareholders from $0.10 to $0.105 per quarter and paid dividends of this amount during the year ended December 31, 2002.

Net income

Net income decreased by 6.8% from $2,764,573 to $2,576,310 for the years ended December 31, 2001 and 2002, respectively, as a result of the factors indicated above.

Year Ended December 31, 2001 Compared To Year Ended December 31, 2000

Water sales

Total water sales increased by 14.8% from $9,795,751 to $11,248,105 for the years ended December 31, 2000 and 2001, respectively. Total water sales increased as a result of several factors detailed below.

Our Cayman operation added $660,174 to water sales, which is an increase of 7.1% over the prior year and represents 45.5% of the total increase of water sales. Of this increase, 70.1% was due to a 5.1% increase in the number of U.S. gallons sold. This increase was due to a larger customer base and increased usage by commercial, residential and government customers, primarily Water Authority-Cayman, which experienced temporary shortfalls in its production capacity. The remaining 29.9% of the increase was due to an increase in water rates of approximately 2.5% in accordance with our license agreement.

Our Cayman Island average water rate for the first nine months of 2001 was $20.54 per thousand U.S. gallons. For the final three months of 2001, our rates were reduced by 1.2% using the Cayman Islands Consumer Price Index automatic adjustment formula contained in our license. Our rates were automatically reduced by 0.39% in January 2002.

Our Belize operation added $765,847 to water sales, which is an increase of 164.7% over the prior year and represents 52.7% of the total increase of water sales. Virtually all of the increase was due to an additional six months of operations over the prior period. The number of U.S. gallons sold in 2001 was however 21% higher than the annual figures of the prior year due to increased demand met from an expansion of the plant completed in March 2000.

The addition of the Bahamas operations as of July 11, 2001 increased water sales by $26,333, which represents 1.8% of the total increase of water sales.

Cost of water sales

Cost of water sales increased by 12.6% from $5,423,297 to $6,109,117 for the years ended December 31, 2000 and 2001, respectively, while our water sales revenue increased 14.8% for the year ended December 31, 2001.

Our Cayman operations increased cost of water sales by $171,425, which is an increase of 3.3% over the prior year and represents 25.0% of the total increase of cost of water sales. Water sales revenue for our Cayman operations increased 7.1%. Although cost of water sales increased, it increased at a lower rate than

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our water sales because we benefit from efficiency savings in our water production operation when we produce more water.

The addition of the operations of Belize Water Limited as of July 21, 2000 increased the cost of water sales by $467,769, which is an increase of 186.8% over the prior year and represents 68.2% of the total increase of cost of water sales. Water sales revenue for our Belize operations increased 164.7% for the year ended December 31, 2002. The increase in cost of water was due to increased water production to meet increased sales and machinery repairs related to the August and September 2001 equipment malfunctions, all of which were remedied in 2002.

The addition of the Bahamas operations as of July 11, 2001 increased cost of water sales by $46,626, which represents 6.8% of the total increase of cost of water sales.

Gross profit

Gross profit margins increased from 44.6% to 45.7% for the years ended December 31, 2000 and 2001, respectively.

Gross profit margins for our Cayman operations increased from 44.6% to 46.5% for the years ended December 31, 2000 and 2001, respectively, as a result of decreased depreciation expense of approximately $197,000 from our reassessment of the useful economic lives of certain assets and increased plant efficiencies. These lower expenses were offset by additional labor costs associated with plant maintenance, increased insurance premiums and an additional six months of intangible amortization for the Belize water supply contract.

Gross profit margins for our Belize operations decreased from 46.2% to 41.7% for the years ended December 31, 2000 and 2001, respectively, as a result of repair costs and higher electricity costs resulting from the temporary utilization of a less efficient electric motor during the repair period.

Gross profit margins for our Bahamas operations was a negative 77.1%. This was due to low water sales and a relatively higher proportion of fixed costs such as depreciation, which we expected in the early phases of the Bimini Sands Resort development project. Both of these are temporary factors and are not expected to continue in the future.

Indirect expenses

Indirect expenses increased by 21.3% from $2,061,722 to $2,500,060 for the years ended December 31, 2000 and 2001, respectively. Indirect expenses were at 20.8% and 22.0% of total income for the years ended December 31, 2000 and 2001, respectively.

Our Cayman operations increased indirect expenses by $276,812, which is an increase of 13.6% over the prior year and represents 63.2% of the total increase of indirect expenses. Of this increase, 49.0% is due to the creation of a new executive position, Director of Special Projects.

Our acquisition of Belize Water Limited as of July 21, 2000 increased indirect expenses by $157,400, which is an increase of 470.9% over the prior year and represents 35.9% of the total increase of indirect expenses. This increase was primarily due to an additional six months of indirect expenses over the previous period and the reallocation of certain employee duties.

The addition of the Bahamas operations as of July 11, 2001 increased indirect expenses by $4,126, which represents .9% of the total increase of indirect expenses. These costs related to the administration of the Bahamas operations.

Other income

Other income increased by 33.5% from $94,088 to $125,645 for the years ended December 31, 2000 and 2001, respectively, as a result of a slight decrease in interest income on available cash balances.

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Net income

Net income increased by 15.0% from $2,404,820 to $2,764,573 for the years ended December 31, 2000 and 2001, respectively as a result of the movements indicated above.

Dividends

In December 2000, we increased our per share dividend to ordinary shareholders from $0.08 to $0.10 per quarter and paid dividends of this amount during the year ended December 31, 2001.

Reassessment of Useful Economic Lives of Property, Plant and Equipment

During the year ended December 31, 2001, we carried out an extensive engineering analysis of our potable water production and distribution equipment in Grand Cayman. As a result of the analysis, management reassessed the useful economic lives of certain assets. The reassessment resulted in reduced depreciation of $197,472, or $.05 per share on a basic and fully diluted basis for the year ended December 31, 2001. The assets affected and the basis for management s decisions are described below:

Seven Mile Beach Distribution System

During 2001, we revised our master distribution plan that was originally set out in 1997. In doing so, we determined that a previously planned relocation of our Governor s Harbour reverse osmosis plant was no longer advantageous. Therefore, the removal and relaying of pipeline to this service area in conjunction with this relocation was no longer needed. Furthermore we determined that certain planned pipeline replacements were not necessary. Finally, the government revised its plans for significant road improvements in the service area, therefore, alleviating anticipated major changes to our Seven Mile Beach distribution system.

As a result of the above plan reassessments, we concluded that a pipeline with the characteristics of our Seven Mile Beach Distribution System would have a useful economic life of 40 years. We, therefore, extended the useful economic life of this system from 20 to 40 years. Fourteen years have elapsed to date.

Governor s Harbour Vapor Compression (VC) Building

As discussed above, we previously planned to relocate our Governor s Harbour plant, which would have resulted in the removal of the VC building in which it was housed. When we determined that the plant should remain in its current location in 2001, we reassessed the building s useful life. Giving consideration to our plans to use the building in the future, the high-quality construction and foundation of the building, as well as the fact that it accommodates large high-pressure pumps for the plant, we concluded that the building had a remaining useful economic life of 20 years from 2001. Two years have elapsed since this useful economic life was determined.

Distribution System Meters

Our policy is to replace customer water meters according to manufacturer recommendations, which suggest replacement on service years or water volume. The manufacturer of our water meters advised us that they were extending the guarantee for a certain model to cover higher volumes and a longer period of time. Based on the revised guarantee, we reassessed the useful economic lives of all such models in service to 10 years, being the mid-point of a guaranteed time-frame of 6 to 15 years.

Vermeer Trencher

We own a Vermeer trencher to construct water distribution pipelines within our franchise area. As discussed above, we originally planned to make major changes to our distribution system as a result of a proposed relocation of our Governor s Harbour plant and significant road improvements planned by the government. These projects would have required heavy utilization of this asset. Given the changes in plans identified above and the minor projects for which the trencher will be required, we reassessed the useful economic life to be 20 years. Four years have elapsed to date.

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West Bay Reverse Osmosis Plant

Our West Bay reverse osmosis plant was manufactured and installed in 1995 and expanded in 1998 with state-of-the-art technology. At the time, we had concerns about potential accelerated obsolescence of the equipment because of continuing research and development in the reverse osmosis field, and as such, the original useful economic life was determined to be 10 years. In 2001, we concluded with management that there were no indicators that significant changes were pending in the industry. Given the like-new condition of the plant, its three year history of meeting operational requirements and expected future use, management reassessed the remaining useful economic life of the West Bay Plant to be 12 years at such time.

Liquidity and Capital Resources

Overview

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

Operating Activities

Cash generated from operating activities for the years ended December 31, 2001 and 2002 was $4,364,447 and $4,115,090, respectively. We generate cash through the utilization of our existing plants, equipment and resources in all segments of the business, minimization of water losses and operating

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efficiencies created by our management team. Through our recent acquisitions, we expect our water sales to approximately double. In addition, we believe that our administrative staff will be able to manage all our combined operations so that our indirect costs will not increase in proportion to water sales. In our Bahamas operations, we experienced positive operating cash flow of $14,397 for the year ended December 31, 2002.

Cash generated from operating activities for the years ended December 31, 2000 and 2001 was $3,874,453 and $4,364,447, respectively. The negative operating cash flow in the Bahamas operation for the year ended December 31, 2001 was $24,590.

Working Capital

At December 31, 2002, we had a working capital surplus of $138,401. This surplus relates mainly to the cash we generated from our operating activities and management of our accounts payable and other liabilities. At December 31, 2002, 69.7% of our cash was denominated in Belize dollars. We must obtain approval from the Central Bank of Belize in order to purchase United States dollars for repatriation to the Cayman Islands. Since we commenced operations in Belize, the Central Bank of Belize has never denied our repatriation requests.

At December 31, 2001, we had a working capital surplus of $325,996. This surplus related to the cash generated from our operating activities. At December 31, 2001, 72.2% of our cash was denominated in Belize dollars.

Investing Activities

Cash used in investing activities during the years ended December 31, 2001 and 2002 was $1,904,237 and $3,568,723, respectively. Cash was used in investing activities for expenditures for new property, plant and equipment, including $1,500,000 on the purchase of the Britannia reverse osmosis plant in 2002. We also continued to expand our water distribution system in the Cayman Islands by constructing additional pipelines to service new developments within our exclusive licensed area. During the same period in 2001, our investing activities consisted of construction costs relating to our new water production and distribution system in Bimini, the Bahamas, as well as expansion costs relating to our water distribution system in the Cayman Islands.

Cash used in investing activities during the years ended December 31, 2000 and 2001 was $6,268,738 and $1,904,237, respectively. Cash was used in investing activities for expenditures for new property, plant and equipment with the majority associated with the construction of our new water production and distribution system in Bimini, the Bahamas. The investment in the Bahamas operation totaled $1,085,759 in 2001 of which $307,395 relates to costs from 2000. We also continued to expand our water distribution system in the Cayman Islands by constructing pipelines to service several new developments within our franchise area. During the similar period in 2000, investing activities consisted of the purchase of our Belize subsidiary for $3,966,979, the installation of a new energy recovery system and the expansion of our water production plant in West Bay, Cayman Islands, and the completion of a major pipeline extension within our franchise area in the Cayman Islands.

Financing Activities

On February 7, 2003, we utilized a credit facility with Scotiabank (Cayman Islands) Ltd. in order to complete our recent acquisitions and refinance our existing debt. Cash used in financing activities for the years ended December 31, 2001 and 2002 was $2,194,601 and $494,509, respectively. During the year ended December 31, 2002, our primary financing activity was a draw down of our Royal Bank of Canada credit facility for an additional $1,500,000 in order to finance the investment in the Britannia reverse osmosis plant, plus an increase in our short-term bank indebtedness. We also had proceeds from an issuance of ordinary shares to certain directors and officers who exercised stock options. These were offset by the payment of our quarterly dividends and principal payments on our term loans.

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Cash generated from financing activities for the year ended December 31, 2000 was $2,622,976, compared to cash used of $2,194,601 for the year ended December 31, 2001. During 2001, the primary financing activity was the payment of four interim quarterly dividends totaling $0.40 per share. This was offset by proceeds from a draw down on our credit facility, in order to fund the Bahamas development and the exercise of stock options. During the same period in 2000, we received $4,962,731, net of share issue costs, from a public issuance of ordinary shares, which was primarily used for the purchase of the Belize subsidiary. These cash amounts were offset by the payment of four interim quarterly dividends in 2000 totaling $0.34 per share and the repayment of both short-term and long-term debt, including the balance due on the Governor s Harbour plant purchase pursuant to our agreement with Ocean Conversion (Cayman) Limited.

During the year ended December 31, 2002, we repurchased 2,184 ordinary shares from a long-term employee at an average price of $15.05 and 702 redeemable preference shares from a former employee at an average price of $5.47. During the year ended December 31, 2001, we repurchased 25,000 ordinary shares under a stock repurchase program at an average price of $10.86. During the year ended December 31, 2000, we repurchased 79,100 ordinary shares at $6.25 per share from a shareholder whose assets were being liquidated. All of the shares repurchased were cancelled in accordance with Cayman Islands law.

Material Commitments for Capital Expenditures and Contingencies

At December 31, 2002, we had committed approximately $1,080,000 for capital expenditures for the purchase, construction and site preparation of two water storage tanks at our Governors Harbour plant. We intend to finance these projects using cash from operations.

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

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

$20 million seven-year term loan bearing interest at an annually adjusted floating rate of LIBOR plus 1.5% to 3%, depending on the ratio of our consolidated debt to our consolidated earnings before interest, taxes and depreciation. The present interest rate is 4.08%.

$17.1 million six-month term loan bearing interest on the same basis as the seven-year term loan. The present interest rate is 4.08%.

We have used the proceeds from these facilities to refinance our existing debt, for working capital and to finance our recent acquisitions.

As of February 7, 2003, we have drawn down $28,056,126 from our Scotiabank facilities. We anticipate drawing down approximately $8,113,020 in additional funds to complete our acquisitions of Waterfields Company Limited. We intend to replace a portion of this debt with other debt, equity or hybrid financing.

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

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

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

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

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As part of the acquisition of our interests in Ocean Conversion (Cayman) Limited, we agreed to indemnify the seller in respect of a guarantee given by the seller to the bank of N.T. Butterfield & Son Ltd. for 100% of the borrowings of Ocean Conversion (Cayman) Limited totaling US$2.4 million. This borrowing is being refinanced with Scotiabank (Cayman Islands) Ltd. and we will guarantee 100% thereof.

As part of the acquisition of our interests in Ocean Conversion (BVI) Ltd., we agreed to indemnify the seller in respect of a guarantee given by the seller to the bank of N. T. Butterfield & Son Ltd. for 55% of the borrowings of Ocean Conversion (BVI) Ltd. totaling US$1.25 million. This borrowing is being refinanced with Scotiabank (Cayman Islands) Ltd. and we will guarantee 50% thereof.

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

Impact of Inflation

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

Exchange Rates

The official exchange rate for conversion of United States dollars into Cayman Islands dollars, as determined by the Cayman Islands Monetary Authority, has been fixed since 1974 at U.S. $ 1.00 = CI$ 0.83.

The official exchange rate for conversion of United States dollars into Belizean dollars, as determined by the Central Bank of Belize, has been fixed since 1976 at U.S.$ 1.00 = BZE$ 2.00.

The official fixed exchange rate for conversion of United States dollars into Bahamian dollars as determined by the Central Bank of The Bahamas, has been fixed since 1973 at U.S.$ 1.00 = BAH$ 1.00.

The official fixed exchange rate for conversation of United States dollars into Barbadian dollars as determined by the Central Bank of Barbados has been fixed since 1975 at U.S.$ 1.00 = BDS$ 2.00.

The British Virgin Islands currency is United States dollars.

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Item 8. ***Financial Statements and Supplementary Data***

CONSOLIDATED WATER CO. LTD.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS REPORT

The Board of Directors and Stockholders

Consolidated Water Co. Ltd

We have audited the accompanying consolidated balance sheets of Consolidated Water Co. Ltd. and subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the financial position of Consolidated Water Co. Ltd. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and cash flows for each of the three years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG Chartered Accountants

George Town, Cayman Islands

March 18, 2003 except for notes 2, 8, 10, 12 and 21
which are dated June 26, 2003

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CONSOLIDATED WATER CO. LTD.

CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

	December 31,	
	2002	**2001**
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	$ 568,304	$ 516,446
Accounts receivable (Note 4)	1,406,947	1,323,156
Inventory	388,131	319,511
Prepaid expenses and other assets	370,429	319,900
Deferred expenditures (Note 21)	887,856	
Total current assets	3,621,667	2,479,013
Property, plant and equipment (Note 5)	20,253,646	18,414,935
Intangible asset (Note 6)	1,619,874	1,814,780
Investment	12,450	12,450
Total assets	$25,507,637	$22,721,178
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Dividends payable (Note 7)	508,444	499,383
Accounts payable and other liabilities	1,143,850	1,087,470
Current portion of long term debt (Note 8)	518,275	355,840
Total current liabilities	2,170,569	1,942,693
Long term debt (Note 8)	2,074,609	1,213,804
Security deposits	100,959	52,763
Advances in aid of construction	35,276	37,494
Total liabilities	4,381,413	3,246,754
Stockholders equity		
Redeemable preferred stock, $1.20 par value. Authorized 100,000 shares; issued and outstanding 19,740 shares in 2002 and 25,195 shares in 2001	23,688	30,234
Class A common stock, $1.20 par value. Authorized 9,870,000 shares; issued and outstanding 3,993,419 shares in 2002 and 3,920,064 shares in 2001	4,792,103	4,704,077
Class B common stock, $1.20 par value. Authorized 30,000 shares; issued and outstanding nil shares for 2002 and nil shares for 2001		
Stock and options earned but not issued	424,841	210,324
Additional paid-in capital	7,354,395	6,896,753
Retained earnings	8,531,197	7,633,036
Total stockholders equity	21,126,224	19,474,424

Commitments (Note 14)		
Total liabilities and stockholders equity	$25,507,637	$22,721,178

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

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CONSOLIDATED WATER CO. LTD.

CONSOLIDATED STATEMENTS OF INCOME
(Expressed in United States dollars)

	For the Year Ended December 31,		
	2002	**2001**	**2000**
Water sales	$12,154,689	$11,248,105	$ 9,795,751
Cost of water sales (Note 10)	(6,882,177)	(6,109,117)	(5,423,297)
Gross profit	5,272,512	5,138,988	4,372,454
Indirect expenses (Note 10)	(2,644,004)	(2,500,060)	(2,061,722)
Income from operations	2,628,508	2,638,928	2,310,732
Other income (expenses)			
Interest income	14,711	28,584	32,314
Interest expense	(103,986)	(99,956)	(135,847)
Other income	37,077	197,017	197,621
	(52,198)	125,645	94,088
Net income	$ 2,576,310	$ 2,764,573	$ 2,404,820
Basic earnings per share (Note 11)	$ 0.65	$ 0.71	$ 0.68
Diluted earnings per share (Note 11)	$ 0.63	$ 0.69	$ 0.67
Weighted average number of common shares used in the determination of:			
Basic earnings per share (Note 11)	3,969,861	3,897,969	3,532,501
Diluted earnings per share (Note 11)	4,087,532	3,999,691	3,616,271

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

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CONSOLIDATED WATER CO. LTD.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
For Each of the Three Years in the Period Ended December 31, 2002
(Expressed in United States dollars)

	Redeemable Preferred Stock		Common Stock		Stock and options earned but not issued	Additional Paid-in Capital	Retained Earnings	Total Stockholders Equity
	Shares	Dollars	Shares	Dollars				
Balance at December 31, 1999	41,058	$ 49,270	3,051,715	$ 3,662,058	$ 338,006	$ 2,765,407	$ 5,301,564	$ 12,116,305
Public offering of ordinary shares, $7.05, net of issue costs			773,000	927,600		4,035,131		4,962,731
Issue of share capital	3,415	4,098	106,890	128,269	(81,928)	325,666		376,105
Conversion of preferred shares	(10,639)	(12,767)	10,639	12,767				
Redemption of preferred shares	(200)	(240)						(240)
Repurchase and cancellation of ordinary shares			(79,100)	(94,920)		(399,455)		(494,375)
Net income							2,404,820	2,404,820
Dividends declared							(1,262,675)	(1,262,675)
Issue of options and shares grants					124,772			124,772
Balance at December 31, 2000	33,634	$ 40,361	3,863,144	$ 4,635,774	$ 380,850	$ 6,726,749	$ 6,443,709	$ 18,227,443
Issue of share capital	5,821	6,985	67,860	81,431	(340,125)	411,599		159,890
Conversion of preferred shares	(14,260)	(17,112)	14,260	17,112				
Repurchase and cancellation of ordinary shares			(25,200)	(30,240)		(241,595)		(271,835)
Net income							2,764,573	2,764,573
Dividends declared							(1,575,246)	(1,575,246)
Issue of options and shares grants					169,599			169,599
Balance at December 31, 2001	25,195	$ 30,234	3,920,064	$ 4,704,077	$ 210,324	$ 6,896,753	$ 7,633,036	$ 19,474,424
Issue of share capital	3,330	3,996	67,456	80,947	(227,980)	490,889		347,852
Conversion of preferred shares	(8,083)	(9,700)	8,083	9,700				
Redemption of preferred shares	(702)	(842)				(2,999)		(3,841)
Repurchase and cancellation of ordinary shares			(2,184)	(2,621)		(30,248)		(32,869)
Net income							2,576,310	2,576,310
Dividends declared							(1,678,149)	(1,678,149)
Issue of options and shares grants					442,497			442,497
Balance at December 31, 2002	19,740	$ 23,688	3,993,419	$ 4,792,103	$ 424,841	$ 7,354,395	$ 8,531,197	$ 21,126,224

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

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CONSOLIDATED WATER CO. LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

	For the Year Ended December 31,		
	2002	**2001**	**2000**
Net income	$ 2,576,310	$ 2,764,573	$ 2,404,820
Adjustments to reconcile net income to net cash			
Depreciation	1,269,126	1,113,041	1,071,455
Amortization of intangible asset	194,906	193,703	64,979
Stock compensation on share grants	175,330	289,174	51,579
Loss on sale of fixed assets		7,702	
(Increase) decrease in accounts receivable	(83,791)	165,573	(56,259)
(Increase) decrease in inventory	(68,620)	(165,278)	20,043
(Increase) decrease in prepaid expenses and other assets	(50,529)	(20,401)	1,647
Increase in accounts payable and other liabilities	56,380	19,956	320,183
Increase in security deposits	48,196		
Decrease in advances in aid of construction	(2,218)	(3,596)	(3,994)
Net cash provided by operating activities	4,115,090	4,364,447	3,874,453
Cash flows from investing activities			
Deferred expenditures	(460,886)		
Purchase of property, plant and equipment	(3,107,837)	(1,892,147)	(2,301,759)
Proceeds from sale of property, plant and equipment		360	
Purchase of investment		(12,450)	
Purchase of subsidiary, net of cash acquired			(3,966,979)
Net cash used in investing activities	(3,568,723)	(1,904,237)	(6,268,738)
Cash flows from financing activities			
Deferred expenditures	(426,970)		
Dividends paid	(1,669,088)	(1,477,828)	(1,127,295)
Proceeds from credit facility	1,500,000	500,000	
Principal repayments of long term debt	(476,760)	(281,922)	(885,355)
Net proceeds from issuance of stock	615,019	40,075	5,417,204
Payment to acquire common stock	(32,869)	(271,595)	(494,375)
Payment to acquire redeemable preferred shares	(3,841)		
(Decrease) increase in bank overdraft		(703,331)	32,938
Principal payments under water purchase agreement			(320,141)
Net cash (used in) provided by financing activities	(494,509)	(2,194,601)	2,622,976
Net increase in cash and cash equivalents	51,858	265,609	228,691
	516,446	250,837	22,146

Cash and cash equivalents at beginning of year			
Cash and cash equivalents at end of year	$ 568,304	$ 516,446	$ 250,837

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

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activity

Consolidated Water Co. Ltd. and its wholly-owned subsidiaries (together the Company) use reverse osmosis technology to produce fresh water from seawater. The Company processes and supplies water to its customers in Grand Cayman, Cayman Islands; Ambergris Caye, Belize; and South Bimini, Bahamas. The Company s exclusive license in Grand Cayman allows it to process and supply water to certain areas of Grand Cayman for a period of twenty years from July 11, 1990 in addition to having a right of first refusal on the extension or renewal thereof. The Company has a contract with Belize Water Services Ltd. (BWSL) of Belize, formally known as Water and Sewerage Authority of Belize, to supply water to BWSL in Ambergris Caye expiring in 2011. At the expiry of the contract, BWSL may at its option extend the term of the agreement or purchase the plant outright. In addition, on July 11, 2001 the Company commenced supplying water under a ten year agreement to South Bimini International Ltd., a Bahamian company that owns and operates resort properties on South Bimini Island, Bahamas. The base price of water supplied by the Company, and adjustments thereto, are generally determined by the terms of the license and contracts, which provide for adjustments based upon the movement in the government price indices specified in the license and contracts respectively, as well as monthly adjustments for changes in the cost of energy.

2. Accounting Policies

Basis of preparation: The 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 financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company s significant accounting policies are:

Basis of consolidation: The consolidated financial statements include the accounts of the Company s wholly-owned subsidiaries Belize Water Limited, Hurricane Hide-A-Way Ltd. and Cayman Water Company Limited. The operating results of Belize Water Limited have been included in the financial statements since the date of the acquisition being July 21, 2000. All inter-company balances and transactions have been eliminated. There are no operating results for Hurricane Hide-A-Way Ltd. and Cayman Water Company Limited as these companies have been dormant since inception and have no assets and liabilities.

Foreign currency: The functional currency of the Company and its foreign subsidiaries are their respective local currencies. The consolidated operations are reported in United States dollars. The exchange rates between the Cayman Islands dollar, the Belize dollar and the Bahamian dollar have been fixed to the United States dollar during all periods presented.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign currency transactions are translated at the rate ruling on the date of the transaction.

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

Trade accounts receivable: Trade accounts receivable are recorded at invoiced amounts based on meter readings. 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

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting Policies (continued)

due balances are reviewed individually for collectibility 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 replacement spares and parts that are valued at the lower of cost and net realizable value on a first-in, first-out basis. Inventory also includes potable water held in the Company s reservoirs. The value of the water inventory is the lower of the average cost of producing and purchasing water during the year and net realizable value.

Deferred expenditures: Deferred expenditures represent direct costs incurred in connection with planned business combinations and financing transactions.

Property, plant and equipment: Property, plant and equipment are 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 25 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 and operating lease term outstanding
Lab Equipment	3 to 10 years

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

During the year ended December 31, 2001, the Company carried out an extensive engineering analysis of its potable water production and distribution equipment in Grand Cayman. The Company s analysis concluded that certain assets would not need to be replaced or relocated as early as previously planned. As a result of these circumstances, management considered it appropriate to reassess the estimated useful economic life of these assets. The reassessment of the useful economic lives of these assets resulted in decreased depreciation expense on an annual basis in the amount of $197,472, which increased basic and fully diluted earnings per share by $0.05 for the year ended December 31, 2001.

Intangible asset: The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets , as of January 1, 2002. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets . The adoption of SFAS No. 142 had no impact on the Company s consolidated financial statements.

Prior to the adoption of SFAS No. 142, the intangible asset recorded by the Company was amortized on a straight-line over the remaining period of the contract. The impairment of the intangible asset, if any, was measured based on projected discounted future operating cash flows using a discount rate reflecting the Company s average cost of funds.

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting Policies (continued)

Investment: Investments are recorded at cost. The Company recognizes an impairment loss on declines in value that are other than temporary.

Security deposits: Security deposits are received from large customers as security for trade receivables.

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

Shares repurchased: Under Cayman Islands law, ordinary shares repurchased must be cancelled upon redemption. The Company s issued share capital is reduced by the par value of those shares, with the difference being adjusted to additional paid in capital.

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

The Company applies the intrinsic-value-based method of accounting prescribed by APB Opinion No. 25 Accounting for Stock Issued to Employees , and related interpretations to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. SFAS No. 123 Accounting for Stock-Based Compensation established accounting and disclosure requirements using a fair-valued-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company continues to apply the intrinsic-value method of accounting described above and has adopted the disclosure requirements of SFAS No. 123. The following table illustrates the effect on net income if the fair-value-based method has been applied to all outstanding and unvested awards in each period.

	2002	2001	2000
Net income, as reported	$2,576,310	$2,764,573	$2,404,820
Add stock-based employee compensation expense included in reporting net income	442,497	169,599	124,772
Deduct total stock-based employee compensation expense determined under fair-value-based method for all rewards	(622,702)	(645,290)	(417,837)
Pro forma net income	$2,396,105	$2,288,882	$2,111,755
Earnings per share:			
Basic as reported	$ 0.65	$ 0.71	$ 0.68
Basic pro forma	$ 0.60	$ 0.59	$ 0.59
Diluted as reported	$ 0.63	$ 0.69	$ 0.67
Diluted pro forma	$ 0.58	$ 0.57	$ 0.58

The cost of stock options granted to employees is recorded in stockholders equity and is expensed to the consolidated statements of income based on the vesting period of the options. On issue of options, proceeds up to the par value of the stock issued are credited to ordinary share capital; any proceeds in excess of the par value of the stock issued are credited to additional paid in capital in the period in which the options are exercised.

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting Policies (continued)

Water sales and cost of water sales: Customers are billed monthly based on meter readings performed at or near each month end and in accordance with agreements which stipulate minimum monthly charges for water service. An accrual, where necessary, is made for water delivered but unbilled at year end when readings are not performed at the year end date. The accrual is matched with the direct costs of producing, purchasing and delivering water.

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

Reclassifications: The Company has included amounts accrued under the non-executive Directors share plan and directors and senior management stock compensation plans in stockholders equity. In prior years, these amounts had been recorded as a current liability, however, management determined it more appropriate to reflect these amounts in stockholders equity based on the nature of the amounts and the related plans. The effect of this reclassification was an increase in stockholders equity and a decrease in current liabilities of $424,841 and $210,324 at December 31, 2002 and 2001, respectively. There is no impact on earnings per share since the Company had always included these amounts in the statements of operations and its determination of earnings per share.

Certain of prior year s figures have been reclassed to conform to the current year s presentation.

3. Cash and Cash Equivalents

Cash and cash equivalents are not restricted as to withdrawal or use. At December 31, 2002, the equivalent of $395,897 (2001: $372,688) is denominated in Belize dollars. The Company has a guarantee from the Government of Belize to repatriate any and all of the Belize Water Limited earnings in United States dollars.

4. Accounts Receivable

Accounts receivable comprise receivables from customers and are shown net of an allowance for doubtful accounts of $12,000 (2001: $12,000). Significant concentrations of credit risk are disclosed in Note 18.

5. Property, Plant and Equipment

	December 31,	
	2002	**2001**
Cost:		
Land	$ 475,679	$ 475,679
Buildings	2,211,200	2,147,417
Plant and equipment	11,288,460	9,531,739
Distribution system	13,237,043	13,007,223
Office furniture, fixtures and equipment	715,539	675,450
Vehicles	607,230	580,213
Leasehold improvements	39,480	39,480
Lab equipment	41,035	37,909
Assets under construction	1,202,058	284,906
	29,817,724	26,780,016
Accumulated depreciation	(9,564,078)	(8,365,081)

Net book value	$20,253,646	$18,414,935

At December 31, 2002, the Company had outstanding capital commitments of $1,080,000 (2001: $1,620,000). It is the Company s policy to maintain adequate insurance for loss or damage to all fixed assets that in management s assessment may be susceptible to loss. The Company does not insure the costs of its underground distribution system which total $9,806,663 (2001: $9,471,931) or plant and equipment insured by third parties with a total cost of $3,633,997 (2001: $3,633,997).

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Intangible Asset

On July 21, 2000, the Company acquired all of the issued and outstanding capital stock of Seatec Belize Ltd., a company organized under the laws of Belize, for a total purchase price, less cash and cash equivalents acquired, of $3,966,979. Of this amount, $2,073,462 was attributed to the water purveyor contract (the contract) that the acquired company had with Belize Water Services Ltd. Seatec Belize Ltd., now renamed Belize Water Limited, owns and operates a reverse osmosis plant in Ambergris Caye, Belize. This acquisition was accounted for by the purchase method and the intangible asset is being amortized on a straight line basis over the remaining period of the contract, which expires in April 2011.

	December 31,	
	2002	2001
Intangible asset	$2,073,462	$2,073,462
Accumulated amortisation	(453,588)	(258,682)
Net book value	$1,619,874	$1,814,780

Amortization for each of the next five years is estimated to be $195,000 per year.

7. Dividends

Quarterly interim dividends were declared in respect of Class A common stock and preference shares as follows:

	2002	2001	2000
March 31	$0.105	$0.10	$0.08
June 30	$0.105	$0.10	$0.08
September 30	$0.105	$0.10	$0.08
December 31	$0.105	$0.10	$0.10

Interim dividends for the first three quarters were paid during each respective year. The interim dividend for the fourth quarter was declared by the Board of Directors in October of each respective year. These quarterly interim dividends are subject to no further ratification and consequently the fourth quarter interim dividends have been recorded as a liability in each respective year. Included in dividends payable at December 31, 2002 are unclaimed dividends of $85,671 (2001: $100,160).

8. Long Term Debt

	December 31,	
	2002	2001
European Investment Bank loan bearing interest at 3.36%, repayable in semi annual installments, due June 20, 2006	$ 905,384	$1,132,144
Royal Bank of Canada loan bearing interest at six month LIBOR plus 1.5%, repayable in semi annual installments of $62,500 plus interest, due April 27, 2005	312,500	437,500
	1,375,000	

Royal Bank of Canada loan bearing interest at monthly LIBOR plus 1.5%, repayable in monthly installments of $12,500 plus interest, due February 2, 2007		
Total long term debt	2,592,884	1,569,644
Less current portion	(518,275)	(355,840)
Long term debt, excluding current portion	$2,074,609	$1,213,804

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Long Term Debt (continued)

At December 31, 2002, the total lending facility made available by the Royal Bank of Canada comprised: a) a revolving line of credit with a limit of $1,000,000, bearing interest at New York Prime plus 1%, which is convertible in $100,000 increments into a monthly revolving LIBOR note, bearing interest at LIBOR plus 1.5%, and b) term loans with a limit of $3,500,000, bearing interest at LIBOR plus 1.5%. Any amounts drawn down under the line of credit and any term loans are collateralised by a fixed and floating charge of $3,000,000. The fixed charge covers land owned by the Company and the floating charge covers all other assets of the Company, except a reverse osmosis plant charged in connection with the water purchase agreement.

The European Investment Bank loan is guaranteed by the Overseas Development Administration (ODA) of the Foreign and Commonwealth Office of the Government of the United Kingdom. The Government of the Cayman Islands has, for a fee of 1% per annum, provided a counter guarantee to the ODA. The Company, with the approval of the Royal Bank of Canada has agreed to secure the counter guarantee by a second charge over all assets of the Company.

The above loans and other credit facilities are subject to certain restrictive covenants, the most restrictive of which are as follows:

Royal Bank of Canada loan:

(a) The Company s debt to equity ratio shall not exceed 0.85;

(b) The Company must maintain a debt-servicing ratio of not less than 1.25

European Investment Bank loan:

(a) The Company shall not take any shareholding in any company without the prior written consent of the bank, and shall not grant any loans or advances except for granting credit to its employees such as it customarily grants.

In event of default, the bank may immediately withdraw any remaining credit, and demand immediate repayment of all amounts outstanding.

During the year ended 2002 and for the years ended December 31, 2001 and 2000, the Company was in compliance with these covenants.

The aggregate capital repayment obligations over the next five years are as follows:

2003	$ 518,276
2004	530,286
2005	480,564
2006	288,758
2007	150,000
	$1,967,884

9. Share Capital and Additional Paid in Capital

Redeemable preferred stock (preference shares) is issued under the Company s Employee Share Incentive Plan as discussed in Note 15 and carries the same voting and dividend rights as ordinary shares of common stock (ordinary share). Preference shares vest over four years and convert to common stock on a share for share basis on the fourth anniversary of each grant date. Preference shares are only redeemable with the Company s agreement. Upon liquidation preference shares rank in preference to the ordinary shares to the extent of the par value of the preference shares and any related additional paid in capital.

The Company has a Class B stock option plan designed to deter coercive takeover tactics. Pursuant to this plan, holders of ordinary shares and preference shares were granted options which entitle them to purchase 1/100 of a share of Class B stock at an exercise price of $37.50 if a person or group acquires or commences a tender offer for 20% or more of the Company s ordinary shares. Option holders (other than the acquiring person or group) will also be entitled to buy, for the $37.50 exercise price, ordinary shares with a then market value of $75.00 in the event a person or group actually acquires 20% or more of the Company s ordinary shares. Options may be redeemed at $0.01 under certain circumstances. 30,000 of the Company s authorized but unissued ordinary shares have been reserved for issue as Class B stock. The Class B stock ranks pari passu with ordinary shares for dividend and voting rights. No Class B stock options have been exercised or redeemed up to December 31, 2002.

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Expenses

	For the Year Ended December 31,		
	2002	**2001**	**2000**
Cost of water sales comprise the following:			
Water purchases	$1,952,331	$2,074,759	$2,062,582
Depreciation	1,175,349	1,018,541	992,410
Amortisation of intangible asset (Note 6)	194,906	193,703	64,979
Employee costs	1,042,192	939,976	741,789
Fuel oil	179,275	91,842	81,102
Royalties (Note 14)	737,064	694,351	641,428
Electricity	710,168	534,919	316,135
Insurance	124,404	89,808	64,160
Other direct costs	766,488	471,218	458,712
	$6,882,177	$6,109,117	$5,423,297
Indirect expenses comprise the following:			
Employee costs	1,427,182	1,299,877	1,045,244
Depreciation	93,777	94,500	79,045
Professional fees	278,433	280,297	275,589
Insurance	141,650	89,328	34,829
Directors fees and expenses	157,877	107,184	104,149
Other indirect costs	545,085	628,874	522,866
	$2,644,004	$2,500,060	$2,061,722

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Earnings Per Share

Basic earnings per share is calculated by dividing the net profit attributable to common stockholders by the weighted average number of ordinary shares in issue during the year.

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

	2002	2001	2000
Net income	$2,576,310	$2,764,573	$2,404,820
Less:			
Dividends declared and earnings attributable on preference shares	(8,913)	(10,794)	(14,220)
Net income available to holders of ordinary shares in the determination of basic earnings per ordinary share	$2,567,397	$2,753,779	$2,390,600
Weighted average number of ordinary shares in the determination of basic earnings per ordinary share	3,969,861	3,897,969	3,532,501
Plus:			
Weighted average number of preference shares outstanding during the year	23,801	31,213	37,145
Potential dilutive effect of unexercised options and warrants	93,870	70,509	46,625
Weighted average number of shares used for determining diluted earnings per ordinary share	4,087,532	3,999,691	3,616,271

12. Segmented Information

The supply of water to the Cayman Islands, Belize and Bahamas are considered by management as separate business segments. The basis of measurement of segment information is similar to that adopted for the financial statements.

Water sales from Belize Water Limited for the three years ending December 31, 2002 were earned from one customer.

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Segmented Information (continued)

As at December 31 and for the Year then Ended

	Cayman Islands			Belize(*)			Bahamas(**)			Total		
	2002	2001	2000	2002	2001	2000	2002	2001	2000	2002	2001	2000
Water sales	$ 10,565,567	$ 9,990,997	$ 9,330,823	$ 1,471,098	$ 1,230,775	$ 464,928	$ 118,024	$ 26,333	$	$ 12,154,689	$ 11,248,105	$ 9,795,751
Other income (expenses)	(60,492)	96,739	94,088	8,290	28,463		4	443		(52,198)	125,645	94,088
Cost of water sales	5,871,118	5,344,370	5,172,945	862,455	718,121	250,352	148,604	46,626		6,882,177	6,109,117	5,423,297
Indirect expenses	2,409,440	2,305,112	2,028,300	225,627	190,822	33,422	8,937	4,126		2,644,004	2,500,060	2,061,722
Cost of water sales and direct expenses include:												
Depreciation	1,043,397	932,029	1,009,420	180,105	160,825	62,035	45,624	20,187		1,269,126	1,113,041	1,071,455
Net income (loss)	2,224,517	2,438,254	2,223,666	391,306	350,295	181,154	(39,513)	(23,976)		2,576,310	2,764,573	2,404,820
Property, plant and equipment	17,698,944	15,770,560	15,735,330	1,440,673	1,541,795	1,601,166	1,114,029	1,102,580	307,395	20,253,646	18,414,935	17,643,891
Total assets	22,214,167	21,595,627	19,421,195	2,160,107	2,310,772	2,117,082	1,133,363	1,125,551	307,395	25,507,637	22,721,178	21,845,672

(*) The Company acquired 100% of the outstanding shares in Belize Water Limited and began operations on July 21, 2000.

(**) On December 18, 2000, the Company entered into a water supply agreement with South Bimini International Ltd. Operations began on July 11, 2001.

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13. Related Party Transactions

A professional service firm, of which a Director is a partner, provided professional services during the year ended December 31, 2002 for which it charged $225,400 (2001: $275; 2000: $12,916).

14. Commitments

The Company has committed to purchase a 13.5% equity interest in Waterfields Company Limited, a Bahamian company, from Bacardi and Company Ltd. for approximately BAH$1.4 million. Completion of this purchase is subject to the fulfillment of certain conditions, including the receipt of government approvals and the commitment of at least 51% of Waterfields shareholders to sell their shares to the Company. In furtherance of this purchase agreement, on December 20, 2002, the Company made a tender offer of BAH$690 per share to the remaining shareholders of Waterfields. This tender offer, which is contingent on completion of the share purchase agreement with Bacardi and Company Ltd., closed on January 31, 2003, by which time the Company had received acceptances from another 64.7% of Waterfields shareholders.

The Company has committed to sell 165,000 Class C shares in Ocean Conversion (BVI) Ltd., a British Virgin Islands company, to Sage Water Holdings (BVI) Ltd. for approximately US$2.1 million. The Company acquired these shares on February 7, 2003 as disclosed in Note 22.

The Company is party to a water purchase agreement with Ocean Conversion (Cayman) Limited (OCL) under which an annual minimum amount of water is required to be purchased. At December 31, 2002, accounts payable includes $208,556 (2001: $192,340) outstanding under the agreement. Water purchases for the three years ended December 31, 2002 are disclosed in Note 10.

From the acquisition date of Belize Water Limited in the year ended December 31, 2000, the Company has been under contract to supply a minimum of 135,000 US Gallons of water per day to BWSL of Belize. The price of water is adjusted annually based on government indices. Water sales under this contract for the three years ended December 31, 2002 comprise total sales as disclosed in Note 12.

The Company is obligated to supply water, where feasible, to customers in the Cayman Islands within its licence area in accordance with the terms of the licence. Royalties are paid to the Government of the Cayman Islands at the rate of 7.5% of gross water sales.

The Company has committed to lease premises in the Cayman Islands for a period of one year from February 1, 2003 to January 31, 2004 at approximately $82,000 per annum.

15. Stock Compensation

The Company operates various stock compensation plans that form part of employees remuneration. Stock compensation expense of $442,497 (2001: $169,599; 2000: $124,772) is recorded in accordance with APB Opinion No. 25 and included within employee costs. Had compensation cost for the Company s stock based compensation plans been determined based on the fair value at the grant dates for awards under those

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Stock Compensation (continued)

plans consistent with the method of SFAS 123, the Company s net income and earnings per share would have been reduced to the pro forma amounts below:

	For the Year Ended December 31,		
	2002	2001	2000
Net income As reported	$2,576,310	$2,764,573	$2,404,820
Net income Pro Forma	$2,396,105	$2,288,882	$2,111,755
Basic earnings per ordinary share As reported	$ 0.65	$ 0.71	$ 0.68
Basic earnings per ordinary share Pro Forma	$ 0.60	$ 0.59	$ 0.59
Diluted earnings per ordinary share As reported	$ 0.63	$ 0.69	$ 0.67
Diluted earnings per ordinary share Pro Forma	$ 0.58	$ 0.57	$ 0.58

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

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

	2002	2001	2000
Exercise price	$ 12.17	$ 10.55	$ 6.70
Grant date market value	$ 14.71	$ 10.97	$ 6.97
Risk free interest rate	2.24%	3.93%	6.56%
Expected life	3.23 years	3.21 years	3.0 years
Expected volatility	42.91%	52.79%	62.64%
Expected dividend yield	2.85%	3.67%	4.59%

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

	2002	2001	2000
Exercise price			$ 7.10
Grant date market value			$ 7.00
Risk free interest rate			5.0%
Expected life			3.2 years
Expected volatility			62.57%
Expected dividend yield			4.57%

Employee Share Incentive Plan (Preference shares)

The Company awards preference shares for $nil consideration under the Employee Share Incentive Plan as part of compensation for eligible employee services, excluding Directors and Executive Officers, that require future services as a condition to the delivery of the ordinary shares. In addition options are granted to purchase preference shares at a fixed price, determined annually, which will typically represent a discount to the market value of the ordinary shares. In consideration for preference shares, the Company issues ordinary shares on a share for share basis. Under the plan the conversion is conditional on the grantee s satisfying requirements outlined in the award agreements. Preference shares are only redeemable with the Company s agreement.

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Stock Compensation (continued)

The details of preferred shares and preferred share options granted and exercised under the Employee Share Incentive Plan is as follows:

	Year of Grant	Granted	Strike Price	Options Exercised	Options Expired
Preferred shares	2000	2,279	$ nil	N/A	N/A
	2001	3,963	$ nil	N/A	N/A
	2002	2,713	$ nil	N/A	N/A
Preferred share options	2000	2,279	$5.47	1,136	1,143
	2001	3,963	$5.32	1,858	2,105
	2002	2,713	$8.13	617	2,096

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

Employee Share Option Plan (Ordinary Stock Options)

In 2001, the Company introduced 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 ordinary shares. The price at which the option may be exercised will be the closing market price on the grant date, which is 40 days after the date of the Company s annual general meeting. The number of options each employee is granted is equal to five times the sum of (i) the number of preference shares which that employee receives for $nil consideration and (ii) the number of preference share options which 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.

Non-Executive Directors Share Plan

In 1999, the Company introduced a stock grant plan, which forms part of Directors remuneration. Under the plan Directors receive a combination of cash and ordinary shares in consideration of remuneration for their participation in Board meetings. All Directors are eligible except Executive Officers, who are covered by individual employment contracts and the Government elected board member. Ordinary shares granted are calculated with reference to a strike price that is set by the Board of Directors on October 1 of the year preceding the grant. Stock granted during the year ended December 31, 2002 totaled 6,305 shares (2001: 7,860) at a strike price of $10.70 (2001: $7.25).

Directors and senior management stock compensation

Certain members of senior management are entitled to receive, as part of the compensation for their services to the Company, options to purchase ordinary shares. One other director was granted options as remuneration for services rendered to the Company during the year ended December 31, 2001. In addition, another member of senior management is entitled to receive, as part of compensation for services to the Company, ordinary shares of the Company. As at December 31, 2002, 2,405 shares (2001: 3,172) were due to this employee.

Non-employee

As part of an agreement for market representation, the Company issued options to purchase ordinary shares to an investment company for $nil consideration. These options had an expiry date of one year

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Stock Compensation (continued)

commencing on the termination of the agreement, which management formally terminated on April 3, 2002. The fair value of these options was determined by management to be $30,000, based on the fair value of the services to be received. The Company also issued warrants in conjunction with a private placement in 1995. These warrants were exercised in full in January and February 2000.

The following table summarizes information about the Company s stock option plans as of December 31, 2002, 2001 and 2000, and changes during the years ended on those dates.

	2002		2001		2000	
	Number	Exercise Price	Number	Exercise Price	Number	Exercise Price
Outstanding at beginning of year	341,136	$ 8.59	243,045	$ 5.73	127,786	$4.58
Granted	114,086	$12.17	162,054	$10.55	117,538	$6.98
Exercised	(58,596)	$ 5.94	(61,858)	$ 2.58	(1,136)	$5.47
Forfeited	(2,096)	$ 8.14	(2,105)	$ 5.32	(1,143)	$5.47
Outstanding and exercisable at end of year	394,530	$10.02	341,136	$ 8.59	243,045	$5.73

The following summarizes the weighted average grant-date fair value of options granted during the year:

	For the Year Ended December 31,		
	2002	2001	2000
Options granted with an exercise price below market price on the date grant:			
Senior management	$4.93	$3.78	
Non executive Director		$3.89	$2.69
Employees preferred shares	$5.72	$3.88	$2.66
Employees ordinary share options	$4.41	$3.08	
Overall weighted average	$4.89	$3.71	$2.69
Options granted with an exercise price above market price on the date of grant:			
Senior management			$2.57

Summary of Options Outstanding at December 31, 2002

At December 31, 2002, the range of exercise prices on outstanding options was $6.75 $14.69. Accordingly the following information is presented on options outstanding, which are all exercisable, at December 31, 2002:

	Exercise Prices from $6.75 $9.20	Exercise Prices from $10.84 $14.69
Number of options outstanding at December 31, 2002	147,671	246,859
Weighted average exercise price	$ 7.51	$ 11.52
Weighted average remaining contractual life	1.13 years	2.64 years

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Stock Compensation (continued)

The weighted average fair value per share under SFAS 123 for shares issued during the year below market price on the date of grant follows:

	2002		2001		2000	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Employee Share Incentive Plan	2,713	$13.88	3,963	$9.00	2,279	$7.00
Directors Share Plan	6,056	$10.70	7,860	$7.25	6,889	$7.13
Senior management	3,172	$ 9.55				
Overall weighted average	11,941	$11.12	11,456	$7.86	9,168	$7.09

16. Taxation

Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company has received a tax exemption with respect to its Belize operations. The exemption expires in 2006 and is renewable in accordance with the provisions of the BWSL contract. Services to the customer in the Bahamas are provided by the Company, which is a Cayman Islands company that is not subject to taxation in the Commonwealth of the Bahamas.

17. Pension Benefits

A staff pension plan is offered to all employees. The plan is administered by the Cayman Islands Chamber of Commerce and is a defined contribution plan whereby the Company matches the contribution of the first 5% of each participating employee s salary. The total amount recognized as an expense under the plan during the year ended December 31, 2002 was $70,210 (2001: $63,740; 2000: $67,760).

18. Financial Instruments

Credit Risk:

The Company is not exposed to significant credit risk on the vast majority of customer accounts as the 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 one customer in Belize. The balance from this customer is current as at December 31, 2002 and management does not anticipate any losses on this concentration.

Interest Rate Risk:

The interest rates and terms of the Company s loans are presented in Note 8 of these financial statements. The Company is subject to interest rate risk to the extent that LIBOR changes.

Foreign Exchange Risk:

All relevant foreign currencies have fixed exchange rates to the United States dollar as detailed under the foreign currency accounting policy note. If any of these fixed exchange rates become floating exchange rates, the Company s results of operations could be adversely affected.

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Financial Instruments (continued)

Fair Values:

At December 31, 2002 and 2001, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other liabilities and dividends payable approximate fair values due to the short term maturities of these assets and liabilities. The Directors consider that the carrying amount for long term debt due to Royal Bank of Canada approximates fair value. The fair value for long term debt due to European Investment Bank is approximately $840,720 (2001: $1,041,000) although this does not necessarily indicate that the Company could extinguish this debt for an amount lower than the carrying value. Fair value of this long term debt for which no market value is readily available is determined by the Company using predetermined future cash flows discounted at an estimated current incremental rate of borrowing for a similar liability. In establishing an estimated incremental rate, the Company has evaluated the existing transactions, as well as comparable industry and economic data and other relevant factors such as pending transactions, subsequent events and the amount the Company would have to pay a credit worthy third party to assume the liability, with the creditors legal consent.

19. Non-Cash Transactions

The Company made the following non-cash transactions:

	2002	2001	2000
Redemption of preference shares and issue of replacement ordinary shares at $nil consideration	$ 9,700	$ 17,112	$ 12,767
Preference shares issued to employees at $nil consideration (Note 15)	$ 3,256	$ 4,756	$ 2,735
Redemption of preference shares at $nil consideration			(240)
Ordinary shares issued under the Non-executive Directors Share Plan at $nil consideration (Note 15)	66,600	56,998	49,084
Ordinary shares issued under senior management employment agreements at $nil consideration (Note 15)	30,303		
Additional paid in capital from exercise of stock options	75,171	227,420	
	$175,330	$289,174	$ 51,579
Reduction in ordinary shares and additional paid in capital from cancellation of shares repurchased	$ 36,710	$271,595	$494,375
Dividends declared but not paid (Note 7)	$508,444	$499,383	$401,965

20. Impact of Recent Issued Accounting Standards

The Financial Accounting Standards Board issued four standards and one interpretation that affect the Company. A summary of these standards and interpretation is given below:

In June 2001, the FASB issued SFAS No. 143, Accounting for Assets Retirement Obligations . SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The

CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Impact of Recent Issued Accounting Standards (continued)

Company is required to adopt SFAS No. 143 on January 1, 2003. The Company adopted SFAS No. 143 early during the year ended December 31, 2001. The adoption did not have a material effect on the Company s financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections . SFAS No. 145 amends existing guidance on reporting gains and losses from extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends FASB Statement No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 is not expected to have a material effect on the Company s financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity . The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the Company s financial statements.

In November 2002, the FASB issued Interpretation No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, as interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34 . This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognized, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognitions and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company s financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statements No. 123 . This Statement amends FASB Statement No. 123 Accounting for Stock-Based Compensation , to provide alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition the Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

21. Deferred Expenditures

Costs associated with the acquisitions disclosed in note 22 and the financing thereof have been capitalized in the amounts of $426,970 and $460,886, respectively, as these transactions had not closed at the balance sheet date. Acquisition related costs are taken into account in the purchase price allocation upon the completion of transactions and financing costs are amortized over the term of the related debt.

22. Subsequent Events

The following events occurred subsequent to December 31, 2002:

On February 7, 2003, the Company purchased interests in the following companies: DesalCo Limited, its wholly owned subsidiary DesalCo (Barbados) Limited, Ocean Conversion (Cayman) Limited, Ocean Conversion (BVI) Ltd. and Waterfields Company Limited. The purchase has provided the Company with a desalination facility management and engineering services firm, as well as facilities and contracts to supply

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Subsequent Events (continued)

additional potable water services in the Cayman Islands, the Bahamas, Barbados and the British Virgin Islands. The total consideration under the purchase agreements was $27,800,000, comprised of $25,500,000 in cash and 185,714 ordinary shares of the Company.

The following table summarizes the unaudited condensed balance sheets of the acquired entities as of December 31, 2002:

	DesalCo Limited	Ocean Conversion (Cayman) Limited	Waterfields Company Limited	Ocean Conversion (BVI) Ltd.
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current assets	$1,798,068	$3,023,479	$1,912,344	$3,867,233
Property, plant and equipment	14,849	1,234,962	7,764,895	3,608,175
Other non-current assets	1,571,131	4,313,291		
Total assets	3,384,048	8,571,732	9,677,239	7,475,408
Current liabilities	174,924	2,712,862	246,985	1,636,007
Long term debt and liabilities		1,180,000	1,884,293	1,739,379
Total liabilities assumed	174,924	3,892,862	2,131,278	3,375,386
Net assets	$3,209,124	$4,678,870	$7,545,961	$4,100,002
% of equity acquired	100%	100%	12.7%	56.5%
% of voting shares acquired	100%	100%	12.7%	50.0%

In order to finance the purchase, the Company entered into a credit facility with Scotiabank (Cayman Islands) Ltd. for a term loan of $20,000,000, an operating line of credit of $2,000,000 and a bridge financing loan of $17,100,000. Scotiabank was given a fixed and floating charge on all assets for $22,000,000. In conjunction with the receipt of this financing, the Royal Bank of Canada credit facilities were extinguished, the loans were fully repaid and the fixed and floating charges held by the bank were released. The second charge held by the Government of the Cayman Islands, as described in Note 8, was cancelled and replaced with a $1,000,000 letter of credit from Scotiabank.

The Company also cancelled the remaining term of the water purchase agreement with Ocean Conversion (Cayman) Limited as a result of the purchase.

The Government of the Cayman Islands amended the Company s license to remove a five percent restriction on share ownership and transfer. As part of the amended license, the Company is required to comply with certain aesthetic quality improvements in the water supplied to the customers in the Cayman Islands. Management estimates that the capital cost of complying with the new water quality requirements in accordance with the amended license will amount to approximately $500,000.

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PART IV

Item 15. ***Exhibits, Financial Statements Schedules, and Reports on Form 8-K***

(a) 1. Financial Statements

The financial statements found in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA for the year ended December 31, 2002 is incorporated herein by reference.

2. Financial Statement Schedules

None

3. Exhibits

Exhibit Number	Exhibit Description
99.1	Chief Executive Officer Certification under Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Chief Financial Officer Certification under Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

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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/ Frederick McTaggart

Frederick McTaggart
President, Chief Operating Officer
and Chief Financial Officer

Dated: June 26, 2003

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

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

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

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

3. Based on my knowledge, the financial statements and other financial information included in this annual 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 annual report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

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

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

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

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

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

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

Date: June 26, 2003

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

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

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

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

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

3. Based on my knowledge, the financial statements and other financial information included in this annual 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 annual report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

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

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

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

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

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

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

Date: June 26, 2003

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

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