

Annual Report on Form 10-KSB of Registrant for the year ended December 31, 1998, 1999, 2000, 2001, 2002, and 2003 and an 8K filed in July 2004.

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL INFORMATION

Central American Equities Corp. (the “Company” or “CAE”) is a US hospitality company, based in Santa Ana, Costa Rica and incorporated in the State of Florida. The Company owns and operates hotels, restaurants, and real property in Costa Rica. All CAE activities are related to the Company’s hotels in Costa Rica, and, as such, are reported as one operating segment (per FASB Statement No. 131). Financial statements follow.

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES

Consolidated Balance Sheet

Assets

September 30, 2004

| | |
|---------------------------------------|-----------|
| Current assets | |
| Cash and cash equivalents | \$238,753 |
| Account receivable | 48,271 |
| Account receivable from sale of asset | 0 |
| Inventory | 22,497 |
| Prepaid expenses | 12,185 |
| | 321,706 |
| Buildings and equipment, | |
| Net of depreciation | 5,571,682 |
| Other assets | |
| Other Assets | 0 |
| Total assets | 5,893,388 |

Liability and Stockholders' Equity

| | |
|-------------------------------------|-------------|
| Current liabilities | |
| Accounts payable | 64,870 |
| Notes Payable Current Portion | 36,000 |
| Accrued expenses | 208,028 |
| | 308,898 |
| Other liabilities | |
| Long term debt | 301,175 |
| Due to officers | 88,176 |
| | 389,351 |
| Total liabilities | 698,249 |
| Stockholders' equity | |
| Common stock – \$.001 par value; | |
| 25,000,000 authorized, 19,789,268 | |
| issued and outstanding | 19,789 |
| Preferred stock – \$.001 par value; | |
| 1,000,000 shares authorized, | |
| 1,000,000 issued and outstanding | 1,000 |
| Additional paid-in capital | 10,366,516 |
| Accumulated other comprehensive | |
| Income | 60,870 |
| Retained deficit | (5,253,036) |
| | 5,195,139 |
| Total liabilities & stockholders' | |
| Equity | 5,893,388 |

See Notes to Consolidated Financial Statements

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES

Consolidated Statement of Operations

| | For the 3-month period ended September 30, | | For the 9-month period ended September 30, | |
|---|--|-------------------|--|------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Revenues | \$ 212,824 | \$ 236,461 | 923,166 | 765,589 |
| Cost of Services | <u>99,423</u> | <u>127,571</u> | <u>339,928</u> | <u>264,431</u> |
| Gross Profit | 113,401 | 108,890 | 583,238 | 501,158 |
| Operations | | | | |
| General & Administrative | 129,880 | 115,599 | 500,242 | 516,487 |
| Depreciation | <u>42,307</u> | <u>45,823</u> | <u>128,723</u> | <u>137,469</u> |
| | 172,187 | 161,422 | 628,965 | 653,956 |
| Other Expense | | | | |
| Interest Expense | 6,629 | 14,473 | 49,578 | 62,231 |
| Other Expense sale of asset | 0 | 0 | 31,750 | 0 |
| Loss on Foreign Exchange | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| | 6,629 | 14,473 | 81,328 | 62,231 |
| Income taxes | 0 | 0 | 0 | 0 |
| NET INCOME (Loss) | <u>\$ (65,415)</u> | <u>\$(67,006)</u> | <u>(127,054)</u> | <u>(215,030)</u> |
| Weighted Average share of Common Stock Outstanding | 19,789,268 | 15,739,268 | 19,789,268 | 15,739,268 |
| Gain (Loss) per Common Share | \$ (0.01) | \$ (0.01) | \$ (0.01) | \$ (0.01) |

See Notes to Consolidated Financial Statements

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES
Statements of Cash Flow
For the Nine Months Ended September 30,

| | 2004 | 2003 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Net Income | \$ (132,254) | \$ (215,030) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Unrealized Loss on Foreign Exchange | (20,316) | 32,021 |
| Depreciation and amortization | 128,723 | 137,469 |
| Decrease (increase) in: | | |
| Accounts receivable | 17,175 | 3,626 |
| Inventory | 8,882 | (4,561) |
| Prepaid expense and other | (8,635) | 5,798 |
| (Increase) decrease in: | | |
| Accounts payable | (4,748) | (106,649) |
| Accrued expenses | (59,977) | (48,518) |
| Net cash used in operating activities: | (71,151) | (195,844) |
| Cash flows from investing activities: | | |
| Capital expenditures | (43,750) | 0 |
| Payment received on sale of facility | 635,000 | 0 |
| Net cash used in investing activities | 591,250 | 0 |
| Cash flows from sale of equity: | | |
| Cash flows from sale of equity | 0 | 86,800 |
| Net cash used from sale of equity | 0 | 86,000 |
| Cash flows from financing activities: | | |
| Proceeds from loans | (76,000) | (67,437) |
| Proceeds from loans from officers | (291,302) | 243,769 |
| Net cash provided by financing activities: | (367,302) | 176,332 |
| Net increase (decrease) in cash | 152,798 | 67,288 |
| Cash – beginning of period | 85,955 | 25,040 |
| Cash – end of period | 238,753 | 92,328 |

Supplemental Disclosures of cash flow information:

| | | |
|--------------|--------|--------|
| Interest | 49,578 | 62,231 |
| Income Taxes | 0 | 0 |

See Notes to Consolidated Financial Statements

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1 Summary of Accounting Policies

Nature of Business

Central American Equities Corp. and Subsidiaries (the "Company") was incorporated under the laws of the State of Florida on January 23, 1996. The Company provides an integrated eco-vacation experience in Costa Rica, and is in the business of owning and operating hotels and real property in Costa Rica.

In December of 1996, the Company entered into an agreement for the exchange of common stock ("Exchange Agreement") with Cal Tico, L.P., Ecolodge Partners, L.P. and Marine Lodge Partners, L.P. (Partnership). Pursuant to the exchange agreement, the company issued 7,756,885 and 3,099,392 shares of common stock to limited partners and the general partners, respectively, of the partnerships. In exchange for the shares, the partnership transferred all of their interests (i.e. 100% of the outstanding common stock) in the following Costa Rican corporations: Hotelera Cal Tico, S.A.; Bandirma, S.A.; Sociedad Protectora De La Fauna y Flora Maritima De Mal Pais, S.F.; Ecoproyecto San Luis, S.A. and Confluencia, S.A.

Cal Tico, L.P. was a California limited partnership that was formed in July 1992 to raise \$2 million to purchase the land and construct Hotel Alta. Cal Tico, L.P. owns 100% of the stock in Hotelera Cal Tico, S.A., a Costa Rican corporation. Hotelera Cal Tico, S.A. owns the land and buildings at Hotel Alta.

Ecolodge Partners, L.P. was formed in July 1993 to raise a total of \$1.3 million in a private placement offering to purchase the land and construct the Ecolodge San Luis and Biological Station. Ecolodge Partners was a California limited partnership that owned all of the stock in Ecoproyecto San Luis, S.A. and Confluencia San Luis, S.A., the two Costa Rican companies that own the Ecolodge land and buildings.

Marine Lodge Partners L.P. was formed in March 1995 to raise \$1 million for the purchase and renovation of the Sunset Reef. MarineLodge Partners was a California limited partnership. Marine Lodge Partners owned 100% of the stock in Bandirma, S.A. Bandirma owns: a) 90% of the Sociedad Protectora De La Fauna y Flora Maritima de Mal Pais S.A., a Costa Rican corporation which owns the land and buildings at Sunset Reef, and b) 100% of Muxia, S.A. which owns 100% of the land and buildings at Playa Carmen.

Basis of Consolidation

The consolidated financial statements include the consolidated accounts of Central American Equities Corp. and its subsidiaries. Hotelera Cal Tico, S.A., Bandirma, S.A., Sociedad Protectora De La Fauna y Flora Maritima De Mal Pais, S.F., Ecoproyecto San Luis, S.A. and Confluencia, S.A. are held 100% by the Company. All inter-company transactions and accounts have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the statement of cash flows all certificates of deposits with maturities of 90 days or less, were deemed to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed provided using the straight-line method over the estimated useful lives of five for equipment, seven years for furniture and fixtures and forty years for buildings and improvements.

Repairs and maintenance costs are expensed as incurred while additions and betterments are capitalized. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gain or losses are reflected in earnings.

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 Summary of Accounting Policies (continued)

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Adoption of Statement of Accounting Standard No. 123

In 1997, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 encourages, but does not require companies to record at fair value compensation cost for stock-based compensation plans. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The difference between the fair value method of SFAS-123 and APB 25 is immaterial.

Adoption of Statement of Accounting Standard No. 128

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). SFAS 128 changes the standards for computing and presenting earnings per share (EPS) and supersedes Accounting Principles Board Opinion No. 15, "Earnings per Share." SFAS 128 replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. This Statement requires restatement of all prior period EPS data presented.

As it relates to the Company, the principal differences between the provisions of SFAS 128 and previous authoritative pronouncements are the exclusion of common stock equivalents in the determination of Basic Earnings Per Share and the market price at which common stock equivalents are calculated in the determination of Diluted Earnings Per Share.

Basic earnings per common share is computed using the weighted average number of shares of common stock outstanding for the period. Diluted earnings per common share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares related to stock options and warrants outstanding during the period.

The adoption of SFAS 128 had no effect on previously reported loss per share amounts for the year ended December 31, 1997. For the years ended December 31, 1999 and 1998, primary loss per share was the same as basic loss per share and fully diluted loss per share was the same as diluted loss per share. A net loss was reported in 1998 and 1997, and accordingly, in those years the denominator was equal to the weighted average outstanding shares with no consideration for outstanding options and warrants to purchase shares of the Company's common stock, because to do so would have been anti-dilutive. Stock options for the purchase of 357,500 shares at December 31, 1998 were not included in loss per share calculations, because to do so would have been anti-dilutive.

Revenue Recognition

The Company records revenue at the point of service and maintains its corporate records for both financial statement and tax return purposes on the accrual method of accounting.

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 Summary of Accounting Policies (continued)

Foreign Exchange

Assets and liabilities of the Company, which are denominated in foreign currencies, are translated at exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates throughout the year. The unrealized translation gains and losses are accumulated in a separate component of stockholders' equity. Translation exchange gains and losses are reflected in net earnings.

Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments, which principally include cash, note receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The fair value of the Company's debt instruments is based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At December 31, 2003 and 2002, respectively, the carrying value of all financial instruments was not materially different from fair value.

Income Taxes

The Company has net operating loss carryovers of approximately \$5.1 million as of December 31, 2003, expiring in the years 2012 through 2023. However, based upon present Internal Revenue regulations governing the utilization of net operating loss carryovers where the corporation has issued substantial additional stock, most of this loss carryover may not be available to the Company.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, effective July 1993. SFAS No.109 requires the establishment of a deferred tax asset for all deductible temporary differences and operating loss carryforwards. Because of the uncertainties discussed in Note 2, however, any deferred tax asset established for utilization of the Company's tax loss carryforwards would correspondingly require a valuation allowance of the same amount pursuant to SFAS No. 109. Accordingly, no deferred tax asset is reflected in these financial statements.

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" ("Interpretation No. 45"). Interpretation No. 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of Interpretation No. 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. Interpretation No. 45 did not have an effect on the financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("Interpretation No. 46"), that clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Interpretation No. 46 is applicable immediately for variable interest entities created after January 31, 2003. For variable interest entities created prior to January 31, 2003, the provisions of Interpretation No. 46 are applicable no later than July 1, 2003. Interpretation No. 46 did not have an effect on the financial statements.

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS 148"). This Statement amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 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.

Statement of Financial Accounting Standards SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", were recently issued. SFAS No. 149, and 150 have no current applicability to the Company or their effect on the financial statements would not have been significant.

Note 2 Federal Income Tax

At December 31, 2003 and 2002 deferred taxes consisted of the following:

| | 2003 | 2002 |
|----------------------------------|--------------|--------------|
| Deferred tax assets, | | |
| Net operating loss carry-forward | \$ 1,865,000 | \$ 1,564,000 |
| Less valuation allowance | (1,865,000) | (1,564,000) |
| | ----- | ----- |
| Net deferred taxes | \$ -0- | \$ -0- |
| | ===== | ===== |

The valuation allowance offsets the net deferred tax asset for which there is no assurance of recovery. The change in the valuation allowance for the years ended December 31, 2003 and 2002 totaled \$306,300 and \$133,300, respectively. The net operating loss carry- forward expires in year 2022. The valuation allowance will be evaluated at the end of each year, considering positive and negative evidence about whether the deferred tax asset will be realized.

At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

Note 3 Going Concern

The Company incurred a net loss of approximately \$278,000 during the year ended December 31, 2003 and although the Company had positive cash flow during the first six months of 2004, there is some doubt about the entity's ability to continue as a going concern.

The Company has received additional financing through the sale of a non-performing asset, continues to control expenses, and evaluates the ongoing performance of the Company's assets. The ability of the Company to continue as a going concern is dependent on the success of application and techniques. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 4 Property and Equipment

As of March 31, 2004 plant and equipment consisted of the following:

| | |
|-------------------------------|---------------------|
| Land | \$840,075 |
| Buildings | 6,051,286 |
| Machinery and equipment | 125,535 |
| Furniture and fixtures | 286,635 |
| Computer equipment | <u>73,693</u> |
| | 7,377,224 |
| Less accumulated depreciation | <u>1,120,386</u> |
| | <u>\$ 6,256,838</u> |

Depreciation expense in the amount of \$183,292 and \$166,377 has been recorded for the years ended December 31, 2003 and 2002 respectively. Depreciation expense in the amount of \$128,723 has been recorded for the nine month period ended September 30, 2004.

Note 5 Notes Payable

The Company has \$288,875 outstanding against a \$500,000 line of credit with Banco BCT, which bears interest at the prime rate plus 3%. Principal payments were to begin on January 10, 2000 in monthly installments of \$38,462; however, payments were renegotiated. During 2001 and 2002, interest only was paid on the last day of each month. In February 2002, the Company restructured the loan. The new terms include a loan term of 70 months; an annual interest rate of prime plus 3.75%, and monthly principal payments that vary with the high and low occupancy periods of Hotel Alta. Monthly principal payments in year one will vary from \$3,000 to \$9,000. The funds advanced under this line of credit were utilized to supplement cash flow for operating expenses and construction costs. The note is collateralized by property of the Company.

Included in notes payable at September 30, 2004 is a note payable to shareholder, dated July 21, 2000, of \$48,300. The note payable bears interest at 21% and was due July 22, 2002.

Note 6 Notes Payable Related Parties

Notes payable as of September 30, 2004 are as follows:

| | |
|--|--------------|
| Note payable to shareholder dated November 30, 2000 with interest at 5% with no set terms for prepayment | \$ 25,222 |
| Notes payable to principal officer for past salary with interest at 5% | 56,955 |
| Note payable to shareholder dated July 15, 2000 with interest at 6% with no set terms for prepayment | <u>6,000</u> |
| Total Due to Officers | \$ 88,176 |

Note 7 Commitments and Contingencies

The Company has a month-to-month lease for approximately one acre of property. Minimum rentals in the year ending December 31, 2004 is \$18,000

Included as a liability on the balance sheet is an accrued expense in the amount of about \$150,000 for non-payment of sales taxes for Hotel Alta. These amounts had grown over several years. The amount listed is an accurate reflection on the amount past due at that time not including penalties or interest.

Penalties and interest were not included as the government had an amnesty program that forgave penalties and interest on all past taxes paid by April 1, 2003. The Company planned to have the cash available to pay past taxes by selling a beach property called Tropicana before April 1. Instead, through negotiations with the government the Company offered part of the property to the government in lieu of payment. Before April 1 the government accepted the property and began an appraisal to see how much of the past taxes it would cover. In August 2003, the government reversed course on the offer to accept the property. They demanded full payment of the back taxes including penalties and interest. As of the report date, the Company has paid down the tax liability by more than \$120,000, but is disputing the interest and penalties.

Note 8 Sale of Asset

During the three-month period ended June 30, 2004, the Company sold its beach property and open-air restaurant in Mal Pais known as Restaurante Tropicana for \$635,000 in cash. The Company paid a company five percent of the sale price or \$31,750 for successfully brokering the sale.

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS

Central American Equities Corp. (the "Company" or "CAE") is a US hospitality company, based in Santa Ana, Costa Rica and incorporated in the State of Florida on January 23, 1996. The Company specializes in providing high-quality food and lodging in unique natural settings in Costa Rica. The Company is in the business of owning and operating hotels and restaurants and real property in Costa Rica.

As of September 30, 2004, CAE owned Hotel Alta in Santa Ana (a suburb of the capital city of San Jose), and Sunset Reef (on the Pacific Ocean in Mal Pais near the protected Cabo Blanco Reserve). CAE also owned and operated La Luz Restaurant (located in Hotel Alta) and ATP-Costa Rica (a full-service reservation, travel planning and in-bound tour operation based in Costa Rica).

The first year of full operation of the Company's hotels was 1998. All Company owned facilities, except for Tropicana Restaurant, were open and operating by the beginning of 1998. Beginning in late 2001, Tropicana Restaurant was operated by the Company (in past years it had been rented on a monthly basis). The Company sold Restaurant Tropicana in June 2004. On September 30, 2004, the Company had approximately 55 full-time, part-time and contract employees.

The following is management's discussion and analysis of significant factors that affected the Company's financial position during the three-month period ended September 30, 2004.

Results of Operations

Comparison of Operations for the 3-Month Periods Ended September 30, 2003 and 2004

For several years, the Company has been challenged by diminished travel demand brought on by the terrorist attacks of September 11, 2001 and by the increased supply of hotel rooms and restaurants. However, a 3-year negative trend clearly reversed in the first quarter of 2004.

Growth in occupancy continued at Hotel Alta in the third quarter of 2004. During the three-month period ending September 30, 2004, occupancy at Hotel Alta increased by 22% from the same period in 2003 growing from 37.0% to 45.1%. During this quarter, Hotel Alta recorded its best September occupancy ever. September is usually when the hotel records its lowest monthly occupancy.

Having additional cash from the sale of Tropicana, CAE took the opportunity to close Sunset Reef Hotel for most of the third quarter to repair and paint the building, upgrade the rooms and bathrooms, and clean and paint the pool area. Simultaneously, CAE also reconfigured the Sunset Reef staff; paying and liquidating benefits, hiring staff on new contracts, and implementing professional training programs for new and returning staff members.

Although revenues at Hotel Alta increased, total revenue for the three-month period ended September 30, 2004, declined by more than 9% or about \$24,000 from the same period in 2003. The decline reflects the fact that Sunset Reef was closed from August 1 through October 31.

Operational expenses (cost of services and general and administrative costs) also declined but less rapidly. Operational costs partially reflect the cost of repairs at Sunset Reef. During the three-month period ended September 30, 2004, total operational expenses were about \$229,000. This represents a decrease of approximately \$14,000 or about 5.7% from the same period in 2003.

During the three-month period ended September 30, 2004 the Company lost approximately \$16,000 before depreciation of about \$42,000 and interest costs of about \$6,600. The net loss (including depreciation and interest) totaled about \$65,000. During the same period in 2003, when Sunset Reef was open, the Company suffered a net loss of about \$67,000.

During the first nine months of 2004 (January 1 to September 30) total Company revenues increased from \$765,589 in 2003 to \$923,166, an increase of 21%.

Future Direction

During its annual meeting held on May 15, 2004 management discussed the advantages and disadvantages of continuing to operate its current business while remaining a publicly traded company. Foremost was the cost to the Company of remaining a publicly trading company, as it is expensive and time consuming. For this reason, the board has questioned the value of remaining a publicly trading Company and has decided it is not in the best interests of the shareholders to operate the hotels as a public entity. As such, we intend to explore the idea of selling the hotels and seeking out business opportunity candidates to merge into the Company. There is no assurance, however, that management will do this.

Liquidity and Capital Resources

During the first nine months of 2004, the Company recorded positive net cash flow of approximately \$2,000. However, prior to this filing, Company operations had resulted in losses. The Company has limited, albeit improving, cash liquidity and capital resources. The Company plans to hold sufficient cash from the sale of assets in reserve to protect against cash flow needs during the 2004.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Actions in Costa Rican Labor Court

At this time there are actions against Central American Equities in the Costa Rican Labor Court that have been brought by former employees who had been dismissed by the Company due to poor performance or insubordination. These employees dispute the reason for their dismissal and, as such, claim they are entitled to additional monetary compensation. The Company considers these actions to be routine litigation that is incidental to the business (as defined under Reg. §228.103). It is anticipated that any contingent liability stemming from these claims will be immaterial to the Company.

Potential Legal Proceeding and Liability Concerning Tax Payments

On November 2002, Hotel Alta owed Tributacion (the Costa Rican taxing authority) approximately \$240,000 in unpaid sales taxes. These taxes have been listed on past balance sheets as an accrued expense. The Costa Rica government offered to all companies in Costa Rica amnesty from interest and penalties for back taxes paid by April 30, 2003. Prior to April 30, 2003, CAE, unable to pay these taxes in cash, proposed that the debt be resolved with the exchange of property worth an equivalent value (part of the parcel in Playa Carmen where Restaurante Tropicana is located). It is the Company's contention that Tributacion accepted this offer on April 30, 2003 and began a process of appraising the property to determine how much of the tax liability was to be cancelled.

In August 2003, Tributacion notified the Company that it would not accept the property in lieu of payment (in whole or in part) and demanded that the Company pay the past due taxes with interest and penalties.

Between August 2003 and August 2004 the Company attempted to negotiate with Tributacion concerning the amount of taxes owed and the applicability and legality of interest and penalties related to those taxes. These negotiations were unsuccessful. As such, on September 13, 2004 the Company brought suit against Tributacion in the Costa Rican constitutional court for not accepting this offer of property in exchange for the outstanding tax liability. The refusal of the offer denied the opportunity for the Company to successfully meet the tax amnesty deadline. Believing it has been denied due process and equal treatment under Costa Rican law, management plans to pursue the case vigorously. It is difficult to evaluate the likelihood of an unfavorable outcome in this case but we estimate it to be at or below 50%. If an unfavorable outcome results, the Company may be liable for interest and penalties of at least \$175,000. The tax liability for past payments due of principal as of September 30, 2004 was approximately \$110,000 (not including potential interest and penalties) and has been accounted for in the financial statements of this filing. As of November 15, 2004, the Company had yet to be notified of the constitutional court's decision if it would hear the merits of the case.

ITEM 2. CHANGES IN SECURITIES

The Company granted 50,000 shares of Class A Common Stock to an employee of the Company in February 2004. No other shares were sold or issued during the nine-month period ended September 30, 2004. As of September 30, 2004 (and November 15, 2004) the Company had 19,789,268 shares of Common Stock issued and outstanding and one million shares of Preferred Stock issued and outstanding. The amount of Class A Common Stock authorized was 25,000,000 shares. At a shareholder meeting in May 2004, the shareholders of the Company authorized the payment of 25,000 shares of stock as compensation for each of the three board directors of the Company. However, as of November 18, 2004, these shares had not yet been issued.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company did not default upon any securities of any kind during the three-month period that ended on September 30, 2004.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 15, 2004 the Company held its annual meeting at Hotel Alta in Santa Ana, Costa Rica. At the meeting a quorum was certified with 14,751,171 shares present or 74.5% of the 19,789,268 shares outstanding. During the meeting:

1. Richard Wm. Talley, Michael Caggiano, and Jim Voloshin were elected to the board of directors with a 96% approval of those shareholders voting.
2. Clyde Bailey was approved as the auditor for the Corporation with a 99% approval of those shareholders voting.
3. The amount of Class A Common Stock authorized was increased from 20,000,000 shares to 25,000,000 shares with a 93% approval of those shareholders voting.
4. The outstanding board director loans were assigned a 5% interest rate with a 93% approval of those shareholders voting.
5. The board directors were each granted 25,000 shares of common stock as compensation with a 93% approval of those shareholders voting (prior to this vote, board members did not receive compensation for board services except reimbursement for expenses).

The Company submitted no other matters to a vote of its security holders during the nine-month period ended September 30, 2004.

ITEM 5. OTHER INFORMATION

See Item 6 below. There is no other information to be filed here.

ITEM 6. EXHIBITS AND REPORTS

No exhibits are filed with this Form 10-QSB. Additional information may be found in the Annual Report on Form 10K of the Registrant for the year ended December 31, 1998, 1999, 2000, 2001, and 2002. No reports were filed on Form 8-K during the last quarter of the period covered by this report.

A report on Form 8-K (disposition of an asset) was filed in July 2004. It reported the sale of Restaurant Tropicana CAE's beach property located in Mal Pais, Costa Rica. CAE sold the property and small structure (a small open-air restaurant, known as Tropicana) to a private buyer. Total consideration for the sale was \$635,000 including previously received earnest money deposits. The price was based primarily on the value of the land. CAE used proceeds from the sale to reduce corporate debt including debt related to taxes due. CAE is currently negotiating to rent Tropicana restaurant and open it during the high season (December to April).

VERIFICATION SIGNATURES

In accordance with Section 12 of the Securities and Exchange Act of 1934, the registrant caused this registration to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL AMERICAN EQUITIES CORP.

BY: Michael N. Caggiano, President/CEO

MICHAEL N. CAGGIANO, President/CEO

CENTRAL AMERICAN EQUITIES CORP.

BY: Richard Wm. Talley, Director

RICHARD WM. TALLEY, DIRECTOR

CENTRAL AMERICAN EQUITIES CORP.

BY: P. James Voloshin, Director

P. James Voloshin, DIRECTOR,

SARBANES-OXLEY ACT Section 302 CERTIFICATIONS

I, Michael Caggiano, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Central American Equities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures; and

(d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael N. Caggiano

Michael N. Caggiano
President and Chief Executive Officer
November 15, 2004

SARBANES-OXLEY ACT SECTION 906 CERTIFICATIONS

I Michael N. Caggiano, President and Chief Executive Officer of Central American Equities Corporation, hereby certify that:

1. The annual report of the registrant on Form 10-Q for the quarter ended September 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the registrant as of the dates and for the periods expressed in the quarterly report.

/s/ Michael N. Caggiano

Name: Michael N. Caggiano
Title: President and Chief Executive Officer
Date: November 15, 2004