2015 ANNUAL REPORT

REGULATED REVENUE GROWTH

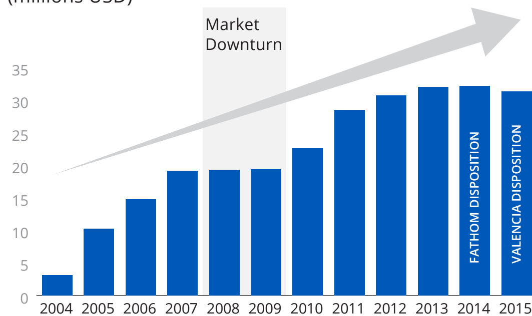
23.5%
CAGR

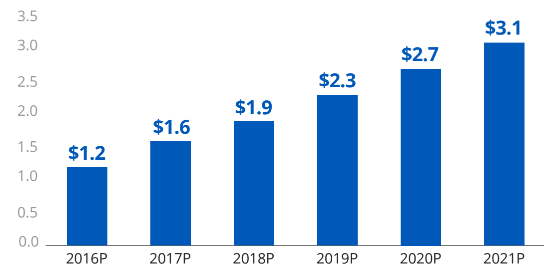
REVENUE GROWTH PURSUANT TO 2014 RATE ORDER

$3.1M
of additional annualized revenue based on 2015 connections

11.0%
increase over 2015 regulated revenue

* Adjusted for the condemnation of Valencia Water Company, Inc.





DIVIDEND POLICY & HISTORY

C$0.3396
current annual dividend (paid monthly)

4.4%
dividend yield (as of 3/31/2016)

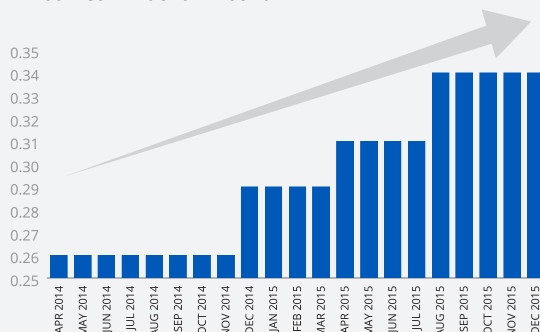
28.6%
increase

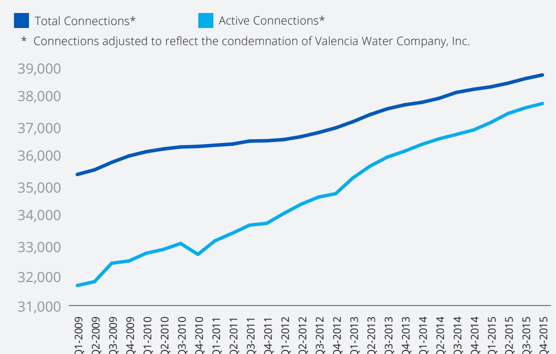
HIGH GROWTH RETURNS TO ARIZONA

37,784
active service connections as of December 2015

2.9%
average annual active connection growth over last 4 years

2.5%
vacancy rate (which continues to decline)





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March 15, 2016

To Our Shareholders:

GWR Global Water Resources Corp. (“**GWRC**”) is pleased to present our management’s discussion and analysis, along with management’s discussion and analysis of Global Water Resources, Inc. (“**GWRI**”), for the year ended December 31, 2015. Because GWRI represents the sole asset of GWRC and is not consolidated into the financial statements of GWRC, management’s discussion and analysis of GWRI for the three and year months ended December 31, 2015 is filed together with management’s discussion and analysis of GWRC.

On behalf of the Board of Directors, management and employees of GWRC and GWRI, I thank you for your ongoing support.

Warm regards,

Mike Liebman
Chief Financial Officer and Corporate Secretary

21410 North 19th Avenue, Suite 220, Phoenix, Arizona 85027

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gwresources.com

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
GWR GLOBAL WATER RESOURCES CORP.

The following management's discussion and analysis of GWR Global Water Resources Corp.'s (the "Company", "GWRC", "we", or "us") financial condition and results of operations dated March 15, 2016 relates to the years ended December 31, 2015 and 2014 and should be read together with our audited consolidated financial statements and related notes as of and for the years ended December 31, 2015 and 2014. Investors should also refer to the 2015 audited financial statements and the accompanying notes and the management's discussion and analysis of Global Water Resources, Inc. ("GWRI") and the Company's current annual information form, all of which are available on the Company's SEDAR profile at www.sedar.com. Financial information of GWRI is not consolidated with the financial statements of GWRC.

Basis of Presentation

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles of the United States ("U.S. GAAP") and, except where otherwise indicated, are presented in U.S. dollars. Unless otherwise indicated, the financial information contained in this management's discussion and analysis has been prepared in accordance with U.S. GAAP and is expressed in U.S. dollars. References to "C$" are to Canadian dollars.

In February 2008, the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) confirmed that publicly accountable enterprises would be required to convert to International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

In September 2010, the AcSB decided to offer an optional one year deferral for converting to IFRS for qualifying entities with rate regulated activities and permit such entities to continue to apply Part V – Pre-changeover accounting standards of the CICA Handbook during that period. The Company is a qualifying entity for purposes of this deferral which we elected.

During 2011, we applied for, and in July 2011 received, an exemption from the Ontario Securities Commission (OSC) allowing the Company and GWRI to adopt U.S. GAAP and defer their conversion to IFRS until financial years beginning on or after January 1, 2015. Accordingly, effective January 1, 2012, we converted to U.S. GAAP.

In June 2014, we were granted an extension of the exemption previously received from the OSC. The extended exemption allows the Company and GWRI to defer the conversion to IFRS until the earliest of: (a) January 1, 2019; (b) if GWRC or GWRI, as applicable, ceases to have activities subject to rate regulation, the first day of the financial year of GWRC or GWRI, respectively, that commences after GWRC or GWRI, respectively, ceases to have activities subject to rate regulation; and (c) the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with rate-regulated activities.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this management's discussion and analysis are forward-looking in nature and may constitute "forward-looking information" within the meaning of applicable securities laws. Often, but not always, forward-looking statements can be identified by the words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates", "objective" and similar expressions. These forward-looking statements include expectations of earnings

growth described in "Outlook." These forward-looking statements reflect management's current expectations regarding GWRC's and GWRI's future growth, results of operations, performance and business prospects and opportunities and other future events and speak only as of the date of this management's discussion and analysis. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. Investors are cautioned not to place undue reliance on forward-looking information. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors" in GWRC's most recent Annual Information Form, which is available on SEDAR at www.sedar.com. Although the forward-looking statements contained in this management's discussion and analysis are based upon what management believes to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. These forward-looking statements are made as of the date of this management's discussion and analysis and neither GWRC nor GWRI assume any obligation to update or revise them to reflect new events or circumstances, except as required by applicable law.

Executive Overview

General – The Company was incorporated under the *Business Corporations Act* (British Columbia) on March 23, 2010 to acquire shares of GWRI, a corporation incorporated in the State of Delaware of the United States of America, and to actively participate in the management, business and operations of GWRI through its representation on the board of GWRI and its shared management with GWRI. The formation of GWRI occurred on December 30, 2010 through a reorganization of Global Water Resources, LLC and its subsidiaries and Global Water Management, LLC (the predecessors of GWRI).

GWRI operates in the Western United States as a water resource management company that owns and operates regulated water, wastewater and recycled water utilities in strategically located communities, principally in metropolitan Phoenix, Arizona. GWRI's model focuses on the broad issues of water supply and scarcity and applies principles of water conservation through water reclamation and reuse. The basic premise of GWRI's business is that the world's water supply is limited and yet can be stretched significantly through effective planning, the use of recycled water and by providing individuals and communities resources that promote wise water usage practices. GWRI deploys its integrated approach, Total Water Management (''TWM''), a term which it uses to mean managing the entire water cycle, both to conserve water and to maximize its total economic and social value. GWRI uses TWM to promote sustainable communities in areas where GWRI expects growth to outpace the existing potable water supply.

On December 30, 2010, the Company completed its initial public offering of 8,185,000 common shares (the "Offering") at C$7.50 per share for gross proceeds totaling C$61,387,500. The Company used the net proceeds of the Offering to acquire 81,850 shares of GWRI common stock. On January 28, 2011, the underwriters of the Offering exercised their over-allotment option and purchased an additional 569,611 common shares at C$7.50 per share. Net proceeds from the exercise of the over-allotment option, after taking into account underwriters' commissions and issuance costs of $262,000, were $4,011,000. The net proceeds of the over-allotment were used to purchase 5,696 shares of GWRI's common stock on January 28, 2011, increasing the Company's ownership interest in GWRI to approximately 48.1%. In 2015 the Company received approval from the Toronto Stock Exchange ("TSX") to repurchase, for cancellation common shares of the Company pursuant to a normal course issuer bid ("NCIB"). As a result of the subsequent share repurchase, the Company's ownership interest GWRI decreased to approximately 47.8% as of December 31, 2015. See "—Outstanding Share Data" for additional information regarding the NCIB.

Stipulated Condemnation of the Operations and Assets of Valencia Water Company — On July 14, 2015, GWRI closed the stipulated condemnation to transfer the operations and assets of Valencia Water Company with the City of Buckeye. Terms of the condemnation were agreed upon through a settlement agreement wherein the City of Buckeye acquired all the operations and assets of Valencia Water Company and assumed operations of the utility upon close. The City of

Buckeye paid GWRI $55.0 million at close, plus an additional $108,000 in working capital adjustments. The City of Buckeye will also pay GWRI a growth premium equal to $3,000 for each new water meter installed within Valencia Water Company's prior service areas, for a 20-year period ending December 31, 2034, subject to a maximum payout of $45.0 million over the term of the agreement. The condemnation of Valencia, combined with the associated tax liability resulted in approximately $22.8 million of additional income in GWRI's financial statements for the year ended December 31, 2015. As a result of GWRI's then 48.0% interest in GWRI, GWRC recorded $11.0 million of additional equity method earnings for the year ended December 31, 2015.

Proposed transaction — On January 19, 2016, GWRC announced that it has agreed to pursue a proposed transaction with GWRI that will result in, subject to the satisfaction of shareholder approval and certain other conditions, GWRC merging with and into GWRI (the "Proposed Transaction"). The Proposed Transaction is part of GWRI's overall plan to simplify its corporate structure by eliminating one level of holding company ownership, refinance its outstanding tax-exempt bonds on more favorable terms (as described below), improve liquidity for shareholders over the medium to long-term and have a single governing jurisdiction in the U.S., where all of the assets, operations and employees of the business are located. As a result of the merger, GWRC will cease to exist as a British Columbia corporation and GWRI, governed by the corporate laws of the State of Delaware, will be the surviving entity. The Proposed Transaction is conditional upon the concurrent completion of a proposed initial public offering of shares of common stock of GWRI in the United States (the "U.S. IPO"). GWRI has filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission in connection with the U.S. IPO.

On completion of the Proposed Transaction, GWRI will have the right to redeem all of its outstanding tax-exempt bonds at a price of 103% of the principal amount, plus interest accrued at the redemption date. As of December 31, 2015, the principal balance of such bonds was U.S.$106.7 million. Following completion of the Proposed Transaction, GWRI plans to refinance these bonds and, based on discussions with lenders, believes it can reduce the effective interest rate on the outstanding balance by 75 to 150 basis points. The refinancing of the GWRI's tax-exempt bonds at reduced interest or at all will depend on a number of factors that are beyond its control including market conditions, and therefore the completion of the bond refinancing cannot be assured.

Subject to the satisfaction of all application conditions, including the requisite shareholder approval and those conditions relating to the U.S. IPO, the Proposed Transaction is expected to close in the second quarter of 2016.

Outlook - Whereas the Company accounts for its investment in GWRI using the equity method of accounting, the carrying value of the investment is adjusted each period to include GWRC's proportionate share of the earnings or losses of the investee. Since the date of the Offering through December 31, 2013, GWRC recorded significant equity investment losses as a result of losses generated by GWRI. However, in February 2014, GWRI completed the regulatory rate case which was initiated by GWRI's utility companies in 2012. The regulatory rate case provided, among other things, additional revenues to GWRI which will be phased-in over time.

The ruling provided for a collective revenue requirement increase of $4.0 million, adjusting for the condemnation of the operations and assets of Valencia, based on 2011 test year service connections. This increase will be phased-in over time, with the first increase taking effect in January 2015 as follows (in thousands of US$):

	Incremental	Cumulative
2015	$ 1,285	$ 1,285
2016	1,089	2,374
2017	335	2,709
2018	335	3,044
2019	335	3,379
2020	335	3,714
2021	335	4,049

This phase-in of additional revenues was determined using a 2011 test year, to the extent that the number of active service connections increases from 2011 levels, the additional revenues may be greater than the amounts set forth above. We expect that the carrying value of GWRC's investment in GWRI will continue to increase.

Additionally, the impact of the rate decision, combined with the effect of reversing the income tax valuation allowance was approximately $32.1 million ($66.8 million multiplied by GWRC's 48.1% interest) of equity method earnings as a result of GWRI's gain in the first quarter ended March 31, 2014.

Please see the accompanying management discussion and analysis of GWRI for more details regarding the completion of the regulatory rate case.

Rate decision No. 74364 is a public document and is posted on the Company's website and at the ACC's eDocket website, http://edocket.azcc.gov under the docket number 12-0309.

Results of operations for the years ended December 31, 2015, 2014 and 2013–The following table summarizes GWRC's results of operations for the years ended December 31, 2015, 2014 and 2013 (in thousands of US$, except per share amounts).

	For the Years Ended December 31,		
	2015	2014	2013
Gain (loss) from equity investment	$ 10,259	$ 31,225	$ (3,628)
Operating expenses	1,846	666	320
Operating income (loss)	8,413	30,559	(3,948)
Income (loss) before income taxes	8,413	30,559	(3,948)
Income tax expense	897	(1,666)	—
Net income (loss)	$ 9,310	$ 28,893	$ (3,948)
Earnings (loss) per share	$ 1.06	$ 3.30	$ (0.45)
Diluted earnings (loss) per share	$ 1.06	$ 3.30	$ (0.45)
Income/(Loss) per share, excluding the net gain on condemnation of Valencia and the gain on GWRI's regulatory order, the effect of the reversal of GWRI's valuation allowance, loss on sale of FATHOM and gain on sale of 303 contracts	$ (0.19)	$ (0.37)	$ (0.53)

Gain (loss) from Equity Investment – Gain from equity investment totaled $10.3 million for the year ended December 31, 2015 compared to the gain of $31.2 million for the year ended December 31, 2014. The gain (loss) from equity investment represents the portion of GWRI's net income (loss) attributed to the equity method investment during the respective period. The amount is calculated based on GWRI's net income (loss) for the years ended December 31, 2015 and 2014, multiplied by GWRC's equity interest in GWRI. The gain from equity investment for the year ended December 31, 2015 primarily reflects the Company recording its $11.0 million proportionate share of GWRI's gain on condemnation of Valencia. The gain from equity investment for the year ended December 31, 2014 primarily reflects the Company recording its $32.1 million proportionate share of GWRI's gain on regulatory order relating to the ACC's February 2014 Rate Decision No. 74364 and GWRI's deferred tax valuation allowance reversal. For a discussion of GWRI's results of operations, please see GWRI's management's discussion and analysis, which is available on the Company's SEDAR profile at www.sedar.com.

We evaluate our investment in GWRI for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. In February 2014, GWRI completed the regulatory rate case which was initiated by GWRI's utility companies in 2012. The regulatory rate case provides, among other things, additional revenues to GWRI which will be phased-in over time. As of December 31, 2014, GWRI evaluated the impact of the rate case decision, including whether sufficient evidence existed

that GWRI's net deferred tax assets would be utilized in the future, thus allowing the reversal of the valuation allowance currently recorded at GWRI. With the exception of the phase-in of new rates to be charged to GWRI's utility customers, the impact of the rate decision was effective for GWRI in the first quarter of 2014. The impact of the rate decision, combined with the effect of reversing the valuation allowance, resulted in approximately $66.8 million of additional income in GWRI's financial statements for the year ended December 31, 2014. As a result of GWRC's then 48.1% interest in GWRI, GWRC recorded a total of $31.2 million of equity method earnings for the year ended December 31, 2014, which had the effect of significantly increasing the carrying value of GWRC's investment in GWRI. The Company performed an analysis comparing the carrying value of GWRC's investment in GWRI with its estimated fair value, and we concluded that an impairment of the investment did not exist as of December 31, 2014.

In July 2015, GWRI closed the condemnation of the operations and assets of Valencia Water company. As a result of GWRC's then 48.0% interest in GWRI, GWRC recorded $11.0 million of equity method earnings for the year ended December 31, 2015, which had the effect of significantly increasing the carrying value of GWRC's investment in GWRI. This increase in investment was offset by a special one-time dividend paid in August 2015, wherein $10.4 million was paid out to shareholders of record as of August 8, 2015. The Company performed an analysis comparing the carrying value of GWRC's investment in GWRI with its estimated fair value, and concluded that an impairment of the investment did not exist as of December 31, 2015. However, this analysis is sensitive to management assumptions including forecasted results of GWRI and as a result, changes in these assumptions could have a material impact on the analysis.

Operating Expenses – Operating expenses for the years ended December 31, 2015 and 2014 consisted primarily of compensation provided to the independent members of the Company's board of directors, accounting and legal fees, directors' and officers' insurance, listing fees and other costs directly associated with operating as a publicly traded company.

Net Income (Loss) – Net income (loss) was determined by deducting operating and income tax expenses from gain (loss) from equity investment income. For the years ended December 31, 2015 and 2014, the Company experienced net income of $9.3 million and $28.9 million, respectively. Net income for the year ended December 31, 2015 primarily reflects GWRC's nonrecurring gain of $11.0 million related to our 48.0% share of GWRI's $22.8 million net gain on the condemnation of Valencia. Net income for the year ended December 31, 2014 primarily reflects GWRC's 48.1% portion of (i) a nonrecurring gain of $50.7 million recognized by GWRI upon receipt of a regulatory order from GWRI's economic regulator, and (ii) GWRI's release of its deferred income tax valuation allowance of $16.1 million during the 2014 period. Excluding these items, the Company experienced a loss of $1.7 million, or $0.19 per share, for the year ended December 31, 2015 and a loss of $3.2 million, or $0.37 per share, for the year ended December 31, 2014. The following table sets forth financial data for the last eight quarters ended December 31, 2015 (in thousands of US $). This financial information has been derived from the interim financial statements prepared by, and is the responsibility of, the Company's management.

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
GAIN (LOSS) FROM EQUITY INVESTMENT	$ (15)	$ 10,520	$ 194	$ (440)	$ (403)	$ (13)	$ (235)	$ 31,876
OPERATING EXPENSES	521	829	262	234	127	131	262	146
OPERATING INCOME (LOSS)	(536)	9,691	(68)	(674)	(530)	(144)	(497)	31,730
INCOME (LOSS) BEFORE INCOME TAXES	(536)	9,691	(68)	(674)	(530)	(144)	(497)	31,730
INCOME TAX BENEFIT (EXPENSE)	158	707	(81)	113	110	(250)	311	(1,837)
NET INCOME (LOSS)	$ (378)	$ 10,398	$ (149)	$ (561)	$ (420)	$ (394)	$ (186)	$ 29,893
EARNINGS (LOSS) PER SHARE	$ (0.04)	$ 1.19	$ (0.02)	$ (0.06)	$ (0.05)	$ (0.04)	$ (0.02)	$ 3.41
DILUTED EARNINGS (LOSS) PER SHARE	$ (0.04)	$ 1.19	$ (0.02)	$ (0.06)	$ (0.05)	$ (0.04)	$ (0.02)	$ 3.41
Loss per share, excluding gain on condemnation of Valencia, gain on GWRI's regulatory order and the effect of GWRI's valuation allowance	$ (0.04)	$ (0.07)	$ (0.02)	$ (0.06)	$ (0.05)	$ (0.04)	$ (0.02)	$ (0.26)

Outstanding Share Data

As of March 15, 2016, there were 8,726,748 common shares of the Company outstanding with no options to acquire additional common shares of GWRC as the 209,591 options outstanding as of December 31, 2015 expired in January 2016.

Liquidity and Capital Resources

We are economically dependent on GWRI. Our ability to service operating costs and pay distributions (if any) is entirely dependent on the receipt of distributions from GWRI. Significant events affecting or transactions involving GWRI could materially influence our ability to make such payments.

We do not carry on any active business operations as our activities are generally restricted to holding securities of our equity investee, GWRI. To date, we have not incurred debt to finance our investments. Therefore, our capital structure is composed solely of our shareholders' equity.

To date, capital resources have been provided from equity financing, and there were no cash flows of the Company for the years ended December 31, 2015 and 2014, respectively, with the exception of certain cash advances and dividends from GWRI, which are discussed below. GWRI funded the operating expenses incurred by the Company through December 31, 2015. See Notes 3 and 6 to GWRC's financial statements for the years ended December 31, 2015 and 2014.

In March 2014, the Company initiated a dividend program to declare and pay a monthly dividend. The initial monthly dividend was C$0.0220 per share. In November 2014 the Company increased the monthly dividend to $0.0240 per share. In March 2015, the Company increased the monthly dividend to C$0.0260 per share. In July 2015, the Company further increased the monthly dividend to C$0.0283 per share. The Company expects that monthly dividends of similar amounts will be declared and paid for the foreseeable future. Nevertheless, the ability of the Company to maintain its dividend program is dependent upon GWRI making distributions to the Company. Declaration of dividends is at the discretion of the Company's board of directors.

Insurance Coverage

As we do not carry on any active business operation, the Company does not carry insurance coverage other than a $15,000,000 Directors' and Officers' Liability insurance policy. GWRI carries financial insurance policies with limits,

deductibles and exclusions consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims.

Contractual Obligations and Commitments

GWRC had no significant contractual obligations or commitments with third parties as of December 31, 2015.

Quantitative and Qualitative Disclosure about Market Risk

Through its equity interest in GWRI, the Company is indirectly exposed to market risk associated with changes in interest rates and with price increases for chemicals, electricity and labor that affect the business of GWRI. However, the potential for an increase is mitigated by GWRI's ability to recover its costs through rate increases to its customers as well as the fact that it holds fixed-rate debt.

The Company's future performance and financial condition involves a number of risks and uncertainties. Any of these risks and uncertainties could have a material adverse effect on the results of operations, business prospects and financial condition of GWRI, the Company or the market price or value of the Company's common shares. These risks are discussed in the Company's most recent Annual Information Form, which is available on SEDAR at www.sedar.com.

Related Party Transactions

Except for the Chief Executive Officer and Chief Financial Officer (who serve in the same roles at GWRI and who receive no compensation from the Company in connection with their roles), we have no employees and the management and general administration services for our business and affairs are provided by GWRI pursuant to a management agreement. Services provided by GWRI are provided at no charge to the Company.

The management agreement may be terminated (i) by the Company, in its sole discretion, by notice in writing to GWRI at least 30 days prior to the effective date of termination; (ii) by either party in the event of the termination of the existence of the Company or the insolvency, receivership or bankruptcy of GWRI, or in the case of default by the other party in the performance of a material obligation under the management agreement which is not remedied within 30 days after notice thereof has been delivered to the defaulting party; or (iii) if the Company no longer holds voting securities of GWRI.

For a description of the specific services provided by GWRI to the Company under the management agreement, please refer to the management agreement, a copy of which has been filed on SEDAR at www.sedar.com.

Stock option grant to employees of GWRI – In January 2012, the Company's Board of Directors granted 385,697 options to acquire GWRC common stock to nine employees of GWRI pursuant to the GWR Global Water Resources Corp. Stock Option Plan (the "Option Plan"). The options vested in equal installments over the eight quarters of 2012 and 2013 and expire four years after the date of issuance. We account for the option grant in accordance with FASB's Accounting Standards Codification (ASC) 323, *Investment-Equity Method & Joint Ventures.* At December 31, 2012, the estimated fair value of the unvested options was $33,000 based on a Black-Scholes pricing model. The options were initially measured on June 30, 2012, the first period-end following the date when the Option Plan received shareholder approval. The Company remeasured the fair value of the award at the end of each period until the options became fully vested on December 31, 2013.

In the third quarter of 2015, 59,636 options were exercised by two individuals, with an exercise price of C$4.00 per option. As of December 31, 2015, 209,591 options were outstanding compared to 269,227 as of December 31, 2014. In January 2016, all outstanding options expired.

Proposed transaction between GWRC and GWRI – For a description of the proposed transaction between the Company and GWRI, please refer to "Executive Overview—Proposed Transaction."

Off Balance Sheet Arrangements

As of December 31, 2015 and December 31, 2014, we do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The application of critical accounting policies is particularly important to GWRC's financial condition and results of operations and provides a framework for management to make significant estimates, assumptions and other judgments. Additionally, GWRC's financial condition, results of operations and cash flow are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. Although GWRC's management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain and that may change in subsequent periods. Accordingly, changes in the estimates, assumptions and other judgments applied to these accounting policies could have a significant impact on GWRC's financial condition and results of operations as reflected in GWRC's financial statements.

A summary of GWRC's significant accounting policies used in the preparation of its financial statements appears in Note 2 of GWRC's financial statements for years ended December 31, 2015 and 2014. GWRC has identified policies related to the application of the equity method to its investment in GWRI and its assessment of impairment of such investment as critical to its business operations and the understanding of its results of operations. Management has reviewed those critical accounting policies and the associated estimates and assumptions.

Additionally, as indicated above, effective January 1, 2012, the Company and GWRI prepare their financial statements in accordance with U.S. GAAP. See also Note 1 to GWRC's financial statements for the year ended December 31, 2015.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated our disclosure controls and procedures. Based on that evaluation, they have concluded that our disclosure controls and procedures are effective in providing them with timely material information relating to the Company.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with U.S and Canadian GAAP.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and procedures over financial reporting will prevent all error and all fraud. A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions

about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated the design and operation of our internal control over financial reporting as of December 31, 2015, and concluded that such internal control over financial reporting is effective as of December 31, 2015. There are no material weaknesses that have been identified by management in this regard. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013).

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Other Required Disclosures

Additional information relating to GWRC, including the Company's Annual Information Form, has been filed on SEDAR at www.sedar.com.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
GLOBAL WATER RESOURCES, INC.

The following management's discussion and analysis of Global Water Resources, Inc.'s (the "Company", "GWRI", "we", or "us") financial condition and results of operations dated March 15, 2016 relates to the years ended December 31, 2015 and 2014 and should be read together with the consolidated financial statements and accompanying notes of GWRI as well as GWR Global Water Resources Corp.'s ("GWRC") financial statements and associated management's discussion and analysis and current annual information form, all of which are available on GWRC's SEDAR profile at www.sedar.com. Financial information of GWRC is not consolidated with financial information of GWRI.

Basis of Presentation

The financial statements of Global Water Resources, Inc. have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and, except where otherwise indicated, are presented in U.S. dollars. Unless otherwise indicated, the financial information contained in this management's discussion and analysis has been prepared in accordance with U.S. GAAP and is expressed in U.S. dollars and references to "$", "US$" and "dollars" are to U.S. dollars. References to "C$" are to Canadian dollars.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this management's discussion and analysis are forward-looking in nature and may constitute "forward-looking information" within the meaning of applicable securities laws. Often, but not always, forward-looking statements can be identified by the words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates", "objective", "goal", "focus", "aim" and similar expressions. These forward-looking statements include future estimates described in "Business Outlook", "Factors Affecting our Results of Operations," and expectations of future liquidity in "Liquidity and Capital Resources", and of future market risk in "Quantitative and Qualitative Disclosure about Market Risk." These forward-looking statements reflect management's current expectations regarding the GWRC's and GWRI's future growth, results of operations, performance and business prospects and opportunities and other future events and speak only as of the date of this management's discussion and analysis. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. Investors are cautioned not to place undue reliance on forward-looking information. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors" in GWRC's most recent Annual Information Form, which is available on GWRC's SEDAR profile at www.sedar.com. Although the forward-looking statements contained in this management's discussion and analysis are based upon what management believes to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. These forward-looking statements are made as of the date of this management's discussion and analysis and neither GWRI nor GWRC assumes any obligation to update or revise them to reflect new events or circumstances, except as required by applicable law.

Overview

We are a leading water resource management company that owns, operates and manages water, wastewater and recycled water utilities in strategically located communities, principally in metropolitan Phoenix, Arizona. We seek to deploy our integrated approach, which we refer to as "Total Water Management," a term we use to mean managing the entire water cycle by owning and operating the water, wastewater and recycled water utilities within the same geographic

areas in order to both conserve water and maximize its total economic and social value. We use Total Water Management to promote sustainable communities in areas where we expect growth to outpace the existing potable water supply. Our model focuses on the broad issues of water supply and scarcity and applies principles of water conservation through water reclamation and reuse. Our basic premise is that the world's water supply is limited and yet can be stretched significantly through effective planning, the use of recycled water and by providing individuals and communities resources that promote wise water usage practices.

Business Outlook

2014 and 2015 continued the trend of positive growth in new connections and re-establishing service on existing previously vacant homes. According to the 2010 U.S. Census Data, the Phoenix metropolitan statistical area ("MSA") had a population of 4.2 million in 2010 and is the 14th largest MSA in the U.S., an increase of 29% over the 3.25 million people in the 2000 Census. Metropolitan Phoenix's growth data continues to improve due to its low-cost housing, excellent weather, large and growing universities, a diverse employment base and low taxes. The Employment and Population Statistics Department of the State of Arizona predicts that Maricopa County will have a population of 4.5 million by 2020 and 6.0 million by 2040. During the twelve months ended December 31, 2015 Arizona's employment rate improved by 2.5%, ranking the state in the top eight nationally for job growth.

Also, according to the W.P. Carey School of Business Greater Phoenix Blue Chip Real Estate Consensus panel, most sectors of real estate are expected to experience improved occupancy and growth. For Maricopa County and Pinal County combined, the W.P. Carey School of Business, using U.S. Census data, reported that after a decline to fewer than 7,400 units in 2010, single family housing permits bounced back to 11,821 units in 2012, and continued to climb in 2013 to 12,771 units. The same data indicated permits for 2014 declined to approximately 11,700 units at year end. However, for the year ended December 31, 2015, permits were up approximately 43% to 16,768 units in Maricopa and Pinal Counties combined, and the forecast for 2016 remains positive at approximately 20,000 units. From there, we believe growth in the region could steadily return to its normal historical rate of greater than 30,000 single family dwelling permits. Additionally, multifamily, office, retail, and industrial market occupancy rates continued to increase in 2015 compared to 2014 and are expected to continue to increase through 2016. Phoenix was one of the worst performing housing markets during the housing downturn, but home prices have risen on average 7.85% per year over the past three years ending December 2015, according to the S&P/Case-Shiller Phoenix Home Price Index.

We believe that our acquired utilities and service areas are directly in the anticipated path of growth primarily in the metropolitan Phoenix area. Market data indicates that our service areas currently incorporate a large portion of the final platted lots, partially finished lots and finished lots in metropolitan Phoenix. Management believes that the Company is well-positioned to benefit from the near-term growth in metropolitan Phoenix due to the availability of lots and existing infrastructure in place within our services areas.

Factors Affecting our Results of Operations

Our financial condition and results of operations are influenced by a variety of industry-wide factors, including but not limited to:

- population and community growth;
- economic and environmental utility regulation;
- economic environment;
- the need for infrastructure investment;
- production and treatment costs;
- weather and seasonality; and

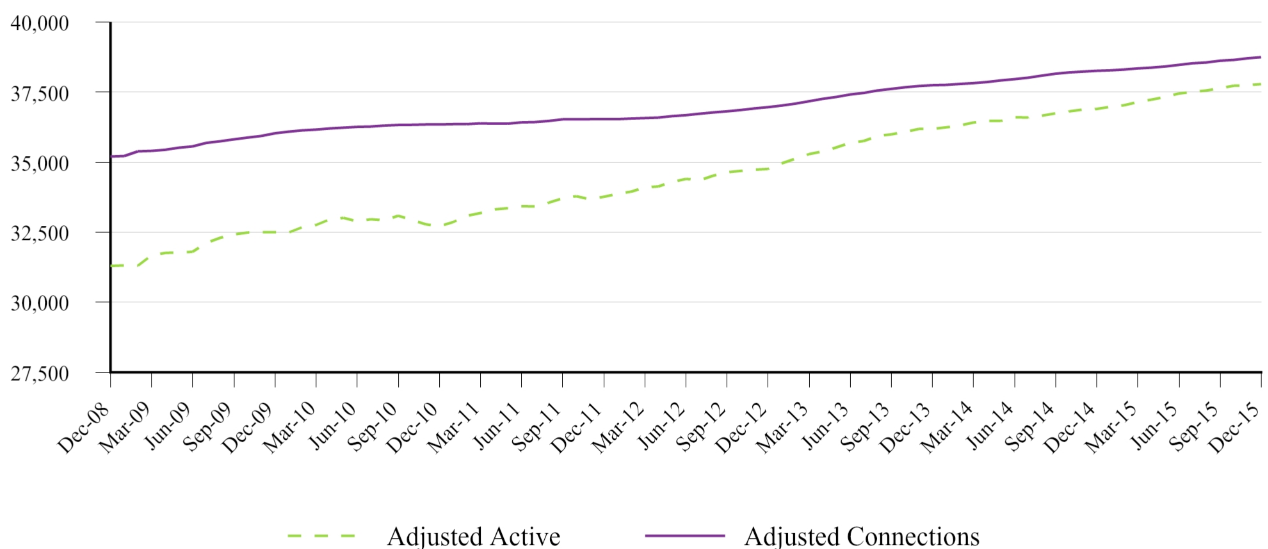
- access to and quality of water supply.

We are subject to economic regulation by the state regulator, the Arizona Corporation Commission. The US federal and state governments also regulate environmental, health and safety and water quality matters. We continue to execute on our strategy to optimize and focus the Company in order to provide greater value to our customers and shareholders by aiming to deliver predictable financial results, making prudent capital investments and focusing our efforts on earning an appropriate rate of return on our investments.

Population and Community Growth

Population and community growth in the metropolitan Phoenix area served by our utilities have a direct impact on our earnings. An increase or decrease in our active service connections will affect our revenues and variable expenses in a corresponding manner. Due to the condemnation of the operations and assets of Valencia Water Company in July 2015 (see - "Recent Events" below), total service connections, which include active service connections and connections to vacant homes, decreased to 38,744 as of December 31, 2015 from 45,235 as of December 31, 2014. Our active service connections decreased to 37,784 as of December 31, 2015, with approximately 94.9% being serviced by our Santa Cruz and Palo Verde utilities, compared to 43,568 as of December 31, 2014. See "Risk Factors—Our active service connections are primarily concentrated in one water utility and one wastewater utility," in GWRC's most recent Annual Information Form, which is available on GWRC's SEDAR profile at www.sedar.com.

Adjusting for the condemnation of the operations and assets of Valencia Water Company, we continue to see a positive trend in new connections combined with re-establishing service to existing homes. As illustrated in the graph below, which reflects the adjustment for the condemnation of the operations and assets of Valencia Water Company, adjusted total connections totaled 38,744 as of December 31, 2015 compared to 38,262 as of December 31, 2014, which represents an increase of 482 connections, or an annualized increase of approximately 1.3%. Adjusted active connections totaled 37,784 as of December 31, 2015 compared to 36,895 as of December 31, 2014, which represents an increase of 889 connections, or an annualized increase of approximately 2.4%.



During the economic downturn beginning in 2008, our utilities experienced an increase in the number of vacant homes, reaching a peak of 4,647 vacant connections as of February 28, 2009, approximately 11.2% of our total connections at the time; however, the negative trend began to reverse thereafter with the number of vacant homes decreasing to 960 or 2.5% of total connections at December 31, 2015.

Economic and Environmental Utility Regulation

We are subject to extensive regulation of our rates by the Arizona Corporation Commission, which is charged with establishing rates based on the provision of reliable service at reasonable cost while also providing an opportunity to earn a fair rate of return on rate base for investors of utilities. The Arizona Corporation Commission uses a historical test year to evaluate whether the plant in service is used and useful, to assess whether costs were prudently incurred and to set "just and reasonable" rates. Rate base is typically the depreciated original cost of the plant in service (net of contributions in aid of construction ("CIAC") and advances in aid of construction ("AIAC") which are funds or property provided to a utility under the terms of a collection main extension agreement, the value of which may be refundable), that has been determined to have been "prudently invested" and "used and useful" although the reconstruction cost of the utility plant may also be considered in determining the rate base. The Arizona Corporation Commission also decides on an applicable capital structure based on actual or hypothetical analyses. The Arizona Corporation Commission determines a "rate of return" on that rate base, which includes the approved capital structure and the actual cost of debt and a fair and reasonable cost of equity based on the Arizona Corporation Commission's judgment. The overall revenue requirement for rate making purposes is established by multiplying the rate of return by the rate base, and adding "prudently" incurred operating expenses for the test year, depreciation and any applicable pro forma adjustments.

To ensure an optimal combination of access to water and water conservation balanced with a fair rate of return for investors, our water utility operating revenue is based on two components: a fixed fee and a consumption or volumetric fee. For our water utilities, the fixed fee, or "basic service charge," provides access to water for residential usage and has generally been set at a level to produce 50% of total revenue. The volumetric fee is based on the total volume of water supplied to a given customer after the minimum number of gallons, if any, covered by the basic service charge, multiplied by a price per gallon set by a tariff approved by the Arizona Corporation Commission. A discount to the volumetric rate applies for customers that use less than an amount specified by the Arizona Corporation Commission. For all investor-owned water utilities, the Arizona Corporation Commission requires the establishment of inverted tier conservation oriented rates, meaning that the price of water increases as consumption increases. For wastewater utilities, wastewater collection and treatment can be based on volumetric or fixed fees. Our wastewater utility services are billed based solely on a fixed fee, determined by the size of the water meter installed. Recycled water is sold on a volumetric basis with no fixed fee component.

We are required to file rate cases with the Arizona Corporation Commission to obtain approval for a change in rates. Rate cases and other rate-related proceedings can take a year or more to complete. As a result, there is frequently a delay, or regulatory lag, between the time of a capital investment or incurrence of an operating expense increase and when those costs are reflected in rates. In normal conditions, it would not be uncommon to see us file for a rate increase every three years based on year one being the test year, year two being the rate case filing year and year three being the rate case award year. However, based on the recent settlement with the Arizona Corporation Commission and extended new rate phase-in period, we will not be initiating the next rate case on this timeline. Moving forward, we will continue to analyze all factors that drive the requirement for increased revenue, including our rate of investment and recurring expenses, and determine the appropriate test year for a future rate case. See "—Recent Rate Case Activities."

Our water and wastewater operations are also subject to extensive United States federal, state and local laws and regulations governing the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights and the manner in which we collect, treat and discharge wastewater. We are also

required to obtain various environmental permits from regulatory agencies for our operations. The Arizona Corporation Commission also sets conditions and standards for the water and wastewater services we deliver. We incur substantial costs associated with compliance with environmental, health and safety and water quality regulation.

Environmental, health and safety and water quality regulations are complex and change frequently, and they have tended to become more stringent over time. As newer or stricter standards are introduced, they could increase our operating expenses. We would generally expect to recover expenses associated with compliance for environmental, health and safety standards through rate increases, but this recovery may be affected by regulatory lag.

Economic Environment

The growth of our customer base depends almost entirely on the success of developers in developing residential and commercial properties within our service areas. Real estate development is a cyclical industry and the growth rate of development, especially residential development, since 2006, both nationally and in Arizona has been below historical rates. In addition, development in our service areas is contingent upon construction or acquisition of major public improvements, such as arterial streets, drainage facilities, telephone and electrical facilities, recreational facilities, street lighting and local in-tract improvements (e.g., site grading). Many of these improvements are built by municipalities with public financing, and municipal resources and access to capital may not be sufficient to support development in areas of rapid population growth.

See "Risk Factors—Our growth depends significantly on increased residential and commercial development in our service areas, and if developers or builders are unable to complete additional residential and commercial projects, our revenue may not increase" and "Risk Factors—A deep or prolonged slowdown of the development process and growth rate within the various developments in our service areas could materially and adversely affect the growth of our customer base and revenues" in GWRC's most recent Annual Information Form, which is available on GWRC's SEDAR profile at www.sedar.com for additional information.

Infrastructure Investment

Capital expenditures for infrastructure investment are a component of the rate base on which our regulated utility subsidiaries are allowed to earn an equity return. Capital expenditures for infrastructure provide a basis for earnings growth by expanding our "used and useful" rate base, which is a component of its permitted return on investment and revenue requirement. We are generally able to recover a rate of return on these capital expenditures (return on equity and debt), together with debt service and certain operating costs, through the rates we charge.

We have made significant capital investments in our territories within the last twelve years, and because the infrastructure is new, we do not expect significant capital, either for growth or to maintain the existing infrastructure, to be required in the near term. Nevertheless, we will repair and replace existing infrastructure as needed. We need to make non-growth capital investments on an ongoing basis to comply with existing and new regulations, to renew treatment and network assets as they age, to enhance system reliability, and to provide security and quality of service. The need for continuous investment can present a challenge due to the potential for regulatory lag in rate increases described above. See "—Factors Affecting Our Results of Operations."

Production and Treatment Costs

Our water and wastewater services require significant production resources and therefore result in significant production costs. Although we are permitted to recover these costs through the rates we charge, regulatory lag can decrease our margins and earnings if production costs or other operating expenses increase significantly before we are able to recover them through increased rates. Our most significant costs include labor, chemicals used to treat water and wastewater, and power used to operate pumps and other equipment. Power and chemical costs can be volatile. However, we employ

a variety of technologies and methodologies to minimize costs and maximize operational efficiencies. Additionally, with our Total Water Management approach, whereby we maximize the direct beneficial reuse of recycled water, we can realize significant treatment costs and power savings because smaller volumes of water are required for potable use. Many utilities require that all water be treated to potable standards irrespective of use. Total Water Management focuses on the right water for the right use. Potable water is needed for consumption and recycled water is acceptable for non-potable uses such as irrigation and toilet flushing. Non-potable water does not need to be treated for commonly occurring and regulated constituents such as arsenic, or for other current or future human consumption health-based contaminants.

Weather and Seasonality

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, overuse of sources of water, the protection of threatened species or habitats or other factors may limit the availability of ground and surface water. Also, customer usage of water is affected by weather conditions, particularly during the summer. Our water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for irrigation and other outdoor uses. However, summer weather that is cooler or wetter than average generally suppresses customer water demand and can have a downward effect on our operating revenue and operating income. Conversely, when weather conditions are extremely dry, our business may be affected by government-issued drought-related warnings and/or water usage restrictions that would artificially lower customer demand and reduce our operating revenue. The limited geographic diversity of our service areas could make the results of our operations more sensitive to the effect of local weather extremes The second and third quarters of the year are generally those in which water services revenue and wastewater services revenue are highest. Accordingly, interim results should not be considered representative of the results of a full year.

Access to and Quality of Water Supply

In many areas of Arizona (including certain areas that we service), water supplies are limited and, in some cases, current usage rates exceed sustainable levels for certain water resources. We currently rely predominantly (and are likely to continue to rely) on the pumping of groundwater and the generation and delivery of recycled water for non-potable uses to meet future demands in our service areas. At present, groundwater (and recycled water derived from groundwater) is the primary water supply available to us. In addition, regulatory restrictions on the use of groundwater and the development of groundwater wells, lack of available water rights, drought, overuse of local or regional sources of water, protection of threatened species or habitats or other factors, including climate change, may limit the availability of ground or surface water.

See “Risk Factors—Inadequate water and wastewater supplies could have a material adverse effect upon our ability to achieve the customer growth necessary to increase our revenues” and “Risk Factors—There is no guaranteed source of water” in GWRC’s most recent Annual Information Form, which is available on GWRC’s SEDAR profile at www.sedar.com for additional information.

Recent Rate Case Activities

On September 15, 2010, the Arizona Corporation Commission issued Rate Decision No. 71878 for the rate cases filed in February 2009 for the following utilities: Santa Cruz, Palo Verde, Valencia Water Company, Water Utility of Greater Buckeye, Inc. (“Greater Buckeye”), Water Utility of Greater Tonopah, Inc. (“Greater Tonopah”) and Willow Valley Water Co., Inc. (“Willow Valley”). The Arizona Corporation Commission established new rates for the utilities resulting in approximately $9.6 million of additional annual revenues retroactive to August 1, 2010, including a phase-in of rates for Palo Verde on January 1, 2011 and January 1, 2012. The Arizona Corporation Commission established new rates based on connections during the 2008 test year for the recovery of reasonable costs incurred by the utilities. Such rate

changes increased rates for water and wastewater services for all but one of our utilities, Greater Tonopah (for which rates were reduced), resulting in a collective overall 47% increase over previous rates.

On July 11, 2012, we filed rate applications with the Arizona Corporation Commission to adjust the revenue requirements for seven utilities. In August 2013, the Company entered into a settlement agreement with the Arizona Corporation Commission staff, the Residential Utility Consumers Office, the City of Maricopa, and other parties to the rate case. The settlement required approval by the Arizona Corporation Commission's commissioners before it could take effect. In February 2014, the rate case proceedings were completed and the Arizona Corporation Commission issued Rate Decision No. 74364, approving the settlement agreement. The collective rate increase included a 9.5% return on common equity which contributed to a 15% increase over revenue in 2011.

For our utilities, adjusting for the condemnation of the operations and assets of Valencia Water Company, the settlement provided for a collective aggregate revenue requirement increase of $4.0 million based on 2011 test year service connections, phased-in over time, with the first increase in January 2015 as follows (in thousands of dollars):

	Incremental	Cumulative
2015	$ 1,285	$ 1,285
2016	1,089	2,374
2017	335	2,709
2018	335	3,044
2019	335	3,379
2020	335	3,714
2021	335	4,049

Whereas this phase-in of additional revenues was determined using a 2011 test year, to the extent that the number of active service connections has increased and continues to increase from 2011 levels, the additional revenues will be greater than the amounts set forth above. On the other hand, if we experience declining usage per customer, we may not realize all of the anticipated revenues.

From 2003 to 2008, we entered into approximately 183 infrastructure coordination and financing agreements with developers and landowners covering approximately 275 square miles. Under these agreements, we have a contractual obligation to the developers and landowners to ensure that amongst other things, physical capacity exists through our regulated utilities for water and wastewater to the landowner/developer when needed. We receive fees from the landowner/developer for undertaking these obligations that typically are a negotiated amount per planned equivalent dwelling unit for the specified development or parcel of land. Payments are generally due to us from the landowner/developer based on progress of the development, with a portion due upon signing of the agreement, a portion due upon completion of certain milestones, and the final payment due upon final plat approval or sale of the subdivision. The payments are non-refundable. Our investment can be considerable, as we may phase-in the construction of facilities in accordance with a regional master plan, as opposed to a single development.

Prior to January 1, 2010, we accounted for funds received under infrastructure coordination and financing agreements as revenue once the obligations specified in the agreements were met. As these arrangements are with developers and not with the end water or wastewater customer, the timing of revenue recognition coincided with the completion of our performance obligations under the agreement with the developer and with our ability to provide fitted capacity for water and wastewater service to the applicable development or parcel through our regulated subsidiaries. In Rate Decision No. 71878 in 2010, the Arizona Corporation Commission imputed a reduction to our rate base for all amounts we collected under these agreements as the Commission deemed these payments to be contributions in aid of construction for rate making purposes. As a result of that decision, effective January 1, 2010, we changed our accounting policy for the accounting of infrastructure coordination and financing agreement funds and recorded these funds received as

contributions in aid of construction. Thereafter, the infrastructure coordination and financing agreement-related contributions in aid of construction were amortized as a reduction of depreciation expense over the estimated depreciable life of the utility plant at the related utilities. The balance of infrastructure coordination and financing agreement related contributions in aid of construction, net of accumulated amortization, totaled approximately $64.1 million as of December 31, 2013.

Pursuant to Rate Decision No. 74364 in 2014, the Arizona Corporation Commission changed how infrastructure coordination and financing agreement funds would be characterized and accounted for going forward. Most notably, infrastructure coordination and financing agreement funds that we previously received would no longer be required to reduce future rates as a result of the ratemaking process. We have eliminated the CIAC liability that is no longer required and reversed the associated regulatory liability brought about by Rate Decision No. 74364 by recording a gain of $50.7 million for the year ended December 31, 2014. These funds which were already received or which had become due prior to the date of Rate Decision No. 74364 would be accounted for in accordance with our infrastructure coordination and financing agreement revenue recognition policy that had been in place prior to Rate Decision No. 71878 in 2010. For infrastructure coordination and financing agreement funds to be received in the future, Rate Decision No. 74364 prescribes that 70% of these funds will be recorded as a hook-up fee liability, with the remaining 30% to be recorded as deferred revenue, to be accounted for in accordance with our infrastructure coordination and financing agreement revenue recognition policy.

We now account for the portion of future payments received under these agreements allocated to hook-up fee liability as contributions in aid of construction. However, from the regulator's perspective, hook-up fees do not impact rate base until the related funds are expended. These funds are segregated in a separate bank account and used for plant. A hook-up fee liability, once established, will be relieved once the funds are used for the construction of plant. For facilities required under a hook-up fee or infrastructure coordination and financing agreement, we must first use the hook-up fee funds received, after which we may use debt or equity financing for the remainder of construction. The 30% deferred revenue portion of these fees is recognized as revenue once the obligations specified within the applicable infrastructure coordination and financing agreement are met.

We have agreed to not enter into any new infrastructure coordination and financing agreements, and instead will utilize hook-up fee tariffs, which have become an acceptable industry practice in Arizona. As part of the settlement, a hook-up fee tariff was established for each utility. Existing infrastructure coordination and financing agreements will remain in place, but a portion (approximately 70%) of future payments to be received under the infrastructure coordination and financing agreements will be considered as hook-up fees, which are accounted for as contributions in aid of construction once expended on plant (i.e., hook-up fees will be recorded as a liability, but will only reduce rate base once such funds are expended on plant). The remaining approximate 30% of future infrastructure coordination and financing agreement payments will be recognized using the same income recognition accounting applied to infrastructure coordination and financing agreement funds already received, wherein such funds will be recorded as revenue or deferred revenue.

In addition to infrastructure coordination and financing agreements, we have various line extension agreements with developers and builders, whereby funds, water line extensions, or wastewater line extensions are provided to us by the developers and are considered refundable advances for construction. These advances in aid of construction are subject to refund by us to the developers through annual payments that are computed as a percentage of the total annual gross revenue earned from customers connected to utility services constructed under the agreement over a specified period. Upon the expiration of the agreements' refunding period, the remaining balance of the advances in aid of construction becomes nonrefundable and at that time is considered contributions in aid of construction. Contributions in aid of construction are amortized as a reduction of depreciation expense over the estimated remaining life of the related utility plant. For rate-making purposes, an utility plant funded by advances in aid of construction and contributions in aid of

construction is excluded from rate base. For the year ended December 31, 2014, we transferred $7.4 million of advances in aid of construction balances to contributions in aid of construction for amounts for which the refunding period had expired. For the year ended December 31, 2015, we did not transfer any advances in aid of construction balances to contributions in aid of construction.

Recent Events

Proposed Transaction

On January 19, 2016, GWRC announced that it has agreed to pursue a proposed transaction with the Company that will result in, subject to the satisfaction of shareholder approval and certain other conditions, GWRC merging with and into the Company (the "Proposed Transaction"). The Proposed Transaction is part of the Company's overall plan to simplify its corporate structure by eliminating one level of holding company ownership, refinance its outstanding tax-exempt bonds on more favorable terms (as described below), improve liquidity for shareholders over the medium to long-term and have a single governing jurisdiction in the U.S., where all of the assets, operations and employees of the business are located. As a result of the merger, GWRC will cease to exist as a British Columbia corporation and the Company, governed by the corporate laws of the State of Delaware, will be the surviving entity. The Proposed Transaction is conditional upon the concurrent completion of a proposed initial public offering of shares of common stock of the Company in the United States (the "U.S. IPO"). The Company has filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission in connection with the U.S. IPO.

On completion of the Proposed Transaction, the Company will have the right to redeem all of its outstanding tax-exempt bonds at a price of 103% of the principal amount, plus interest accrued at the redemption date. As of December 31, 2015, the principal balance of such bonds was U.S.$106.7 million. Following completion of the Proposed Transaction, the Company plans to refinance these bonds and, based on discussions with lenders, believes it can reduce the effective interest rate on the outstanding balance by 75 to 150 basis points. The refinancing of the Company's tax-exempt bonds at reduced interest or at all will depend on a number of factors that are beyond its control including market conditions, and therefore the completion of the bond refinancing cannot be assured. For a description of our tax exempt bonds, see "Liquidity and Capital Resources—Tax Exempt Bonds" in this MD&A.

Subject to the satisfaction of all application conditions, including the requisite shareholder approval and those conditions relating to the U.S. IPO, the Proposed Transaction is expected to close in the second quarter of 2016.

Stipulated Condemnation of the Operations and Assets of Valencia Water Company

On July 14, 2015, the Company closed the stipulated condemnation to transfer the operations and assets of Valencia Water Company with the City of Buckeye. Terms of the condemnation were agreed upon through a settlement agreement wherein the City of Buckeye acquired all the operations and assets of Valencia Water Company and assumed operations of the utility upon close. The City of Buckeye paid the Company $55.0 million at close, plus an additional $108,000 in working capital adjustments. The City of Buckeye will also pay a growth premium equal to $3,000 for each new water meter installed within Valencia Water Company's prior service areas, for a 20-year period ending December 31, 2034, subject to a maximum payout of $45.0 million over the term of the agreement.

Pending Sale of Willow Valley

On March 23, 2015, the Company reached an agreement to sell the operations and assets of Willow Valley to EPCOR Water Arizona Inc. ("EPCOR"). Pursuant to the terms of the agreement, EPCOR will purchase all the operations, assets and rights used by Willow Valley to operate the utility system for approximately $2.3 million, subject to current rate base calculations and certain post-closing adjustments. Subject to a 30 day appeal period, the Arizona Corporation Commission approved the transaction on March 2, 2016.

Sierra Negra Ranch, LLC Settlement

We previously filed a claim against Sierra Negra Ranch, LLC and New World Properties, Inc. for breach of the infrastructure coordination and financing agreements for their respective developments. In May 2011, we initiated a demand for arbitration and statement of claim against Sierra Negra Ranch, LLC and New World Properties, Inc. The arbitration panel found in our favor on almost all claims and ruled that we were entitled to approximately $4.2 million of infrastructure coordination and financing agreement fees, 15% per annum interest totaling $2.0 million and recovery of one-third of the legal costs incurred in connection with the litigation. In August 2012, we received the monies due from New World Properties, Inc. totaling $2,044,000, consisting of $1,219,000 of past due infrastructure coordination and financing agreement fees, $719,000 of interest and $106,000 of reimbursed litigation costs. However, subsequent to the award, Sierra Negra Ranch, LLC filed for Chapter 11 bankruptcy. In July 2013, the bankruptcy court ruled that Sierra Negra Ranch, LLC must cure its default in order to assume the infrastructure coordination and financing agreement, which would require full payment of past due infrastructure coordination and financing agreement fees, interest and reimbursement of legal costs by no later than March 21, 2014, stating that such value would be determined by the court at a future date. In October 2013, we entered into a settlement with Sierra Negra Ranch, LLC, wherein payment terms were set to serve as the basis of Sierra Negra Ranch, LLC's bankruptcy plan of reorganization. Under the plan and settlement agreement that was approved by the court, we would receive monies due from Sierra Negra Ranch, LLC totaling $5,321,000, consisting of $2,802,000 of past due infrastructure coordination and financing agreement fees, $2,021,000 of interest (recorded within other income (expense) in our statement of operations for the year ended December 31, 2014) and $498,000 of reimbursed litigation costs, all of which was received during the first quarter of 2014.

Sale of Loop 303 Contracts

In September 2013, we entered into an agreement to sell certain wastewater facilities main extension agreements and offsite water management agreements, along with their related rights and obligations (which we refer to collectively as the "Loop 303 Contracts"), relating to the 7,000-acre territory within a portion of the western planning area of the City of Glendale, Arizona known as the "Loop 303 Corridor." Pursuant to the agreement, we sold the Loop 303 Contracts to EPCOR for total proceeds of approximately $4.1 million ($3.1 million of which has been received as of December 31, 2015), which will be paid to us over a multi-year period. Receipt of the remaining proceeds will occur and be recorded as additional income over time as certain milestones are met between EPCOR and the developers/landowners of the Loop 303 Corridor. As part of the consideration, we agreed to complete certain engineering work required in the offsite water management agreements, which we completed in 2013, thereby satisfying our remaining obligations relating to the Loop 303 Contracts.

Sale of FATHOM™ Business

In June 2013, the Company sold its wholly-owned subsidiary, Global Water Management, LLC ("GWM"), to an investor group led by a private equity firm which specializes in the water industry. The Company recorded a loss on the sale of GWM in the amount of $1.9 million. GWM owns and operates the FATHOM™ business. Initially developed to support and optimize our own utilities, the Company commercialized the FATHOM™ business in 2009 and marketed the FATHOM™ platform as an integrated suite of technology-enabled services to municipally-owned utilities. The services offered by FATHOM™ provide automation, cost savings and opportunities for operational efficiencies. Pursuant to the purchase agreement for the sale of GWM, the Company is entitled to quarterly royalty payments based on a percentage of certain of GWM's recurring revenues for a 10-year period, up to a maximum of $15.0 million. In addition, the Company entered into a services agreement with GWM whereby the Company has agreed to use the FATHOM™ platform for all of its regulated utility services for an initial term of 10 years. The services agreement is automatically renewable thereafter for successive 10-year periods, unless notice of termination is given prior to any renewal period. The services agreement may be terminated by either party for default only and the termination of the services agreement

will also result in the termination of the royalty payments payable to the Company. The Company retains an approximate 8% interest in GWM at December 31, 2015.

Cautionary Statement Regarding Non-GAAP Measures

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" section contains references to "EBITDA" and Adjusted EBITDA. EBITDA is defined for the purposes of this management's discussion and analysis as net income or loss before interest, income taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA less the gain or loss related to non-recurring events. Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures of our operating performance and provide meaningful measures of overall corporate performance exclusive of our capital structure and the method and timing of expenditures associated with building and placing our systems. EBITDA is also presented because management believes that it is frequently used by investment analysts, investors and other interested parties as a measure of financial performance. Adjusted EBITDA is also presented because management believes that it provides a measure of our recurring core business.

However, EBITDA and Adjusted EBITDA are not recognized earnings measures under U.S. GAAP and do not have a standardized meaning prescribed by U.S. GAAP. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternatives to net income or loss or other income statement data (which are determined in accordance with U.S. GAAP) as an indicator of our performance or as a measure of liquidity and cash flows. Management's method of calculating EBITDA and Adjusted EBITDA may differ materially from the method used by other companies and accordingly, may not be comparable to similarly titled measures used by other companies.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing operating performance. In consideration of Accounting Standards Codification ("ASC") 280, "Segment Reporting," we are not organized around specific products and services, geographic regions or regulatory environments. The Company currently operates in one geographic region within the State of Arizona, wherein each operating utility operates within the same regulatory environment.

While we report revenue, disaggregated by service type, on the face of its statement of operations, the Company does not manage the business based on any performance measure at the individual revenue stream level. We do not have any customers that contribute more than 10% to the Company's revenues or revenue streams. Additionally, the chief operating decision maker uses consolidated financial information to evaluate our performance, which is the same basis on which he communicates our results and performance to our board of directors. It is upon this consolidated basis from which he bases all significant decisions regarding the allocation of our resources on a consolidated level. Based on the information described above and in accordance with the applicable literature, management has concluded that we are currently organized and operated as one operating and reportable segment.

Selected Financial Information

The following contains selected financial information of the Company's financial position, which has been derived from the audited financial statements as of December 31, 2015, December 31, 2014, and December 31, 2013 (in thousands of US$):

	December 31, 2015	December 31, 2014	December 31, 2013
ASSETS:			
Net property, plant and equipment	$ 194,152	$ 240,424	$ 249,010
Current assets	18,715	12,293	7,010
Other assets	25,108	54,884	41,917
Total Assets	$ 237,975	$ 307,601	$ 297,937
LIABILITIES:			
Current liabilities	$ 10,663	$ 13,630	$ 12,338
Noncurrent liabilities	207,249	266,291	318,441
Total Liabilities	217,912	279,921	330,779
SHAREHOLDERS' EQUITY (DEFICIT)	20,063	27,680	(32,842)
Total Liabilities and Shareholders' Equity	$ 237,975	$ 307,601	$ 297,937

The following contains selected financial information of the Company's results of operations, which has been derived from the audited financial statements for the years ended December 31, 2015, 2014, and 2013 (in thousands of US$):

	Years Ended December 31,		
	2015	2014	2013
Revenues	$ 31,956	$ 32,559	$ 33,538
Operating expenses	25,429	(22,232)	32,550
Operating income	6,527	54,791	988
Total other income (expense)	35,459	(6,855)	(8,802)
Income (loss) before income taxes	41,986	47,936	(7,814)
Income tax benefit (expense)	(20,623)	16,995	(30,667)
Net income (loss)	$ 21,363	$ 64,931	$ (38,481)
Basic earnings (loss) per common share	$ 117.55	$ 356.67	$ (211.38)
Diluted earnings (loss) per common share	$ 117.55	$ 356.67	$ (211.38)

Comparison of Results of Operations for the Years Ended December 31, 2015 and 2014

Revenues – The following table summarizes the Company's revenues for the years ended December 31, 2015 and 2014 (in thousands of US$).

	Years Ended December 31,	
	2015	2014
Water services	$ 16,320	$ 18,076
Wastewater and recycled water services	15,020	14,112
Unregulated revenues	616	371
Total revenues	$ 31,956	$ 32,559

Total revenues decreased $603,000, or 1.9%, for the year ended December 31, 2015 compared with the year ended December 31, 2014. The decrease in revenues is primarily due to the condemnation of the operations and assets of

Valencia Water Company, which occurred in July 2015. Adjusting for the condemnation of the operations and assets of Valencia Water Company, revenue increased $2.0 million, or 7.5% reflecting a decrease in precipitation resulting in higher usage of water, for the year ended December 31, 2015 compared to the year ended December 31, 2014 combined with the increase in rates due to Rate Decision No. 74364 and an increase in active connections.

Water Services – Water services revenues decreased $1.8 million, or 9.7%, to $16.3 million for the year ended December 31, 2015 compared with $18.1 million for the year ended December 31, 2014. Adjusting for the condemnation of the operations and assets of Valencia Water Company, water services revenue for the year ended December 31, 2015 increased $839,000, or 6.9%, compared to the year ended December 31, 2014.

Water services revenue based on consumption decreased $1.1 million or 13.9% to $6.7 million from $7.8 million for the year ended December 31, 2015 and 2014, respectively. The decrease in revenue was primarily driven by a decrease in active water connections related to the condemnation of the operations and assets of Valencia Water Company. Adjusting for the condemnation of the operations and assets of Valencia Water Company, which contributed $2.8 million for the year ended December 31, 2014, consumption revenue increased $234,000, or 4.7%, to $5.2 million for the year ended December 31, 2015 compared to $5.0 million for the year ended December 31, 2014. Adjusted consumption revenue increased due to the onset of new rates in 2015 combined with an increase in active water connections and an increase in consumption compared to 2014.

Active water connections decreased 23.8% to 19,964 as of December 31, 2015 from 26,188 as of December 31, 2014 as a result of the condemnation of the operations and assets of Valencia Water Company. However, adjusting for the condemnation of the operations and assets of Valencia Water Company, active connections increased 2.3% to 19,964 as of December 31, 2015 from 19,515 as of December 31, 2014.

Water consumption decreased 17.2% to 2.4 billion gallons for the year ended December 31, 2015 from 2.9 billion gallons for the year ended December 31, 2014. The decrease in consumption was primarily driven by the condemnation of the operations and assets of Valencia Water Company in July 2015. Adjusting for the condemnation of the operations and assets of Valencia Water Company, from which 410 million gallons were consumed for the year ended December 31, 2015 compared to 807 million gallons consumed for the year ended December 31, 2014, water consumption decreased 4.6% to 2.0 billion gallons for the year ended December 31, 2015 compared to 2.1 billion gallons for the year ended December 31, 2014.

Water services revenue associated with the basic service charge decreased $650,000, or 6.6%, to $9.2 million for the year ended December 31, 2015 compared to $9.9 million for the year ended December 31, 2014 due to the condemnation of the operations and assets of Valencia Water Company. Adjusting for the condemnation of the operations and assets of Valencia Water Company, basic service charge revenue increased $641,000, or 9.3%, to $7.6 million for the year ended December 31, 2015 compared to $7.0 million for the year ended December 31, 2014, reflecting growth in total active connections as well as an increase in rates due to Rate Decision No. 74364.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenues increased $908,000, or 6.4%, to $15.0 million for the year ended December 31, 2015 compared to $14.1 million for the year ended December 31, 2014. The increase was primarily due to the onset of new rates in 2015 due to Rate Decision no. 74364 combined with an increase in the number of active connections.

Recycled water revenue, which is based on the number of gallons delivered increased $181,000, or 54.8%, to $510,000 for the year ended December 31, 2015 compared to $330,000 for the year ended December 31, 2014. The volume of recycled water delivered increased 63 million gallons, or 11.0%, to 639 million gallons for the year ended December 31, 2015 compared to 576 million gallons for the year ended December 31, 2014.

Unregulated Revenues – Unregulated revenues, which are primarily rental fees derived from leases of space on a utility-owned communications tower and the imputed revenue resulting from our public-private partnership with the City of Maricopa, increased $245,000, or 66.0%, to $616,000 for the year ended December 31, 2015 compared to $371,000 for the year ended December 31, 2014. The increase in revenue was driven by an increase in infrastructure coordination and financing agreement-related imputed revenue resulting from our public-private partnership memorandum of understanding with the City of Maricopa starting in April 2014, wherein we agreed to offset the cash payment of our license fee through December 31, 2015 for miscellaneous utility related services the City of Maricopa required from the Company. These commitments were previously finalized, and the associated license fees are being accounted for as unregulated revenue until the expiration of the agreement on December 31, 2015.

Operating Expenses – The following table summarizes the Company's operating expenses for the years ended December 31, 2015 and 2014 (in thousands of US$):

	Years Ended December 31,	
	2015	**2014**
Operations and maintenance	$ 7,080	$ 8,020
Operations and maintenance - related party	2,179	2,398
General and administrative	7,957	8,809
Gain on regulatory order	—	(50,664)
Depreciation	8,213	9,205
Total operating expenses (benefit)	$ 25,429	$ (22,232)

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased power), maintenance costs, contract services, and property tax, decreased $940,000, or 11.7%, for the year ended December 31, 2015 compared to the year ended December 31, 2014.

Total personnel costs decreased $349,000, or 14.3%, for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to a decrease in personnel related to the condemnation of the operations and assets of Valencia Water Company. Adjusting for the condemnation of the operations and assets of Valencia Water Company, personnel costs increased $52,000 for the year ended December 31, 2015 compared to the year ended December 31, 2014.

Utilities and power expenses decreased $358,000, or 18.4%, for the year ended December 31, 2015 compared to the year ended December 31, 2014. Utilities and power expense decreased as a result of the condemnation of operations and assets of Valencia Water Company. Adjusting for the condemnation of the operations and assets of Valencia Water Company, utilities and power expense decreased $72,000 for the year ended December 31, 2015 compared to the year ended December 31, 2014.

Contract services expense decreased $116,000, or 35.4%, during the year ended December 31, 2015 compared to the year ended December 31, 2014. Contract services decreased as a result of a reduction in disposal fees. Disposal fees decreased $88,000, or 77.4%, during the year ended December 31, 2015 compared to the year ended December 31, 2014. Residual disposal declined due to the elimination of third party transportation expenses related to the transfer of certain disposal activities in-house combined with the elimination of bio-solid disposal fees, as we initiated direct land application of bio-solids in July 2014. Bio-solids are a by-product of our water reclamation process and were previously disposed of within a landfill. Currently, bio-solids are beneficially reused as fertilizer by an agricultural farmer who accepts the bio-solids at no cost.

Operations and Maintenance - related party – Operations and maintenance related party expenses are for service fees paid to FATHOM™ with respect to billing, customer service and other support provided to the Company's regulated utilities. FATHOM™ service fees totaled $2.2 million for the year ended December 31, 2015 compared to $2.4 million

for the year ended December 31, 2014. Fathom services fees decreased as a result of the condemnation of the operations and assets of Valencia Water Company.

General and Administrative – General and administrative costs include the day-to-day expenses of office operation: personnel costs, legal and other professional fees, insurance, rent and regulatory fees. These costs decreased $852,000, or 9.7%, during the year ended December 31, 2015 compared to the year ended December 31, 2014.

For the year ended December 31, 2015, personnel costs decreased $1.0 million, or 19.9%, compared to the year ended December 31, 2014. Personnel costs decreased as a result of a decline in wage and bonus expense combined with a decrease in deferred compensation. Salary, bonus and benefit expense decreased $514,000 for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease in salary, bonus and benefit expense is primarily due to a decrease of approximately $821,000 related to the completion of our executive transition plan, wherein we no longer accrue and pay a salary and bonus to Mr. Hill and Ms. Bowers, who now serve as directors of the Company. The decrease related to our executive transition plan is inclusive of $300,000 of cash bonus payments made in lieu of phantom stock units ("PSUs") in 2014 that did not occur in 2015, which were made to reduce the potential exposure to an increase in deferred compensation expense resulting from PSU re-measurement corresponding to an increase in share price. This decrease is partially offset by a one-time bonus of $591,000 for members of management holding stock appreciation rights at the time of the special dividend paid out in August 2015, combined with a $65,000 increase in labor capitalized to ongoing projects.

Deferred compensation decreased $587,000 for the year ended December 31, 2015 compared to the year ended December 31, 2014. Deferred compensation decreased primarily as a result of the reduction in the total number of PSUs outstanding for the year ended December 31, 2015 compared to the year ended December 31, 2014. Deferred compensation is calculated based upon the current period change in share price, multiplied by the number of outstanding units. The U.S. Dollar adjusted share price increased $0.97 for both the years ended December 31, 2015 and 2014.

Regulatory expenses increased $154,000, or 205.3%, for the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase in regulatory expense was due to amortization of deferred rate case costs incurred during the latest rate case that resulted in Rate Decision No. 74364. Amortization of the deferred rate case costs began in January 2015 in conjunction with the onset of new rates.

Professional fees decreased $76,000, or 5.3%, for the year ended December 31, 2015 compared to the year ended December 31, 2014, as certain accounting and legal fees related to Rate Decision No. 74364 were incurred during the year ended December 31, 2014 that did not occur in 2015.

Board compensation increased $238,000, or 154.3%, to $392,000 for the year ended December 31, 2015 compared to the year ended December 31, 2014. Board compensation increased due to the completion of the executive transition plan, wherein Mr. Hill and Ms. Bowers are now compensated as board members rather than employees. In addition to the transition plan, board compensation was also affected by an approximately $44,000 in deferred phantom units ("DPUs") awarded to certain board members in conjunction with the one-time dividend paid out in August 2015 in relation to the condemnation of the operations and assets of Valencia Water Company.

Gain on Regulatory Order. The $50.7 million gain on regulatory order recorded during the year ended December 31, 2014 represents the benefit to the Company's periodic earnings as a result of Rate Decision No. 74364, which concluded that infrastructure coordination and financing agreement funds received historically would no longer be recorded as contributions in aid of construction.

Depreciation. Depreciation expense decreased by $992,000, or 10.8%, to $8.2 million for the year ended December 31, 2015 compared to $9.2 million the year ended December 31, 2014. The decrease of depreciation expense is primarily

due to the condemnation of the operations and assets of Valencia Water Company combined with some of our assets reaching their full useful life and, therefore, having been fully depreciated.

Other Income (Expense) – Other income totaled $35.5 million for the year ended December 31, 2015 compared to $6.9 million of net expense for the year ended December 31, 2014. Other income (expense) primarily consisted of the gain on the condemnation of the operations and assets of Valencia Water Company, interest expense, loss on equity method investment and other income. The $41.9 million change in other income is primarily attributed to the $43.0 million gain recorded in 2015 with the condemnation of the operations and assets of Valencia Water Company combined with $624,000 of income attributed to the Valencia Water Company earn out, wherein we receive $3,000 for each new meter installed within our prior service area over a 20-year period, beginning January 1, 2015. The gain on the condemnation of the operations and assets of Valencia Water Company was partially offset by $2.0 million of interest income related to the Sierra Negra Ranch, LLC litigation recorded during the year ended December 31, 2014, which was not recorded in 2015. See "—Recent Events-Sierra Negra Ranch, LLC Settlement" for additional information.

Loss on equity method investment decreased by $473,000 for the year ended December 31, 2015 compared to the year ended December 31, 2014 due to the reduction in the Company's share of ongoing losses, which declined as a result of the recapitalization of Fathom Water Management Holdings, LLP (the "FATHOM Partnership") in November 2014.

Income Tax Benefit (Expense) – Income tax expense increased to $20.6 million for the year ended December 31, 2015 compared to a benefit of $17.0 million for the year ended December 31, 2014. The change in income tax expense is driven by the $20.2 million tax expense related to the condemnation of the operations and assets of Valencia Water Company for the year ended December 31, 2015 compared to a $16.1 million tax benefit related to the reversal of substantially all the deferred tax asset valuation allowance for the year ended December 31, 2014 as a result of Rate Decision No. 74364.

Effective June 2012 and through December 31, 2013, the Company maintained a full income tax valuation allowance against its net deferred tax assets. During the year ended December 31, 2014, as a result of the additional revenues expected to be provided by Rate Decision No. 74364, as well as other factors, the Company performed an evaluation of its deferred tax assets and determined that sufficient evidence existed such that the majority of the Company's deferred tax assets would be utilized in the future. Accordingly, the Company reversed substantially all of the deferred tax asset valuation allowance previously recorded, resulting in a $16.1 million income tax benefit. For the year ended December 31, 2014, the Company recorded an $868,000 income tax benefit related to current year losses.

Net Income – Net income totaled $21.4 million for the year ended December 31, 2015 compared to $64.9 million for the year ended December 31, 2014. The change in net income for the year ended December 31, 2015 is primarily attributed to the $43.0 million gain on the condemnation of the operations and assets of Valencia, net of a $20.2 million tax liability for the year ended December 31, 2015 compared to the $50.7 million gain on regulatory order, $16.1 million release of income tax asset valuation allowance and interest income of $2.0 million related to the SNR litigation recorded for the year ended December 31, 2014 that did not occur in 2015. Additionally, the Company recognized approximately $296,000 of income for proceeds related to the sale of Loop 303 Contracts along with a $176,000 loss in conjunction with the classification of Willow Valley's assets as held for sale, which did not occur in 2014.

EBITDA and Adjusted EBITDA – EBITDA totaled $58.5 million for the year ended December 31, 2015 compared to $66.6 million for the year ended December 31, 2014. The change in EBITDA for year ended December 31, 2015 compared to the year ended December 31, 2014 is primarily attributed to the $50.7 million gain on regulatory order recorded for the year ended December 31, 2014 and the $43.0 million gain on the condemnation of the operations and assets of Valencia Water Company recorded for the year ended December 31, 2015.

Adjusted EBITDA totaled $15.7 million for the year ended December 31, 2015 compared to $13.7 million for the year ended December 31, 2014. The increase to Adjusted EBITDA is primarily driven by an increase in rates related to Rate

Decision No. 74364 combined with increases in active connections. Additionally, Adjusted EBITDA increased as a result of previously discussed general and administrative expense reductions. These increases were partially offset due to the condemnation of the operations and assets of Valencia Water Company.

A reconciliation of Net Income to EBITDA and Adjusted EBITDA in the years ended December 31, 2015 and 2014 is as follows (in thousands of US$):

	Years Ended December 31,	
	2015	2014
Net Income	**$ 21,363**	**$ 64,931**
Income tax expense (benefit)	20,623	(16,995)
Interest income	(11)	(79)
Interest expense	8,299	9,512
Depreciation	8,213	9,205
EBITDA[(1)]	**$ 58,487**	**$ 66,574**
Gain on regulatory order	—	(50,664)
Sierra Negra Ranch interest income	—	(2,021)
Gain on condemnation of the operations and assets of Valencia Water Company	(42,983)	—
Writedown of Willow Valley assets held for sale	176	—
Gain on sale of Loop 303 Contracts	(296)	—
Equity investment loss (income)	330	(144)
EBITDA Adjustments	(42,773)	(52,829)
Adjusted EBITDA[(2)]	**$ 15,714**	**$ 13,745**

(1) EBITDA is defined as net income or loss before interest, income taxes, depreciation and amortization. EBITDA is not a recognized measure under U.S. GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other companies. The table above reconciles EBITDA to net income. See "Cautionary Statement Regarding Non-GAAP Measures" for further information regarding EBITDA.

(2) Adjusted EBITDA is defined as EBITDA less the gain or loss related to non-recurring events, and includes an adjustment for gain on condemnation of the operations and assets of Valencia, the writedown of Willow Valley assets held for sale, gain on sale of Loop 303 Contracts and equity investment loss for the year ended December 31, 2015. Adjustments for the year ended December 31, 2014 include an adjustment for the regulatory gain related to Rate Decision No. 74364, interest income related to the Sierra Negra Ranch, LLC litigation, and loss (income) on equity method investment (inclusive of a $1.0 million gain on our ownership interest in FATHOM™). Adjusted EBITDA is not a recognized measure under U.S. GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other companies. The table above reconciles Adjusted EBITDA to EBITDA. See "Cautionary Statement Regarding Non-GAAP Measures" for further information regarding Adjusted EBITDA.

Comparison of Results of Operations for the Quarter ended December 31, 2015 and 2014

Revenues – The following table summarizes GWRI's revenues for the three months ended December 31, 2015 and 2014 (in thousands of US$).

	Three Months Ended December 31,	
	2015	2014
Water services	$ 3,182	$ 4,245
Wastewater and recycled water services	3,777	3,551
Unregulated revenues	150	117
Total revenues	$ 7,109	$ 7,913

Total revenues decreased $804,000, or 10.2%, for the three months ended December 31, 2015 compared with the three months ended December 31, 2014. The decrease in revenues is due to the condemnation of the operations and assets of Valencia Water Company which occurred in July 2015. Adjusting for the condemnation of the operations and assets of Valencia Water Company, which contributed revenue of $1.4 million for the three months ended December 31, 2014,

revenue increased $604,000 or 9.3% in the three months ended December 31, 2015 compared to the three months ended December 31, 2014. The increase in adjusted revenues reflects the increase in rates related to Rate Decision No. 74364 in February 2014 combined with a 2.4% increase in active service connections combined with a 4.6% increase in consumption during the fourth quarter of 2015 compared to the fourth quarter of 2014.

Water Services – Water services revenues decreased $1.1 million, or 25.0%, to $3.2 million for the three months ended December 31, 2015 compared to $4.2 million for the three months ended December 31, 2014. Adjusting for the condemnation of the operations and assets of Valencia Water Company, water services revenue for the three months ended December 31, 2015 increased $345,000 compared to the three months ended December 31, 2014.

Water services revenue based on consumption decreased $458,000, or 27.5% to $1.2 million from $1.7 million for the three months ended December 31, 2015 and 2014, respectively. The decrease in revenue was primarily driven by a decrease in active water connections related to the condemnation of the operations and assets of Valencia Water Company. Adjusting for the condemnation of the operations and assets of Valencia Water Company, which contributed $641,000 for the three months ended December 31, 2014, consumption revenue increased $183,000, or 17.8%, to $1.2 million for the three months ended December 31, 2015 compared to $1.0 million for the three months ended December 31, 2014. Adjusted consumption revenue increased due to the onset of new rates in 2015 combined with an increase in active water connections and an increase in consumption compared to 2014.

Active water connections decreased 23.8% to 19,964 as of December 31, 2015 from 26,188 as of December 31, 2014 as a result of the condemnation of the operations and assets of Valencia Water Company. However, adjusting for the condemnation of the operations and assets of Valencia Water Company, active connections increased 2.3% to 19,964 as of December 31, 2015 from 19,515 as of December 31, 2014.

Water consumption decreased 28.7% to 443 million gallons for the three months ended December 31, 2015 from 621 million gallons for the three months ended December 31, 2014. The decrease in consumption was primarily driven by the condemnation of the operations and assets of Valencia Water Company. Adjusting for the condemnation of the operations and assets of Valencia Water Company, from which 197 million gallons were consumed for the three months ended December 31, 2014, water consumption increased 4.6% to 443 million gallons for the three months ended December 31, 2015 compared to 424 million gallons for the three months ended December 31, 2014.

Water services revenue associated with the basic service charge decreased $566,000, or 22.9%, to $1.9 million for the three months ended December 31, 2015 compared to $2.5 million for the three months ended December 31, 2014 due to the condemnation of the operations and assets of Valencia Water Company. Adjusting for the condemnation of the operations and assets of Valencia Water Company, basic revenue increased $163,000, or 9.3%, to $1.9 million for the three months ended December 31, 2015 compared to $1.7 million for the three months ended December 31, 2014, reflecting growth in total active connections as well as an increase in rates due to Rate Decision No. 74364.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenues increased $226,000, or 6.4%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. The increase was primarily due to the number of active connections.

Recycled water revenue, which is based on the number of gallons delivered, increased $41,000, or 54.2%, to $118,000 for the three months ended December 31, 2015 compared to $76,000 for the three months ended December 31, 2014. The recycled water revenue increase is a function of an increase in rate and volume delivered. The volume of recycled water delivered increased 13 million gallons, or 9.7%, to 147 million gallons for the three months ended December 31, 2015 from 134 million gallons for the three months ended December 31, 2014.

Unregulated Revenues – Unregulated revenues, which are primarily rental fees derived from leases of space on a utility-owned communications tower and the imputed revenue resulting from our public-private partnership with the City of

Maricopa, increased $33,000, or 28.2%, to $150,000 for the three months ended December 31, 2015 compared to $117,000 for the three months ended December 31, 2014. The increase in revenue was driven by an increase in infrastructure coordination and financing agreement-related imputed revenue resulting from our public-private partnership memorandum of understanding with the City of Maricopa starting in April 2014, wherein we agreed to offset the cash payment of our license fee through December 31, 2015 for miscellaneous utility related services the City of Maricopa required from the Company. These commitments were previously finalized, and the associated license fees are being accounted for as unregulated revenue until the expiration of the agreement on December 31, 2015.

Operating Expenses – The following table summarizes the Company's operating expenses for the three months ended December 31, 2015 and 2014 (in thousands of US$):

	Three Months Ended December 31,	
	2015	2014
Operations and maintenance	$ 1,473	$ 1,959
Operations and maintenance - related party	467	604
General and administrative	2,066	2,199
Depreciation	1,687	2,279
Total operating expenses	$ 5,693	$ 7,041

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased power), maintenance costs, contract services and property tax , decreased $486,000, or 24.8%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014.

Total personnel costs decreased $157,000, or 24.0%, in the three months ended December 31, 2015 compared to the three months ended December 31, 2014, primarily due to a decrease in personnel related to the condemnation of the operations and assets of Valencia Water Company. Adjusting for the condemnation of the operations and assets of Valencia Water Company, personnel expenses increased $43,000, or 9.5%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. Adjusted personnel expense increased due to an increase in medical expense for the three months ended December 31, 2015 compared to the three months ended December 31, 2014.

Utilities and power expenses decreased $175,000, or 38.5%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. Utilities and power expense decreased as a result of the condemnation of the operations and assets of Valencia Water Company. Adjusting for the condemnation of the operations and assets of Valencia Water Company, utilities and power expense decreased $70,000, or 20%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014.

Contract service expenses decreased $45,000, or 54.2%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. Adjusting for the condemnation of the operations and assets of Valencia Water Company, contract service expenses decreased $19,000, or 32.9%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014.

Property taxes decreased $53,000, or 11.3%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. Adjusting for the condemnation of the operations and assets of Valencia Water Company, property taxes increased $15,000, or 3.6%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. Property taxes are calculated using a centrally valued property calculation, which derives property values based upon three-year historical average revenues of the Company. As revenues increase, property taxes will continue to increase.

Operations and Maintenance - related party **–** Operations and maintenance related party expenses are for service fees paid to FATHOM™ with respect to billing, customer service and other support provided to the Company's regulated utilities. Fathom service fees totaled $467,000 for the three months ended December 31, 2015 compared to $604,000 for the three months ended December 31, 2014. Fathom services fees decreased as a result of the condemnation of the operations and assets of Valencia Water Company.

General and Administrative **–** General and administrative costs include the day-to-day expenses of office operation; personnel costs, legal and other professional fees, insurance, rent and regulatory fees. These costs decreased $133,000, or 6.0%, during the three months ended December 31, 2015 compared to the three months ended December 31, 2014.

Personnel costs decreased $179,000, or 14.0%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. Personnel costs decreased primarily as a result of a decrease in wage and bonus expense for the three months ended December 31, 2015 compared to the three months ended December 31, 2014 attributed to the completion of the executive transition plan, net of a $69,000 increase in medical expense for the three months ended December 31, 2015 compared to the three months ended December 31, 2014.

Regulatory expense increased $33,000, or 157.1%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. The increase in regulatory expense is primarily due to amortization of deferred rate case costs incurred during the latest rate case that resulted in Rate Decision No. 74364 in February 2014. Amortization of the deferred rate case costs began in January 2015 in conjunction with the onset of new rates.

Professional fees, which include legal and accounting costs, decreased $28,000, or 8.1%, for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. Professional fees decreased primarily due to the shift in the timing of audit work, which shifted from the fourth quarter of 2014 to the third quarter of 2015, thus leading to a reduction for the three months ended December 31, 2015 compared to the three months ended December 31, 2014.

Miscellaneous expenses increased $84,000 or 61.3% for the three months ended December 31, 2015 compared to the three months ended December 31, 2014. This increase is primarily related to an increase in board compensation of approximately $69,000. Board compensation increased due to the completion of the executive transition plan, wherein Mr. Hill and Ms. Bowers are now compensated as board members rather than employees. Additionally, compensation increased due to an increase in the number of outstanding deferred phantom units ("DPUs") held by directors combined with appreciation related to an increase in share price.

Depreciation **–** Depreciation expense decreased by $592,000, or 26.0%, to $1.7 million for the three months ended December 31, 2015. This decrease is primarily related to the condemnation of the operations and assets of Valencia Water Company which recorded depreciation of approximately $493,000 for the three months ended December 31, 2014 in addition to certain assets reaching their useful life and, therefore, having been fully depreciated.

Other Income (Expense) – Other income (expense) totaled $1.7 million of net expense for the three months ended December 31, 2015 compared to $2.2 million of net expense for the three months ended December 31, 2014. Total other income (expense) primarily consists of interest expense and other miscellaneous gains and losses. Interest expense decreased by $1.2 million compared to the three months ended December 31, 2014 primarily due to the write-off of certain deferred loan fees and bond fees which occurred at the time of refinancing during the last quarter of fiscal year 2014. During the three months ended December 31, 2015, the Company recorded a loss of $118,000 on its equity method investment in FATHOM compared to income of $618,000 for the three months ending December 31, 2014. Equity method income of $618,000 for the three months ended December 31, 2014 is inclusive of the $1.0 million gain on revaluation of our ownership interest in FATHOM.

Income Tax Benefit (Expense) – Income tax benefit decreased $244,000 to $274,000 for the three months ended December 31, 2015 compared to a benefit of $518,000 for the three months ended December 31, 2014.

Net Loss – The Company's net loss totaled $30,000 for the three months ended December 31, 2015 compared to a net loss of $839,000 for the three months ended December 31, 2014. The change in net loss for the three months ended December 31, 2015 compared to the three months ended December 31, 2014 is primarily attributed to a $1.2 million decrease in interest related to the debt refinancing in the fourth quarter of 2014 combined with an interest reduction achieved with the retirement of the MidFirst loan in July 2015. In addition to the change in interest, general and administrative personnel expenses decreased in relation to executive transition plan, combined with an increase in other income of $225,000 attributed to the Valencia Water Company earn out recorded for the three months ended December 31, 2015. These changes were partially offset by a $734,000 decrease in equity method investment for the three months ended December 31, 2015 compared to three months ended December 31, 2014.

EBITDA and Adjusted EBITDA – EBITDA totaled $3.2 million for the three months ended December 31, 2015 compared to $3.9 million for the three months ended December 31, 2014. The change in EBITDA for the three months ended December 31, 2015 compared to the three months ended December 31, 2014 is primarily attributed to the $734,000 change in equity method investment, from a gain of $618,000 for three months ended December 31, 2014 to a loss of $118,000 for the three months ended December 31, 2015. This decrease was partially offset by a decrease in general and administrative personnel expenses attributable to the executive transition plan, combined with $225,000 of income attributed to the Valencia Water Company earn out recorded for the three months ended December 31, 2015.

Adjusted EBITDA totaled $3.4 million for the three months ended December 31, 2015 compared to $3.3 million for the three months ended December 31, 2014. The increase to Adjusted EBITDA is primarily driven by an increase in rates related to Rate Decision No. 74364 combined with increases in active connections. Additionally, Adjusted EBITDA increased as a result of previously discussed general and administrative expense reductions. These increases were partially offset due to the condemnation of the operations and assets of Valencia Water Company.

A reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA in the three months ended December 31, 2015 and 2014 is as follows (in thousands of US$):

	Three Months Ended December 31,	
	2015	**2014**
Net income (loss)	**$ (30)**	**$ (839)**
Income tax expense (benefit)	(274)	(518)
Interest income	(3)	(15)
Interest expense	1,803	3,025
Depreciation	1,687	2,279
EBITDA[1]	**$ 3,183**	**$ 3,932**
Gain on condemnation of the operations and assets of Valencia Water Company	91	—
Equity investment (gains) losses	118	(618)
EBITDA Adjustments	209	(618)
Adjusted EBITDA[2]	**$ 3,392**	**$ 3,314**

(1) EBITDA is defined as income or loss before interest, income taxes, depreciation and amortization. EBITDA is not a recognized measure under U.S. GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other companies. The table above reconciles EBITDA to net income (loss). See "Cautionary Statement Regarding Non-GAAP Measures" for further information regarding EBITDA.

(2) Adjusted EBITDA is defined as EBITDA less the gain or loss related to non-recurring events, and includes an adjustment for the gain on condemnation of the operations and assets of Valencia Water Company and for the income (loss) on equity method investment. Adjusted EBITDA is not a recognized measure under U.S. GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other companies. The table above reconciles EBITDA to Adjusted EBITDA. See "Cautionary Statement Regarding Non-GAAP Measures" for further information regarding EBITDA.

Quarterly Results – Our results of operations have varied and may continue to vary from quarter to quarter and are not necessarily indicative of the results of any future period. We believe that we have included all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of our quarterly data. You should read our quarterly data in conjunction with our consolidated financial statements and the related notes.

Operating results of our Regulated business are subject to significant seasonality. GWRI's water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for irrigation and other outdoor uses. Accordingly, the second and third quarters of the year are generally those in which water services revenue and recycled water revenue are highest. Nevertheless, cooler or wetter weather can have a downward effect on our operating results.

The following table sets forth consolidated financial data for the last eight quarters ended December 31, 2015 (in thousands of US$). This financial information has been derived from the interim financial statements prepared by and is the responsibility of the Company's management.

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
REVENUES:								
Water services	$ 3,182	$ 4,131	$ 5,114	$ 3,893	$ 4,245	$ 5,087	$ 5,127	$ 3,617
Wastewater and recycled water services	3,777	3,848	3,793	3,602	3,551	3,584	3,612	3,365
Unregulated revenues	150	164	175	127	117	124	116	14
Total revenues	7,109	8,143	9,082	7,622	7,913	8,795	8,855	6,996
OPERATING EXPENSES:								
Operations and maintenance	1,473	1,690	2,057	1,860	1,959	2,077	2,097	1,888
Operations and maintenance - related party.........	467	483	618	611	604	600	598	595
General and administrative	2,066	2,020	1,807	2,064	2,199	1,841	2,280	2,489
Gain on regulatory order	—	—	—	—	—	—	—	(50,664)
Depreciation	1,687	1,894	2,320	2,312	2,279	2,255	2,427	2,244
Total operating expenses	5,693	6,087	6,802	6,847	7,041	6,773	7,402	(43,448)
OPERATING INCOME	1,416	2,056	2,280	775	872	2,022	1,453	50,444
OTHER INCOME (EXPENSE):								
Interest income	3	4	2	2	15	23	22	19
Interest expense	(1,803)	(2,367)	(2,050)	(2,079)	(3,025)	(2,111)	(2,152)	(2,224)
Gain on condemnation of Valencia	(91)	43,074	—	—	—	—	—	—
Other	203	402	338	(176)	89	21	19	2,033
Other - related party	(32)	(31)	25	35	692	2	(166)	(112)
Total other income (expense)	(1,720)	41,082	(1,685)	(2,218)	(2,229)	(2,065)	(2,277)	(284)
INCOME (LOSS) BEFORE INCOME TAXES	(304)	43,138	595	(1,443)	(1,357)	(43)	(824)	50,160
INCOME TAX BENEFIT (EXPENSE)	274	(21,233)	(192)	528	518	17	335	16,125
NET INCOME (LOSS)	$ (30)	$ 21,905	$ 403	$ (915)	$ (839)	$ (26)	$ (489)	$ 66,285
Adjusted EBITDA [(1)]	$ 3,392	$ 4,433	$ 4,723	$ 3,166	$ 3,314	$ 4,367	$ 3,966	$ 2,098

Outstanding Share Data

As of March 15, 2016, there were 181,179 shares of common stock of GWRI outstanding and options to acquire an additional 431 shares of common stock of GWRI.

Liquidity and Capital Resources

The Company's capital resources are provided by internally generated cash flows from operations as well as debt and equity financing. Additionally, the Company's regulated utility subsidiaries receive advances and contributions from customers, home builders and real estate developers to partially fund construction necessary to extend service to new areas. The Company uses its capital resources to:

- fund operating costs;
- fund capital requirements, including construction expenditures;
- make debt and interest payments; and
- invest in new and existing ventures.

The Company's utility subsidiaries operate in rate-regulated environments in which the amount of new investment recovery may be limited; such recovery will take place over an extended period of time because recovery through rate increases is subject to regulatory lag.

As of December 31, 2015, the Company had notable near-term cash expenditure obligations. Most significantly, the Company has approximately $9.0 million of debt interest and principal payments due before December 31, 2016. While specific facts and circumstances could change, we believe that we have sufficient cash on hand and will be able to generate sufficient cash flows to meet our required debt service and operating cash flow requirements as well as remain in compliance with our debt covenants until at least December 31, 2016.

In March 2014, the Company initiated a dividend program to declare and pay a monthly dividend. The initial monthly dividend was C$0.0220 per share. In November 2014, the Company increased the monthly dividend to C$0.0240 per share. In March 2015, the Company increased the monthly dividend to C$0.0260 per share. In July 2015, the Company increased the monthly dividend to C$0.0283 per share. The Company expects monthly dividends of similar amounts will be declared and paid for the foreseeable future. Declaration of any dividends is at the discretion of the Company's board of directors.

Cash Flows from Operating Activities – Cash flows provided by operating activities are used for operating needs and to meet capital expenditure requirements. The Company's future cash flows from operating activities will be affected by economic utility regulation, infrastructure investment, growth in service connections, customer usage of water, compliance with environmental health and safety standards, production costs, and weather and seasonality.

For the years ended December 31, 2015 and December 31, 2014, the Company's net cash provided by operating activities totaled $4.2 million and $11.6 million, respectively. The $7.4 million change in cash from operating activities was primarily driven by $2.8 million of infrastructure coordination and financing agreement funds and $2.0 million of interest in connection with the settlement of the Sierra Negra Ranch, LLC litigation, received for the year ended December 31, 2014 and not for 2015. Additionally, cash from operations was affected by a $1.4 million payout of accrued PSU expense for the year ended December 31, 2015. Further, operating cash flows are affected by the timing of the recording and settlement of accounts payable and other accrued liabilities.

Cash Flows Provided By (Used In) Investing Activities – For the year ended December 31, 2015, the Company's net cash provided by investing activities totaled $52.0 million compared to $1.4 million in net cash used in investing activities for the year ended December 31, 2014. The $53.4 million change was primarily driven by the $55.2 million in proceeds received in relation to the condemnation of the operations and assets of Valencia Water Company and $296,000 in proceeds from the sale of Loop 303 Contracts received during the year ended December 31, 2015. These increases were partially offset by a $1.9 million increase in capital expenditures for the year ended December 31, 2015 compared to the year ended December 31, 2014.

The Company continues to invest capital prudently in its existing, core service areas where the Company is able to deploy its Total Water Management model and as service connections grow. This includes any required maintenance capital expenditures and the construction of new water and wastewater treatment and delivery facilities. The Company's projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Cash Flows from Financing Activities – For the years ended December 31, 2015 and December 31, 2014, the Company's net cash used in financing activities totaled $51.3 million and $5.6 million, respectively. The $45.7 million increase in cash used in financing activities was principally driven by $21.3 million in cash used to retire our term loan with MidFirst Bank in July 2015 combined with an increase of $24.2 million in the amount of dividends paid during the year ended December 31, 2015 compared to the year ended December 31, 2014, of which $22.8 million of the increase is related to a special one-time cash dividend paid out on August 12, 2015.

Tax Exempt Bonds – The Company issued tax-exempt bonds through The Industrial Development Authority of the County of Pima in the amount of $36,495,000 on December 28, 2006; $53,624,000, net of a discount of $511,000, on November 19, 2007; and $24,550,000 on October 1, 2008. The Series 2006, 2007 and 2008 bonds have interest payable semiannually on the first of June and December. Recurring payments of principal are payable annually on the first of December for the Series 2006, 2007 and 2008 Bonds. Proceeds from these bonds were used for qualifying costs of constructing and equipping the water and wastewater treatment facilities of our subsidiaries, Palo Verde and Santa Cruz. The Company has not granted any deed of trust, mortgage, or other lien on property of Santa Cruz or Palo Verde. These bonds are secured by a security agreement that gives the trustee rights to the net operating income generated by our Santa Cruz and Palo Verde utilities. The tax-exempt bonds require we maintain a minimum debt service coverage ratio of 1.10:1.00, tested annually based on the combined operating results of our Santa Cruz and Palo Verde utilities. As of December 31, 2015, we maintained a ratio of 1.38:1.00.

Insurance Coverage

The Company carries various property, casualty and financial insurance policies with limits, deductibles and exclusions consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. The Company is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on the Company's short-term and long-term financial condition and the results of operations and cash flows.

Contractual Obligations and Commitments

The following table presents contractual obligations and commercial commitments as of December 31, 2015 (in thousands of US$):

Contractual obligations [1]	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	More than 5 Years
Long term debt obligations [2]	$ 106,695	$ 1,885	$ 4,115	$ 5,120	$ 95,575
Interest on long term debt [3]	104,906	6,940	13,536	13,006	71,424
Capital lease obligation	287	109	159	19	—
Interest on capital lease	31	18	12	1	—
Total	$ 211,919	$ 8,952	$ 17,822	$ 18,146	$ 166,999

(1) In addition to these obligations, the Company pays annual refunds on advances in aid of construction over a specific period of time based on operating revenues generated from developer-installed infrastructure. The refund amounts are considered an investment in infrastructure and eligible for inclusion in future rate base. These refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually over the next two decades, and amounts not paid by the contract expiration dates become nonrefundable and are transferred to contributions in aid of construction.

(2) The long-term debt obligations reflected in the table above exclude the debt discount related to the Series 2007 bonds. The debt discount at December 31, 2015 totaled $338,000 and is netted within the bonds payable balance on the Company's balance sheet. The debt discount is being amortized over the term of the Series 2007 bonds.

(3) Interest on the Company's Series 2006, 2007 and 2008 bonds is based on the fixed rates.

Off Balance Sheet Arrangements

As of December 31, 2015 and December 31, 2014, we do not have any off-balance sheet arrangements.

Risk Factors

The Company's future performance and financial condition involves a number of risks and uncertainties. Any of these risks and uncertainties could have a material adverse effect on its results or operations, business prospects and financial condition. These risks are discussed in GWRC's most recent Annual Innformation Form, which is available on GWRC's SEDAR profile at www.sedar.com.

Related Party Transactions

Other than as described in "Recent Events—Proposed Transaction" and in Note 8 to the consolidated financial statements for the year ended December 31, 2015, we are not party to any related party transactions.

Quantitative and Qualitative Disclosure about Market Risk

For the year ended December 31, 2015, the Company was exposed to market risk associated with changes in commodity prices, equity prices and interest rates. The Company used a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. A hypothetical 10% increase in interest rates associated with variable rate debt would result in a $42,000 reduction in the Company's pre-tax income for the year ended December 31, 2015. To reduce the risk from interest rate fluctuations, the Company entered into two five-year interest rate cap transaction agreements for the majority of the Company's variable-rate bond debt. Under the interest rate cap agreements, the Company would have been reimbursed for the interest costs that occurred in excess of the interest rate cap levels. With the retirement of its term loan with MidFirst bank in July 2015, the Company no longer carries any significant debt at a variable rate.

Other than interest-related risks, the Company believes the risks associated with price increases for chemicals, electricity and other commodities are mitigated by the Company's ability over the long-term to recover its costs through rate increases to its customers, though such recovery is subject to regulatory lag.

Critical Accounting Policies and Estimates

The application of critical accounting policies is particularly important to the Company's financial condition and results of operations and provides a framework for management to make significant estimates, assumptions and other judgments. Additionally, the Company's financial condition, results of operations and cash flow are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. Although the Company's management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain and that may change in subsequent periods. Accordingly, changes in the estimates, assumptions and other judgments applied to these accounting policies could have a significant impact on the Company's financial condition and results of operations as reflected in the Company's financial statements.

Income Taxes

Estimation of income taxes includes an evaluation of the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment

of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize fewer of the tax deductions as assets, which would increase the income tax expense in the period in which the determination is made.

Goodwill

Goodwill is evaluated for impairment at least annually. For the purposes of this evaluation, management must make an estimate of a weighted-average cost of capital to be used as a company-specific discount rate, which takes into account certain risk and size premiums, risk-free yields, and the capital structure of the industry. The Company also considers other qualitative and quantitative factors including the regulatory environment that can significantly impact future earnings and cash flows and the effects of the volatile current economic environment. Changes in these projections or estimates could result in a reporting unit either passing or failing the first step in the goodwill impairment model.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which changes the criteria for reporting discontinued operations and changing the disclosures for disposals that meet the definition under the new guidance. Under the new guidance, only disposals representing a strategic shift in a company's strategy would be deemed a discontinued operation. To meet the definition of strategic shift, the disposal should have a major effect on the organization's operations and financial results. Examples of the type of disposals that would qualify as a discontinued operation include a disposal of a major geographic area, a major line of business, or a major equity method investment. For those disposals that meet the criteria, expanded disclosures on assets, liabilities, income and expenses would apply. The Company's adoption of ASU 2014-08 in the first quarter of 2015 did not have a material effect on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which completes the joint effort between the FASB and the International Accounting Standards Board to converge the recognition of revenue between the two boards. The new standard affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets not included within other FASB standards. The guiding principal of the new standard is that an entity should recognize revenue in an amount that reflects the consideration to which an entity expects to be entitled for the delivery of goods and services. ASU 2014-09 may be adopted using either of two acceptable methods: (1) retrospective adoption to each prior period presented with the option to elect certain practical expedients; or (2) adoption with the cumulative effect recognized at the date of initial application and providing certain disclosures. To assess at which time revenue should be recognized, an entity should use the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. For public business entities, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within the reporting period. For private companies, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods beginning after December 15, 2019. Earlier application allowed in certain circumstances. The Company is currently assessing the impact that this guidance may have on our consolidated financial position.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which defines management's responsibility in evaluating whether there is substantial doubt about an organizations ability to continue as a going concern. The new standard provides that an entity's management should evaluate whether conditions or events exist that would raise substantial doubt about an entity's ability to continue as a going concern. If substantial doubt exists, the guidance

provides principles and definitions to assist management in assessing the appropriate timing and content in their financial statement disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016. The adoption of ASU 2014-15 is not expected to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability, consistent with the accounting of debt discounts. The effects of this update are to be applied retrospectively as a change in accounting principal. For public business entities, ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The adoption of ASU 2015-03 will require the Company to reclassify debt issuance costs retrospectively beginning January 1, 2016. The Company is currently assessing the impact that this guidance may have on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes," which requires that deferred tax liabilities and assets be classified as noncurrent in the classified statement of financial position. The purpose of this update is to simplify the presentation of deferred liabilities and assets. For public business entities, ASU 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For private companies, the ASU is effective for financial statements for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early application is permitted for all entities as of the beginning of an interim or annual reporting period. The Company has elected to early adopt ASU 2015-17 and report the impact of such adoption prospectively, which change has been reflected in our 2015 financial statements.

JOBS Act Accounting Election and Other Matters

We are an "emerging growth company," as defined in the JOBS Act. Under the JOBS Act, emerging growth companies can elect to delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We are choosing to take advantage of this extended accounting transition provision.

The Company has historically accounted for compensation expense related to its liability-classified stock appreciation rights ("SARs") using the intrinsic value method, as permitted by ASC 718 for nonpublic entities, with changes to the value of the SARs recognized as compensation expense at each quarterly reporting date. Upon becoming a public company, as defined in ASC 718, in the first quarter of 2016, the Company is required to change its methodology for valuing the SARs. While the SARs will continue to be re-measured at each quarterly reporting date, the SARs are required to be accounted for prospectively at fair value using a fair value pricing model, such as Black-Scholes. The Company plans to record the impact of the change in valuation methods as a cumulative effect of a change in accounting principle, as permitted by ASC 250. The effect of the change will be to increase or decrease the SAR liability by the difference in compensation cost measured using the intrinsic value method and the fair value method with an equal and offsetting change to retained earnings in the consolidated balance sheet. Any changes in fair value after the initial adoption will be recorded as compensation expense in the consolidated statement of operations.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Office and Chief Financial Officer reviewed and evaluated our disclosure controls and procedures. Based on that evaluation, they have concluded that our disclosure controls and procedures are effective in providing them with timely material information relating to the Company

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with U.S. GAAP.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and procedures over financial reporting will prevent all error and all fraud. A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of our internal control over financial reporting as of December 31, 2015, and concluded that such internal control over financial reporting is effective as of December 31, 2015. There are no material weaknesses that have been identified by management in this regard. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013).

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting during the last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Other Required Disclosures

Additional information relating to GWRI, including GWRC's Annual Information Form, has been filed on GWRC's profile on SEDAR at www.sedar.com

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March 15, 2016

To Our Shareholders:

GWR Global Water Resources Corp. ("**GWRC**") is pleased to present our financial statements, along with the financial statements of Global Water Resources, Inc. ("**GWRI**"), for the year ended December 31, 2015. Because GWRI represents the sole asset of GWRC and is not consolidated into the financial statements of GWRC, the financial statements of GWRI for the year ended December 31, 2015 is filed together with management's discussion and analysis of GWRC.

On behalf of the Board of Directors, management and employees of GWRC and GWRI, I thank you for your ongoing support.

Warm regards,

Mike Liebman
Chief Financial Officer and Corporate Secretary

GWR GLOBAL WATER RESOURCES CORP.

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
GWR Global Water Resources Corp.
Vancouver, British Columbia, Canada

We have audited the accompanying financial statements of GWR Global Water Resources Corp. (the "Company"), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America (and Canada). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of
Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GWR Global Water Resources Corp. as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 15, 2016

GWR GLOBAL WATER RESOURCES CORP.
BALANCE SHEETS
As of December 31, 2015 and December 31, 2014

	December 31, 2015	December 31, 2014
	(in thousands of US$, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ —	$ 189
Dividend receivable	179	—
Other current assets	36	18
Total current assets	215	207
Equity method investment	55,549	59,794
TOTAL ASSETS	$ 55,764	$ 60,001
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Dividends payable, accounts payable and accrued expenses	$ 345	$ 212
Other noncurrent liabilities	275	155
Deferred tax liability	769	1,666
Total liabilities	1,389	2,033
COMMITMENTS AND CONTINGENCIES (see Note 9)		
SHAREDHOLDERS' EQUITY:		
Common stock, unlimited shares authorized, 8,726,748 and 8,754,612 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively	55,532	55,807
(Accumulated deficit) retained earnings	(1,157)	2,161
Total shareholders' equity	54,375	57,968
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 55,764	$ 60,001

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2015 and 2014

	2015	2014
	(in thousands of US$, except share and per share data)	
GAIN FROM EQUITY INVESTMENT	$ 10,259	$ 31,225
OPERATING EXPENSES	1,846	666
OPERATING INCOME	8,413	30,559
INCOME BEFORE INCOME TAXES	8,413	30,559
INCOME TAX BENEFIT (EXPENSE)	897	(1,666)
NET INCOME	$ 9,310	$ 28,893
WEIGHTED AVERAGE SHARES:		
Basic	8,747,801	8,754,612
Diluted	8,747,813	8,764,494
EARNINGS PER SHARE:		
Basic	$ 1.06	$ 3.30
Diluted	$ 1.06	$ 3.30

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2015 and 2014

	Shares	Common Stock	Retained Earnings (Accumulated Deficit)	Total Equity
		(in thousands of US$, except share amounts)		
BALANCE – December 31, 2013	8,754,612	$ 55,815	$ (24,935)	$ 30,880
Stock-based compensation	—	(8)	—	(8)
Declared dividends paid or payable	—	—	(1,797)	(1,797)
Net loss	—	—	28,893	28,893
BALANCE – December 31, 2014	8,754,612	$ 55,807	$ 2,161	$ 57,968
BALANCE – December 31, 2014	8,754,612	$ 55,807	$ 2,161	$ 57,968
Declared dividends paid or payable	—	—	(12,628)	(12,628)
Options exercised	59,636	182	—	182
Share repurchase	(87,500)	(457)	—	(457)
Net income	—	—	9,310	9,310
BALANCE – December 31, 2015	8,726,748	$ 55,532	$ (1,157)	$ 54,375

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
	(in thousands of US$)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,310	$ 28,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain from equity investment	(10,259)	(31,225)
Deferred income tax (benefit) expense	(897)	1,666
Deemed distribution from related party	1,211	372
Cash distributions received from related party	13,293	1,796
Other changes in assets and liabilities	56	169
Net cash provided by operating activities	12,714	1,671
CASH FLOWS FROM INVESTING ACTIVITIES:		
Repayment of related party cash advance	(12,745)	—
Cash distributions from related party	12,745	—
Deemed distribution from related party	—	126
Net cash provided by investing activities	—	126
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(12,628)	(1,608)
Share repurchase	(457)	—
Proceeds from options exercised	182	—
Net cash used in financing activities	(12,903)	(1,608)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(189)	189
CASH AND CASH EQUIVALENTS – Beginning of period	189	—
CASH AND CASH EQUIVALENTS – End of period	$ —	$ 189
Supplementary disclosure:		
Income taxes paid	$ —	$ —
Interest paid	$ —	$ —

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
Notes to the Financial Statements

1. General Business Description

GWR Global Water Resources Corp. (the ‘‘Company’’, ‘‘GWRC’’, ‘‘we’’, or ‘‘us’’) was incorporated under the *Business Corporations Act* (British Columbia) on March 23, 2010 to acquire shares of Global Water Resources, Inc. (‘‘GWRI’’), a corporation incorporated in the State of Delaware of the United States of America, and to actively participate in the management, business and operations of GWRI through its representation on the board of GWRI and its shared management with GWRI. The formation of GWRI occurred through a reorganization of Global Water Resources, LLC and its subsidiaries and Global Water Management, LLC (the predecessors of GWRI).

GWRI operates in the Western United States as a water resource management company that owns and operates regulated water, wastewater and recycled water utilities in strategically located communities, principally in metropolitan Phoenix, Arizona. GWRI’s model focuses on the broad issues of water supply and scarcity and applies principles of water conservation through water reclamation and reuse. The basic premise of GWRI’s business is that the world’s water supply is limited, and yet can be stretched significantly by effectively planning the use of recycled water and by providing individuals and communities resources that promote wise water usage practices. GWRI deploys its integrated approach, Total Water Management (‘‘TWM’’), a term which it uses to mean managing the entire water cycle, both to conserve water and to maximize its total economic and social value. GWRI uses TWM to promote sustainable communities in areas where GWRI expects growth to outpace the existing potable water supply. GWRI’s utilities are regulated by the Arizona Corporation Commission.

The Company, pursuant to an underwriting agreement with a syndicate of underwriters dated December 16, 2010, filed a prospectus (the “Offering Prospectus”) on December 16, 2010 for an initial public offering (the ‘‘Offering’’) of 8,185,000 common shares of the Company at C$7.50 per share. On December 30, 2010, the Company completed the Offering and raised gross proceeds totaling C$61,387,500. On January 28, 2011, the underwriters of the Offering exercised their over-allotment option for an additional 569,611 common shares at C$7.50 per share resulting in additional gross proceeds of C$4,272,083. Net proceeds from the Offering, including from the exercise of the over-allotment option, were used to purchase 87,546 shares of GWRI’s common stock, representing a total ownership interest in GWRI of approximately 48.1% (see Note 3 and Note 6).

Basis of Presentation – The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Amounts are stated in U.S. dollars unless otherwise noted.

Subsequent events have been evaluated through March 15, 2016, the date of report.

Conversion to U.S. GAAP – In February 2008, the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) confirmed that publicly accountable enterprises would be required to convert to International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

In September 2010, the AcSB decided to offer an optional one year deferral for conversion to IFRS for qualifying entities with rate regulated activities and permit such entities to continue to apply Part V – Pre-changeover accounting standards of the CICA Handbook during that period. The Company is a qualifying entity for purposes of this deferral, which we elected.

During 2011, we applied for, and in July 2011 received, an exemption from the Ontario Securities Commission ("OSC") allowing the Company and GWRI to adopt U.S. GAAP and defer the conversion to IFRS until financial years beginning on or after January 1, 2015. Accordingly, effective January 1, 2012, we converted to U.S. GAAP.

In June 2014, we were granted an extension of the exemption previously received from the OSC. The extended exemption allows the Company and GWRI to defer the conversion to IFRS until the earliest of: (a) January 1, 2019; (b) if GWRC or GWRI, as applicable, ceases to have activities subject to rate regulation, the first day of the financial year of GWRC or GWRI, respectively, that commences after GWRC or GWRI, respectively, ceases to have activities subject to rate regulation;

and (c) the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with rate-regulated activities.

Use of accounting estimates – U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingent assets and liabilities in the financial statements. We use estimates for certain items such as income taxes, fair values of financial instruments and commitments and contingencies. By nature, these estimates and assumptions are subject to measurement uncertainty and as such, actual results could differ from estimates used in these financial statements.

Economic dependence – We are economically dependent on GWRI. Our ability to pay distributions is entirely dependent on the distributions received from GWRI. Significant events affecting or transactions involving GWRI could materially influence our ability to pay distributions. We also rely on GWRI for payment of our operating expenses (see Note 4).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Equity method investment – We account for our investment in GWRI using the equity method of accounting because we exercise significant influence over GWRI's operating, investing and financial policies, though such rights do not result in a controlling financial interest. Under the equity method of accounting, an investment is initially recorded at cost, with any amounts paid in excess of our share of the net fair value of identifiable assets and liabilities recognized as goodwill at at the date of the acquisition, which is included within the carrying amount of the investment.

If an other than temporary loss occurs in the value of an equity method investment, the carrying amount of the investment is written down to reflect the loss. The amount of the write down is recorded in net income and is not reversed even if there is a subsequent increase in value (see Note 3).

The carrying value of the investment is adjusted thereafter to include the investor's pro rata share of post-acquisition earnings of the investee. The amount of the adjustment is included in the determination of net income by the investor, and the investment account of the investor is increased or decreased to reflect the investor's share of capital transactions, changes in accounting policies and corrections of errors relating to prior period financial statements applicable to post-acquisition periods. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

Income or losses from equity investment is recorded based on our percentage ownership in the net earnings of investments over which we exercise significant influence over operating, investing and financial policies but over which we do not have control.

Distributions – Distributions receivable from GWRI are recorded when declared by GWRI. To the extent that distributions received are in excess of equity earnings from GWRI, the distributions are considered a return of investment and are reflected within cash flows from investing activities in the Company's statement of cash flows. Otherwise distributions received are considered a return on investment and reflected within cash flows from operating activities in the statement of cash flows.

Distributions payable to our shareholders are recorded when declared.

Income taxes – We utilize the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We evaluate uncertain tax positions using a two-step approach. Recognition (step one) occurs when we conclude that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of

a tax position that was previously recognized would occur when we subsequently determine that a tax position no longer meets the more-likely-than-not threshold of being sustained.

The Company is incorporated in Canada and, as such, is subject to income tax provisions in Canada. Furthermore, the Company was formed to acquire shares in a U.S. corporation, GWRI. The U.S. Internal Revenue Code has provisions dealing with the ‘‘inversion’’ of a U.S. corporation, which provide that a non-U.S. corporation may be treated as a U.S. corporation for U.S. federal income tax purposes in certain circumstances. Management believes that the Company should not be treated as a U.S. corporation for U.S. federal income tax purposes pursuant to the inversion rules because the Company has not acquired and should not be deemed to have acquired substantially all of the stock or assets of GWRI, as provided for under current U.S. income tax guidelines, which is generally more than fifty percent. Additionally, any investment in the Company by historical shareholders of GWRI will bear no relationship to their respective historical ownership of GWRI and will be on the same terms made available to the public.

However, there is a risk that the U.S. Internal Revenue Service could take a contrary position and assert that the Company should be treated as a U.S. corporation under the inversion rules as a result of the transactions which took place under the investment agreement between the Company and GWRI dated December 30, 2010 under which the Company acquired its interest in GWRI (the “Investment Agreement”). As a result, if the Company were subsequently determined to be a U.S. corporation for U.S. federal income tax purposes under the inversion rules, the Company could owe U.S. corporate income tax, withholding tax, penalties and interest, which could be significant. Such treatment may be retroactive to the Company’s initial acquisition of shares of GWRI if a subsequent acquisition is considered to be part of a plan or series of related transactions that includes the transactions contemplated under the Investment Agreement.

Earnings per share – Basic earnings per share is based on the weighted-average number of shares outstanding during the period. Diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of shares and dilutive share equivalents (see Note 7).

3. ACQUISITION OF INVESTMENTS

From its inception through the date of the Offering, the Company did not make any investments.

The Company completed its initial public offering on December 30, 2010, with gross Offering proceeds totaling C$61,387,500. On December 30, 2010, the Company used the net proceeds of the Offering in the amount of $55,363,000 for (i) the payment of approximately $51,659,000 for 81,850 shares of GWRI common stock (an approximate 46.4% interest in GWRI), and (ii) reimbursement of approximately $3,704,000 of Offering expenses incurred by GWRI on our behalf (see Note 6).

During 2010, all legal, professional and other costs incurred in connection with the Offering had been capitalized as deferred financing costs on GWRI’s balance sheet. All such amounts were charged to the Company upon consummation of the Offering on December 30, 2010 and are netted against equity in our balance sheet.

On January 28, 2011, the underwriters of the Offering exercised their over-allotment option and with the related net proceeds of $4,011,000, we purchased an additional 5,696 shares of GWRI’s common stock, resulting in the Company owning an approximate 48.1% of GWRI upon completion of the Offering and the over-allotment (see Note 6). In 2015 the Company received approval from the Toronto Stock Exchange ("TSX") to repurchase, for cancellation common shares of the Company pursuant to a normal course issuer bid ("NCIB"). As a result of the subsequent share repurchase, the Company's ownership interest GWRI decreased to approximately 47.8% as of December 31, 2015. See Note 6 for additional information regarding the NCIB.

The Company completed the process of determining the allocation of the amount invested in GWRI common stock to the underlying fair value of the net assets of GWRI.

The allocation of the amount invested in GWRI is set forth as follows (in thousands of US$):

Net assets of GWRI	$	(19,976)
Intangible asset - FATHOM contracts		1,242
Goodwill		74,733
Deferred tax liability		(329)
Total	$	55,670

The components of the allocation are aggregated in the carrying value of the equity method investment in the Company's balance sheet. The portion of the allocation attributed to the intangible asset would be amortized over the contractual lives of the underlying contracts. As indicated above, a deferred tax liability was established as a result of the book versus tax basis difference created by the intangible asset. In 2013, GWRI sold Global Water Management, LLC ("GWM") and its unregulated business which was marketed by GWRI as FATHOM Utility to Utility Solutions ("FATHOM"). Prior to the sale, amortization of the intangible asset and the reversal of the deferred tax liability was recorded each period as a component of the Company's gain (loss) from equity investment. However, as a result of the sale of the FATHOM business, we determined it appropriate to fully amortize the intangible asset as GWRI no longer owned the FATHOM contracts.

Our interest in GWRI shares provides certain rights with respect to GWRI, including the right to appoint three of the six directors of GWRI's board of directors (the "Board"). However, the owners of the remaining shares of GWRI have the right to increase the size of the Board to seven members and appoint the seventh member as long as their interest in GWRI exceeds 50%, upon written notice to the Board.

The Company recorded a gain on equity investment of approximately $10.3 million and $31.2 million for the years ended December 31, 2015 and 2014, respectively. The Company's gain on its equity method investment of $10.3 million for the year ended December 31, 2015, was driven by the Company's share of GWRI's $22.8 million gain, net of taxes, on the condemnation of Valencia (as defined below). The Company's gain on its equity method investment of $31.2 million for the year ended December 31, 2014, was driven by (i) a nonrecurring gain recognized by GWRI upon receipt of a regulatory order from GWRI's economic regulator, and (ii) by GWRI's release of its deferred income tax valuation allowance during the 2014 period.

The following contains summarized financial data of GWRI's financial position as of December 31, 2015 and December 31, 2014 (in thousands of US$):

	December 31, 2015		December 31, 2014	
ASSETS:				
Net property, plant and equipment	$	194,152	$	240,424
Current assets		18,715		12,293
Other assets		25,108		54,884
TOTAL ASSETS	$	237,975	$	307,601
LIABILITIES:				
Current liabilities	$	10,663	$	13,630
Noncurrent liabilities		207,249		266,291
TOTAL LIABILITIES		217,912		279,921
SHAREHOLDERS' EQUITY		20,063		27,680
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	237,975	$	307,601

The following contains summarized financial data of GWRI's results of operations for the years ended December 31, 2015 and 2014 (U.S. GAAP in thousands of US$):

	2015	2014
Revenues	$ 31,956	$ 32,559
Operating expenses	25,429	(22,232)
Operating income	6,527	54,791
Total other expense, net	35,459	(6,855)
Income before income taxes	41,986	47,936
Income tax (expense) benefit	(20,623)	16,995
Net income	$ 21,363	$ 64,931

The Company evaluates its investment in GWRI for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. In February 2014, GWRI completed the regulatory rate case which was initiated by GWRI's utility companies in 2012. The regulatory rate case provides, among other things, additional revenues to GWRI, which will be phased-in over time. During 2014 GWRI evaluated the impact of the rate case decision, including whether sufficient evidence existed that GWRI's net deferred tax assets would be utilized in the future, thus allowing the reversal of the valuation allowance recorded at GWRI. With the exception of the phase-in of new rates to be charged to GWRI's utility customers, the impact of the rate decision was effective for GWRI in the first quarter of 2014. The impact of the rate decision, combined with the effect of reversing the valuation allowance, resulted in approximately $66.8 million of additional income in GWRI's financial statements for the year ended December 31, 2014. As a result of GWRC's then 48.1% interest in GWRI, GWRC recorded $32.1 million of equity method earnings for the year ended December 31, 2014, which had the effect of significantly increasing the carrying value of GWRC's investment in GWRI. The Company performed an analysis comparing the carrying value of GWRC's investment in GWRI with its estimated fair value, and concluded that an impairment of the investment did not exist as of December 31, 2014.

On July 14, 2015, GWRI closed the stipulated condemnation to transfer the assets and operations of Valencia Water Company, Inc. ("Valencia") to the City of Buckeye ("Buckeye"). Terms of the condemnation were agreed upon through a settlement agreement in March 2015, pursuant to which Buckeye acquired all the assets and operations of Valencia and assumed operations of the utility upon close. Buckeye paid GWRI $55.0 million at close, plus an additional $108,000 in working capital adjustments. As a result of the transaction, GWRI recorded a gain of $43.0 million net of a tax liability of $20.2 million during the year ended December 31, 2015. The impact of the condemnation of Valencia, combined with the associated tax liability resulted in approximately $22.8 million of additional income in GWRI's financial statements for the year ended December 31, 2015. As a result of GWRC's then 48.0% interest in GWRI, GWRC recorded $11.0 million of equity method earnings for the year ended December 31, 2015, which had the effect of significantly increasing the carrying value of GWRC's investment in GWRI. This increase in investment was offset by a special one-time dividend paid in August 2015, wherein $10.4 million was paid out to shareholders of record as of August 8, 2015. The Company performed an analysis comparing the carrying value of GWRC's investment in GWRI with its estimated fair value, and concluded that an impairment of the investment did not exist as of December 31, 2015. However, this analysis is sensitive to management assumptions including forecasted results of GWRI and as a result, changes in these assumptions could have a material impact on the analysis.

4. RELATED PARTY TRANSACTIONS

Proposed Transaction – On January 19, 2016, GWRC announced that it has agreed to pursue a proposed transaction with GWRI that will result in, subject to the satisfaction of shareholder approval and certain other conditions, GWRC merging with and into GWRI (the "Proposed Transaction"). The Proposed Transaction is part of GWRI's overall plan to simplify its corporate structure by eliminating one level of holding company ownership, refinance its outstanding tax-exempt bonds on more favorable terms (as described below), improve liquidity for shareholders over the medium to long-term and have a single governing jurisdiction in the U.S., where all of the assets, operations and employees of the business are

located. As a result of the merger, GWRC will cease to exist as a British Columbia corporation and GWRI, governed by the corporate laws of the State of Delaware, will be the surviving entity. The Proposed Transaction is conditional upon the concurrent completion of a proposed initial public offering of shares of common stock of GWRI in the United States (the "U.S. IPO"). GWRI has filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission in connection with the U.S. IPO.

On completion of the Proposed Transaction, GWRI will have the right to redeem all of its outstanding tax-exempt bonds at a price of 103% of the principal amount, plus interest accrued at the redemption date. As of December 31, 2015, the principal balance of such bonds was U.S.$106.7 million. Following completion of the Proposed Transaction, GWRI plans to refinance these bonds and, based on discussions with lenders, believes it can reduce the effective interest rate on the outstanding balance by 75 to 150 basis points. The refinancing of the GWRI's tax-exempt bonds at reduced interest or at all will depend on a number of factors that are beyond its control including market conditions, and therefore the completion of the bond refinancing cannot be assured.

Subject to the satisfaction of all application conditions, including the requisite shareholder approval and those conditions relating to the U.S. IPO, the Proposed Transaction is expected to close in the second quarter of 2016.

Relationship with GWRI – Except for the Chief Executive Officer and Chief Financial Officer of the Company (who receive no compensation from the Company in connection with their roles), we have no employees and the management and general administration services of our business and affairs are provided by GWRI pursuant to a management agreement. The services provided by GWRI pursuant to the management agreement include, but are not limited to the following:

- monitoring compliance by the Company at all times with the constraints on the ownership of common shares of the Company by U.S. Persons as imposed by the United States Investment Company Act of 1940;
- managing the timely preparation of the annual and interim financial statements of the Company, as well as relevant tax information and providing or causing the same to be provided to the Company's shareholders, as appropriate;
- managing the audit of the annual financial statements of the Company by the Company's auditors;
- managing the preparation of all of the Company's income, sales or commodity tax returns and filings and arranging for their filing within the time required by applicable tax law;
- rendering such services as requested by the Company's officers or the board to implement the advice of the professionals engaged by the Company for advice regarding compliance by the Company with all applicable laws and stock exchange requirements including, without limitation, all continuous disclosure obligations under securities laws;
- managing the preparation of any circular or other disclosure document required under applicable securities laws in response to an offer to purchase securities of the Company;
- providing investor relations services for the Company;
- managing the logistics of calling and holding all annual and/or special meetings of shareholders and preparing, and arranging for the distribution of all materials (including notices of meetings and information circulars) in respect thereof;
- with the advice of the Company's advisors, preparing and providing or causing to be provided to shareholders on a timely basis all information to which shareholders are entitled under applicable laws and stock exchange requirements, including financial statements relating to the Company and GWRI;
- managing the timing and terms of future offerings of securities of the Company, if any, as requested by the board or officers of the Company;
- obtaining and maintaining the insurance coverage selected by the board or officers for the benefit of the Company and its directors and officers;
- providing such services as requested by the board or officers of the Company in regard to any financings by the Company;
- assisting in the preparation and coordination of meetings of the board, including preparation of minutes of meetings of the board;

- preparing, and delivering, on behalf of the Company and with the advice of the Company's advisors, any prospectus or comparable document of the Company to qualify the sale or distribution of securities of the Company from time to time;
- promptly notifying the Company of any information or event that, to GWRI's knowledge, might reasonably be expected to have a material adverse effect with respect to the Company or that might reasonably be expected to be a ‘‘material change'' or ‘‘material fact'' as regards the Company or GWRI; and
- providing all other services as may be requested by the Company, for the administration of the business and affairs of the Company.

Services provided by GWRI are provided at no charge to the Company.

Notwithstanding the foregoing, the Company is solely responsible for the selection of accountants, lawyers, consultants, investment bankers and other such professional advisors, as well as other service providers from time to time, to provide advice and other administrative services directly to the Company. Further, the Company is responsible for certain costs including the fees paid to members of our board of directors. Since the Company has no cash, other than cash received for dividends, and does not expect to have cash flows from operating activities, the operating costs incurred by the Company are paid by GWRI. Amounts paid by GWRI on the Company's behalf for the years ended December 31, 2015 and December 31, 2014 totaled $1.2 million and $498,000, respectively. The Company accounts for the amounts paid by GWRI on its behalf as distributions from GWRI. As such, the amounts paid by GWRI reduce the carrying value of the Company's equity method investment.

At times, GWRI has provided cash advances to the Company to satisfy the Company's short term cash obligations. Amounts advanced are utilized to fund the Company's monthly dividend and other cash requirements, as needed. The residual balance of the cash advance is presented on the Company's December 31, 2015 balance sheet as due to related party. The related party balance is reduced upon dividend declaration by GWRI. As of December 31, 2015, the due to related party balance was zero.

The management agreement may be terminated (i) by the Company, in its sole discretion, by notice in writing to GWRI at least 30 days prior to the effective date of termination; (ii) by either party in the event of the termination of the existence of the Company or the insolvency, receivership or bankruptcy of GWRI, or in the case of default by the other party in the performance of a material obligation under the management agreement which is not remedied within 30 days after notice thereof has been delivered to the defaulting party; or (iii) if the Company no longer holds voting securities of GWRI.

Stock option grant to employees of GWRI – In January 2012, the Company's Board of Directors granted 385,697 options to acquire GWRC common stock to nine employees of GWRI pursuant to the GWR Global Water Resources Corp. Stock Option Plan (the "Option Plan"). The options vested in equal installments over the eight quarters of 2012 and 2013 and expire four years after the date of issuance. We accounted for the option grant in accordance with FASB's Accounting Standards Codification ("ASC") 323, *Investment-Equity Method & Joint Ventures.* The options were initially measured on June 30, 2012, the first period-end following the date when the Option Plan received shareholder approval. The Company remeasured the fair value of the award at the end of each period until the options fully vested on December 31, 2013.

In the third quarter of 2015, 59,636 options were exercised by two individuals, with an exercise price of C$4.00 per option. As of December 31, 2015, 209,591 options were outstanding compared to 269,227 as of December 31, 2014. Total number of stock options forfeited due to attrition or the sale of GWM in June 2013 totaled 116,470.

5. INCOME TAXES

The Company purchased an equity investment in GWRI on December 30, 2010. Distributions from GWRI and income or loss generated by the Company's equity investment in GWRI will result in outside basis differences between the carrying value of the investment compared to the tax basis of the investment. Outside basis differences between the carrying value and the tax basis of the investment in GWRI were evaluated for the tax consequences of the potential realization of an equity investment (e.g., disposition, dividends, return of capital, etc.) to determine the proper accounting for the reversal of any temporary differences in the tax basis and carrying value of the investment. As of December 31, 2015, the carrying value of the equity investment exceeded the tax basis in the investment by approximately $2.9 million and a deferred tax liability was recorded in the amount of $770,000 based on a combined statutory tax rate of 26.5%. The periodic changes to the deferred tax liability balance are recorded to income tax expense.

6. SHAREHOLDERS' EQUITY

The Company has a single class of common shares authorized for issuance and each share entitles the holder thereof to one vote per share.

Prior to the Offering, no capital had been contributed into the Company and no shares of the Company had been issued, with the exception of a single common share in connection with the initial organization of the Company.

As discussed in Note 1, on December 30, 2010, the Company completed its Offering of 8,185,000 common shares at C$7.50 per share for gross proceeds totaling C$61,387,500, or approximately US$61,189,000. The costs incurred in connection with the Offering have been netted against equity in our balance sheet as of December 31, 2010. Net proceeds from the Offering, after taking into consideration underwriters' commissions of approximately $3,671,000 and legal, professional and other Offering costs of approximately $5,859,000, totaled approximately $51,659,000.

On January 28, 2011, the underwriters of the Offering exercised their over-allotment option for an additional 569,611 common shares at C$7.50 per share. Net proceeds from the exercise of the over-allotment option, after taking into account underwriters' commissions and issuance costs of $262,000, were $4,011,000. Such net proceeds were used to purchase 5,696 shares of GWRI's common stock on January 28, 2011, increasing the Company's ownership interest in GWRI to approximately 48.1%.

Normal Course Issuer Bid — On May 11, 2015, GWRC received approval from the TSX to repurchase, for cancellation, common shares of the Company pursuant to a NCIB. The NCIB enabled GWRC to repurchase up to 87,500 common shares, representing approximately 1% of the Company's 8,754,612 issued and outstanding common shares as of May 5, 2015. The NCIB commenced on May 13, 2015 and was completed on December 30, 2015. Except as permitted under TSX rules, daily purchases were limited to a maximum of 3,239 common shares other than block purchase exemptions, which represented 25% of the average daily trading volume on the TSX for the six months ended April 30, 2015. All purchases under the NCIB were made on the open market through the facilities of the TSX by a participating organization. The actual number of shares purchased and the timing of such purchases was be determined by GWRC considering market conditions, stock prices, its cash position and other factors. For the year ended December 31, 2015, GWRC repurchased 87,500 shares of stock for a total of $457,000. GWRI repurchased 871 common shares held by GWRC in connection with GWRC's repurchases under its NCIB, which reduced GWRC's ownership interest in GWRI from 48.1% as of December 31, 2014 to 47.8% as of December 31, 2015.

The share repurchase was mostly offset by the issuance of 59,636 shares in connection with the exercise of 59,636 options, which were exercised by two individuals in the third quarter of 2015, with an exercise price of C$4.00 per option.

GWR GLOBAL WATER RESOURCES CORP.
Notes to the Financial Statements

7. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income (loss) attributable to GWRC's common stockholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period, reduced for treasury stock. Dilutive potential common shares include outstanding stock options.

The following table summarizes the computation of basic and diluted EPS (in thousands, except share data):

	Twelve Months Ended December 31,	
	2015	2014
Net income available to GWRC common shareholders - basic	$ 9,310	$ 28,893
Net income available to GWRC common shareholders - diluted	$ 9,310	$ 28,893
Weighted-average shares outstanding - basic	8,747,801	8,754,612
Effect of dilutive securities:		
Incremental shares from stock options	12	9,882
Weighted-average shares outstanding - diluted	8,747,813	8,764,494
Earnings per common share - basic	$ 1.06	$ 3.30
Earnings per common share - diluted	$ 1.06	$ 3.30

The following table summarizes the potential shares of common stock that were excluded from diluted EPS, because the effect of including these potential shares was antidilutive:

	Twelve Months Ended December 31,	
	2015	2014
Stock options	209,591	209,561

8. CAPITAL MANAGEMENT AND LIQUIDITY MATTERS

As discussed in Note 1, we are economically dependent on GWRI. Our ability to service operating costs and pay distributions (if any) is entirely dependent on the receipt of distributions, or loans, from GWRI. Significant events affecting or transactions involving GWRI could materially influence our ability to make such payments.

We do not carry on any active business operations as our activities are generally restricted to holding securities of our equity investee, GWRI. To date, we have not incurred debt to finance our investments. Therefore, our capital structure is composed solely of our shareholders' equity.

In March 2014, the Company initiated a dividend program wherein we declare and pay a monthly dividend. The initial monthly dividends were approximately C$0.0220 per share. In November 2014, the Company increased the monthly dividend to approximately C$0.0240 per share. In March 2015, the Company increased the monthly dividend to approximately C$0.0260 per share. In July 2015, the Company further increased the monthly dividend to C$0.0283 per share. The Company expects that monthly dividends of similar amounts will be declared and paid for the foreseeable future. Nevertheless, the ability of the Company to maintain its dividend program is dependent upon GWRI making distributions to the Company.

9. COMMITMENTS AND CONTINGENCIES

Commitments – As discussed in Note 4, the Company uses the services of GWRI for the management and general administration of our business and affairs. The Company does not pay a fee for these services. We currently have no commitments expected to result in future minimum payments.

Contingencies – From time to time, we may become involved in proceedings arising in the ordinary course of business of which the ultimate resolution of such matters could materially affect our financial position, results of operations, or

cash flows. Since inception, the Company has not identified any contingencies which we believe could materially affect our financial statements.

10. SUBSEQUENT EVENTS

On January 19, 2016, GWRI filed a registration statement on Form S-1 with the Securities and Exchange Commission for a proposed offering of its common stock (the "U.S. IPO"). In connection with the proposed U.S. IPO, GWRI plans to apply to list its common stock on the NASDAQ Global Market under the symbol "GWRS."

In January 2016, the 209,591 options outstanding as of December 31, 2015 expired. As of March 15, 2016, the date of this report, no options exist or are outstanding.

Subsequent events have been evaluated up to and including March 15, 2016, the date of this report.

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GLOBAL WATER RESOURCES, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Global Water Resources, Inc.
Phoenix, Arizona

We have audited the accompanying consolidated financial statements of Global Water Resources, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of
Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Global Water Resources, Inc. and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 15, 2016

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2015 and December 31, 2014

	December 31, 2015	December 31, 2014
ASSETS	(in thousands of US$, except share data)	
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	$ 258,244	$ 318,995
Less accumulated depreciation	(64,092)	(78,571)
Net property, plant and equipment	194,152	240,424
CURRENT ASSETS:		
Cash and cash equivalents	11,513	6,577
Accounts receivable—net	1,132	1,365
Due from related party	306	645
Accrued revenue	1,745	1,762
Prepaid expenses and other current assets	1,179	353
Deferred tax assets—current	—	1,591
Assets held for sale	2,840	—
Total current assets	18,715	12,293
OTHER ASSETS:		
Goodwill	—	13,082
Intangible assets—net	12,772	12,772
Regulatory assets	227	400
Deposits	13	25
Bond service fund and other restricted cash	9,042	9,927
Debt issuance costs—net	2,233	2,722
Equity method investment—related party	821	1,150
Deferred tax assets	—	14,806
Total other assets	25,108	54,884
TOTAL ASSETS	$ 237,975	$ 307,601
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,322	$ 1,531
Accrued expenses	5,137	6,832
Deferred revenue	11	13
Customer and meter deposits	1,706	2,601
Long-term debt—current portion	1,994	2,653
Liabilities held for sale	493	—
Total current liabilities	10,663	13,630
NONCURRENT LIABILITIES:		
Long-term debt	104,650	127,491
Deferred regulatory gain	19,730	19,730
Regulatory liability	7,859	7,859
Advances in aid of construction	61,480	89,206
Contributions in aid of construction—net	4,426	17,096
Deferred income tax liability	4,164	—
Acquisition liability	4,688	4,688
Other noncurrent liabilities	252	221
Total noncurrent liabilities	207,249	266,291
Total liabilities	217,912	279,921
Commitments and contingencies (see Note 14)		
SHAREHOLDERS' EQUITY :		
Common stock, $0.01 par value, 1,000,000 shares authorized, 181,179 and 182,050 shares issued and outstanding as of December 31, 2015 and December 31, 2014, respectively	2	2
Paid in capital	21,659	50,639
Accumulated deficit	(1,598)	(22,961)
Total shareholders' equity	20,063	27,680
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 237,975	$ 307,601

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2015 and 2014

	December 31,			
	2015		2014	
	(in thousands of US$, except share data)			
REVENUES:				
Water services	$	16,320	$	18,076
Wastewater and recycled water services		15,020		14,112
Unregulated revenues		616		371
Total revenues		31,956		32,559
OPERATING EXPENSES:				
Operations and maintenance		7,080		8,020
Operations and maintenance - related party		2,179		2,398
General and administrative		7,957		8,809
Gain on regulatory order		—		(50,664)
Depreciation		8,213		9,205
Total operating expenses		25,429		(22,232)
OPERATING INCOME		6,527		54,791
OTHER INCOME (EXPENSE):				
Interest income		11		79
Interest expense		(8,299)		(9,512)
Gain on condemnation of Valencia		42,983		—
Other		767		2,162
Other - related party		(3)		416
Total other income (expense)		35,459		(6,855)
INCOME BEFORE INCOME TAXES		41,986		47,936
INCOME TAX (EXPENSE) BENEFIT		(20,623)		16,995
NET INCOME	$	21,363	$	64,931
Basic earnings per common share	$	117.55	$	356.67
Diluted earnings per common share	$	117.55	$	356.67
Dividends declared per common share	C$	187.18	C$	22.40
Dividends declared per common share	$	143.95	$	20.49
Weighted average number of common shares used in the determination of:				
Basic earnings per common share		181,733		182,050
Diluted earnings per common share		181,733		182,050

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2015 and 2014

	Common Stock	Paid-in Capital	Accumulated Deficit	Total Equity
	(in thousands of US$)			
BALANCE – December 31, 2013	$ 2	$ 55,048	$ (87,892)	$ (32,842)
Dividend declared C$22.40 per share declared ($20.49 per share)	—	(3,904)	—	(3,904)
Stock-based compensation	—	(8)	—	(8)
Deemed distribution to related party	—	(497)	—	(497)
Net income	—	—	64,931	64,931
BALANCE – December 31, 2014	$ 2	$ 50,639	$ (22,961)	$ 27,680
BALANCE – December 31, 2014	$ 2	$ 50,639	$ (22,961)	$ 27,680
Dividend declared C$187.18 per share declared ($143.95 per share)	—	(27,607)	—	(27,607)
Deemed distribution to related party	—	(909)	—	(909)
Share repurchase	—	(464)	—	(464)
Net income	—	—	21,363	21,363
BALANCE – December 31, 2015	$ 2	$ 21,659	$ (1,598)	$ 20,063

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	December 31,	
	2015	**2014**
	(in thousands of US$)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 21,363	$ 64,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred compensation	798	1,361
Depreciation	8,213	9,205
Amortization of deferred debt issuance costs and discounts	204	334
Write-off of debt issuance costs	282	696
Loss on disposal of fixed assets	—	6
Gain on condemnation of Valencia	(42,983)	—
Gain on sale of 303 contracts	(296)	—
Loss (Gain) on equity method investment	329	(144)
Gain on regulatory order	—	(50,664)
Other losses (gains)	176	(56)
Provision for doubtful accounts receivable	69	83
Deferred income tax expense (benefit)	20,561	(16,995)
Changes in assets and liabilities:		
Accounts receivable	125	26
Other current assets	(2,241)	—
Accounts payable and other current liabilities	(2,502)	(227)
Other noncurrent assets	147	34
Other noncurrent liabilities	—	3,056
Net cash provided by operating activities	4,245	11,646
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(3,355)	(1,655)
Proceeds from the condemnation of Valencia	55,107	—
Proceeds received from the sale of Loop 303 Contracts	296	—
(Deposits) withdrawals of restricted cash	(70)	198
Cash advance to related party	(12,745)	—
Repayment of related party cash advance	12,745	—
Other cash flows from investing activities	(6)	26
Net cash provided by (used in) investing activities	51,972	(1,431)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of bond debt	(1,775)	(12,347)
Deposits in bond service fund	—	(1,000)
Proceeds withdrawn from bond service fund	1,001	626
Loan borrowings	—	21,800
Loan repayments	(21,719)	(10,390)
Principal payments under capital leases	(99)	(105)
Debt issuance costs paid	—	(346)
Advances in aid of construction	357	365
Refunds of advances for construction	(975)	(747)
Dividends paid	(27,607)	(3,454)
Share repurchase	(464)	—
Net cash used in financing activities	(51,281)	(5,598)
INCREASE IN CASH AND CASH EQUIVALENTS	4,936	4,617
CASH AND CASH EQUIVALENTS – Beginning of period	6,577	1,960
CASH AND CASH EQUIVALENTS – End of period	$ 11,513	$ 6,577

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - Global Water Resources, Inc. and its subsidiaries (collectively, the ‘‘Company’’, “GWRI”, ‘‘we’’, ‘‘us’’, or ‘‘our’’) operate in the Western United States as a water resource management company that owns, operates and manages water, wastewater and recycled water utilities in strategically located communities, principally in metropolitan Phoenix, Arizona. The Company’s model focuses on the broad issues of water supply and scarcity and applies principles of water conservation through water reclamation and reuse. The Company’s basic premise is that the world’s water supply is limited and yet can be stretched significantly through effective planning, the use of recycled water and by providing individuals and communities resources that promote wise water usage practices. The Company deploys its integrated approach, Total Water Management (“TWM”), a term which it uses to mean managing the entire water cycle, both to conserve water and to maximize its total economic and social value. The Company uses TWM to promote sustainable communities in areas where it expects growth to outpace the existing potable water supply.

History - Global Water Resources, LLC (“GWR”) was organized in 2003 to acquire, own, and manage a portfolio of water and wastewater utilities in the Southwestern United States. Global Water Management, LLC (“GWM”) was formed as an affiliated company to provide business development, management, construction project management, operations, and administrative services to GWR and all of its regulated subsidiaries. Our regulated utilities are regulated by the Arizona Corporation Commission (the ‘‘Commission’’ or ‘‘ACC’’).

On February 4, 2004, GWR purchased its first two utilities, Santa Cruz Water Company, LLC (‘‘Santa Cruz’’) and Palo Verde Utilities Company, LLC (‘‘Palo Verde’’). Santa Cruz and Palo Verde provide water and wastewater operations, respectively, to residential and commercial customers in the vicinity of the City of Maricopa in Pinal County, Arizona and are regulated by the ACC. Effective March 31, 2005, GWR purchased the assets of Sonoran Utility Services, LLC (‘‘Sonoran’’), an unregulated utility. The Sonoran assets were used to provide water and wastewater operations to residential and commercial customers in a water improvement district and a wastewater improvement district adjacent to the service area of Santa Cruz and Palo Verde. The Sonoran assets were contributed to Santa Cruz and Palo Verde upon acquisition.

In March 2005, Global Water, Inc. (“GWI”), an Arizona corporation, was established as a subsidiary of GWR to acquire, own, and manage a portfolio of water and wastewater utilities. In 2006, Santa Cruz and Palo Verde were reorganized as C corporations and became subsidiaries of GWI.

On July 11, 2006, GWI acquired 100% of the outstanding common shares of West Maricopa Combine (“WMC”), the parent company of Valencia Water Company (‘‘Valencia Water’’) in the Town of Buckeye, Willow Valley Water Company (‘‘Willow Valley’’) near Bullhead City, Water Utility of Greater Buckeye (‘‘Greater Buckeye’’) near the town of Buckeye, Water Utility of Greater Tonopah (‘‘Greater Tonopah’’) west of the Hassayampa River, and Water Utility of Northern Scottsdale (“Northern Scottsdale”) in northeast Scottsdale, all within the state of Arizona.

On December 30, 2006, GWI purchased the net assets of CP Water Company (“CP Water”), an Arizona corporation providing water services near the cities of Maricopa and Casa Grande, Arizona.

GWI formed Global Water-Picacho Cove Water Company and Global Water-Picacho Cove Utilities Company (collectively, ‘‘Picacho’’) in October 2006, to provide integrated water, wastewater and recycled water service to an area in the vicinity of Eloy, Arizona along Interstate 10 about midway between Tucson and Phoenix. On April 8, 2008, the Commission approved the application for the creation of a Certificate of Convenience and Necessity (“CC&N”) for Picacho, granting it the exclusive right to provide services to an area of approximately 1,480 acres with 4,900 homes planned for the initial phase. On July 28, 2009, the Commission approved an expansion application for an additional 2,300 acres planned primarily for a rail served industrial park.

Reorganization - In early 2010, the members of GWR and GWM made the decision to raise money through the capital markets. The members established a new entity, GWR Global Water Resources Corp. (“GWRC”), which was incorporated under the Business Corporations Act (British Columbia) to acquire shares of the Company. On December 30, 2010, GWRC completed its initial public offering in Canada (the “Offering”) on the Toronto Stock Exchange, raising gross proceeds totaling C$65,659,583 (including gross proceeds received January 28, 2011 of C$4,272,083 pursuant to the underwriters’ exercise of their over-allotment option). The proceeds of the Offering were used to acquire a 48.1% interest in the Company.

In connection with the Offering, GWR and GWM (collectively, "GWRI's predecessor entities") were reorganized to form GWRI (the "Reorganization"). Accordingly, all references herein to GWRI with respect to periods prior to December 30, 2010 should be understood as meaning GWRI's predecessor entities.

Basis of Presentation and Principles of Consolidation – The consolidated financial statements include the accounts of GWRI and all of its subsidiaries. All intercompany account balances and transactions between GWRI and its subsidiaries have been eliminated.

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and with the rules and regulations of the Securities and Exchange Commission ("SEC"). The preparation of the financial statements in conformity with U.S. GAAP 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 income and expenses during the reporting period. Actual results could differ from those estimates. The U.S. dollar is our reporting currency and the Company's functional currency.

As a company with less than $1.0 billion in revenue during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), under the rules and regulations of the Securities and Exchange Commission ("SEC"). An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. We elected to take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We have elected to take advantage of some of the reduced disclosure obligations regarding financial statements. Also, as an emerging growth company we can elect to delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We are choosing to take advantage of this extended accounting transition provision.

Corporate Transactions — *Sale of certain MXA and WMA contracts* — In September 2013, the Company sold its Wastewater Facilities Main Extension Agreements ("MXAs) and Offsite Water Management Agreements ("WMAs") along with their related rights and obligations to a third party (the "Transfer of Project Agreement", or "Loop 303 Contracts"). Pursuant to the Transfer of Project Agreement, GWRI will receive total proceeds of approximately $4.1 million over a multi-year period. As part of the consideration, GWRI agreed to complete certain engineering work required in the WMAs, which work had been completed prior to January 1, 2014. As the engineering work has been completed, the Company effectively has no further obligations under the WMAs, MXAs or the Transfer of Project Agreement. Prior to January 1, 2014, the Company had received $2.8 million of proceeds and recognized income of approximately $3.3 million within other income (expense) in the statement of operations related to the gain on sale of these agreements and the proceeds received prior to January 1, 2014 for engineering work required in the WMAs. The Company received additional proceeds of approximately $296,000 in April 2015 and recognized those amounts as income at that time. Receipt of the remaining $1.0 million of proceeds will occur and be recorded as additional income over time as certain milestones are met between the third party acquirer and the developers/landowners.

Stipulated condemnation of Valencia — On March 17, 2015, the Company reached a settlement agreement for a stipulated condemnation to sell the utility operating as Valencia Water Company, Inc. ("Valencia") to the City of Buckeye ("Buckeye"), which was approved by Buckeye's City Council on March 19, 2015. On July 14, 2015, the Company closed the stipulated condemnation of Valencia with the City of Buckeye. Terms of the condemnation were agreed upon through a settlement agreement in March 2015, pursuant to which Buckeye acquired the operations and assets of Valencia and assumed operations of the utility upon close. Buckeye paid the Company $55.0 million at close, plus an additional $108,000 in working capital adjustments. As a result of the transaction, the Company recorded a gain of $43.0 million net of tax liability of $20.2 million for the year ended December 31, 2015. Buckeye will also pay a growth premium equal to $3,000 for each new water meter installed within Valencia's prior service areas, for a 20-year period ending December 31, 2034, subject to a maximum payout of $45.0 million over the term of the agreement. For the year ended December 31, 2015, the Company recognized $624,000 in other income within the consolidated financial statements related to the earn out on growth premium.

In consideration of FASB's Accounting Standards Codification ("ASC") 205-20-45-1, the condemnation of Valencia transaction does not meet the criteria of discontinued operations. As the transaction did not change the services provided

nor the manner in which the Company operates, it was determined the transaction did not represent a strategic shift and therefore does not qualify for presentation as a discontinued operation.

Pending sale of Willow Water Valley Co., Inc. — On March 23, 2015, the Company reached an agreement to sell the operations and assets of Willow Water Valley Co., Inc. (“Willow Valley”) to EPCOR Water Arizona Inc. (“EPCOR”). The terms of the agreement are that EPCOR will purchase the operations, assets and rights used by Willow Valley to operate the utility system for approximately $2.3 million, subject to current rate base calculations and certain post-closing adjustments. The transaction is subject to final approval from the Arizona Corporate Commission (the “Commission” or “ACC”). Subject to a 30 day appeal period, the Arizona Corporation Commission approved the transaction on March 2, 2016.

Per ASC 360-10-45-9 the assets and liabilities considered in the sale of Willow Valley were determined to meet the criteria to be classified as held for sale. The criteria utilized to make this determination are: (i) management has the authority and has entered into an agreement to sell the assets of Willow Valley; (ii) the assets and liabilities are available for immediate sale in their present condition; (iii) the approval from the ACC is probable within the next year; (iv) a reasonable price has been agreed upon; and (v) it is unlikely that significant changes to the agreement will be made prior to approval. In consideration of ASC 205-20-45-1, the Willow Valley transaction does not meet the criteria for discontinued operations. As the transaction did not change the services provided nor the manner in which the Company operates, it was determined the transactions do not represent a strategic shift and therefore do not qualify for presentation as a discontinued operation.

Additionally, as the carrying value of the assets and liabilities of Willow Valley were greater than the agreed upon sales price, a loss of $176,000 was recorded in other expense during the second quarter of 2015, when the assets were classified as held for sale, to adjust the carrying value of the asset group to the agreed upon fair value less cost to sell. The assets and liabilities included within the agreements are as follows:

	December 31, 2015	
	Willow Valley	
	(in thousands of US$)	
Property, plant and equipment	$	5,223
Less Accumulated Depreciation		(2,606)
Net property, plant and equipment		2,617
Goodwill		223
Total assets	$	2,840
Advances in aid of construction	$	70
Contributions in aid of construction — net		423
Total liabilities	$	493

Normal Course Issuer Bid — On May 11, 2015, GWR Global Water Resources Corp. ("GWRC") received approval from the Toronto Stock Exchange (“TSX”) to repurchase, for cancellation, common shares of GWRC pursuant to a normal course issuer bid (“NCIB”). The NCIB enables GWRC to repurchase up to 87,500 common shares, representing approximately 1% of GWRC’s 8,754,612 issued and outstanding common shares as of May 5, 2015. The NCIB commenced on May 13, 2015 and was completed on December 30, 2015. Except as permitted under TSX rules, daily purchases were limited to a maximum of 3,239 common shares other than block purchase exemptions, which represented 25% of the average daily trading volume on the TSX for the six months ended April 30, 2015. All purchases under the NCIB were made on the open market through the facilities of the TSX by a participating organization. The actual number of shares purchased and the timing of such purchases was determined by GWRC considering market conditions, stock prices, its cash position and other factors. For the year ended December 31, 2015, GWRC repurchased 87,500 shares of stock for a total of $464,000. GWRI's outstanding shares as of December 31, 2015 are 181,179 compared to 182,050 as of December 31, 2014. The Company repurchased 871 common shares held by GWRC in connection with GWRC's repurchases under its NCIB, which reduced GWRC's ownership interest in GWRI from 48.1% to 47.8%.

One-time Dividend—On July 28, 2015, the Company announced a special one-time cash dividend of $22.8 million or C$1.55 per share. This dividend was paid out on August 12, 2015 to shareholders of record as of the close of business on August 7, 2015.

Significant Accounting Policies - Significant accounting policies are as follows:

Regulation - Our regulated utilities and certain other balances are subject to regulation by the ACC and are therefore subject to Accounting Standards Codification Topic 980, *Regulated Operations* ("ASC Topic 980") (See Note 3).

Property, plant and equipment - Property, plant and equipment is stated at cost less accumulated depreciation provided on a straight-line basis (see Note 4).

Depreciation rates for asset classes of utility property, plant and equipment are established by the Commission. The cost of additions, including betterments and replacements of units of utility fixed assets are charged to utility property, plant and equipment. When units of utility property are replaced, renewed or retired, their cost plus removal or disposal costs, less salvage proceeds, is charged to accumulated depreciation.

For non-utility property, plant and equipment, depreciation is calculated by the straight-line method over the estimated useful lives of depreciable assets. Cost and accumulated depreciation for non-utility property, plant and equipment retired or disposed of are removed from the accounts and any resulting gain or loss is included in earnings.

In addition to third party costs, direct personnel costs and indirect construction overhead costs may be capitalized. Interest incurred during the construction period is also capitalized as a component of the cost of the constructed assets, which represents the cost of debt associated with construction activity. Expenditures for maintenance and repairs are charged to expense.

Revenue Recognition - Water Services - Water services revenues are recorded when service is rendered or water is delivered to customers. However, in addition to the monthly basic service charge, the determination and billing of water sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each reporting period, amounts of water delivered to customers since the date of the last meter reading are estimated and the corresponding accrued, but unbilled revenue is recorded.

Water connection fees are the fees associated with the application process to set up a customer to receive utility service on an existing water meter. These fees are approved by the ACC through the regulatory process and are set based on the costs incurred to establish services including the application process, billing setup, initial meter reading and service transfer. Because the amounts charged for water connection fees are set by our regulator and not negotiated in conjunction with the pricing of ongoing water service, the connection fees represent the culmination of a separate earnings process and are recognized when the service is provided. For the years ended December 31, 2015 and December 31, 2014, the Company recognized $276,000 and $366,000 in connection fees, respectively.

Meter installation fees are the fees charged to developers or builders associated with installing new water meters. Certain fees for meters are regulated by the ACC, and are refundable pursuant to the end customer over a period of time. Refundable meter installation fees are recorded as a liability upon receipt. Other certain meter fees are negotiated directly with developers or builders and are not subject to ACC regulation and represent the culmination of a separate earnings process. These fees are recognized as revenue when the service is rendered, or when a water meter is installed.

Revenue Recognition - Wastewater and Recycled Water Services - Wastewater service revenues are generally recognized when service is rendered. Wastewater services are billed at a fixed monthly amount per connection, and recycled water services are billed monthly based on volumetric fees.

Revenue Recognition - Unregulated Revenues - Unregulated Revenues represent those revenues that are not subject to the ratemaking process of the ACC. Unregulated revenues are limited to rental revenue and imputed revenues resulting from certain ICFA arrangements.

Allowance for Doubtful Accounts - Provisions are made for doubtful accounts due to the inherent uncertainty around the collectability of accounts receivable. The allowance for doubtful accounts is recorded as bad debt expense, and is classified as general and administrative expense. The allowance for doubtful accounts is determined considering the age of the receivable balance, type of customer (e.g., residential, commercial), payment history as well as specific identification of any known or expected collectability issues (see Note 5).

Infrastructure coordination and financing fees - Infrastructure coordination and financing agreements (“ICFAs”) are agreements with developers and homebuilders whereby GWRI, which owns the operating utilities, provides services to plan, coordinate and finance the water and wastewater infrastructure that would otherwise be required to be performed or subcontracted by the developer or homebuilder. Services provided within these agreements include coordination of construction services for water and wastewater treatment facilities as well as financing, arranging and coordinating the provision of utility services.

ICFA revenue is recognized when the following conditions are met:

- The fee is fixed and determinable
- The cash received is nonrefundable
- Capacity currently exists to serve the specific lots
- There are no additional significant performance obligations

As these arrangements are with developers and not with the end water or wastewater customer, revenue recognition coincides with the completion of our performance obligations under the agreement with the developer and our ability to provide fitted capacity for water and wastewater service. Payments received under the agreements are recorded as deferred revenue until the point at which all of the conditions described above are met. Historically ICFAs have been accounted for as revenue pursuant to the obligations being met as outlined above, or as contributions in aid of construction (“CIAC”) when funds were received. Pursuant to Rate Decision no. 74364, approximately 70% of ICFAs are now recorded as a hook-up fee ("HUF"), with 30% recorded as revenue once all components of revenue recognition are met (See Note 3).

Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid investments in debt instruments with an original maturity of three months or less.

Restricted Cash - Restricted cash represents cash deposited as a debt service reserve for certain loans and bonds. The following table summarizes the restricted cash balance as of December 31, 2015 and December 31, 2014 (in thousands of US$):

	December 31, 2015	December 31, 2014
Bond reserve	$ 8,824	$ 9,823
HUF funds	38	—
Certificate of deposits	180	104
	$ 9,042	$ 9,927

Income Taxes - The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company’s valuation allowance totaled $8,500 as of December 31, 2015 and December 31, 2014 (see Note 11).

We evaluate uncertain tax positions using a two-step approach. Recognition (step one) occurs when we conclude that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when we subsequently determine that a tax position no longer

meets the more-likely-than-not threshold of being sustained. The use of a valuation allowance as a substitute for derecognition of tax positions is prohibited, and to the extent that uncertain tax positions exist, we provide expanded disclosures.

Basic and Diluted Earnings per Common Share - The Company has 431 options outstanding to acquire an equivalent number of shares of GWRI common stock. As of December 31, 2015 and December 31, 2014, these options are out of the money. Therefore, the Company does not have any common share equivalents to be considered for purposes of calculating earnings per share. See Note 12. Any changes in the weighted average common shares relate only to the buy-back of shares. See "Corporate Transactions—Normal Course Issuer Bid" for more information regarding the share repurchase program.

Goodwill - Goodwill represents the excess of acquisition cost over the fair value of net tangible and identifiable intangible assets acquired in business combinations. Goodwill is tested for impairment at least annually on October 1 and more frequently if circumstances indicate that it may be impaired. Goodwill impairment testing is performed at the reporting unit level. The goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the related operations that have goodwill assigned to them. We use the terminal valuation method in estimating fair value which assumes a business will be sold at the end of the projection period at a specific terminal value. Earnings and discounted cash flows were developed from our internal forecasts. Additionally, management must make an estimate of a weighted-average cost of capital to be used as a company-specific discount rate, which takes into account certain risk and size premiums, risk-free yields, and the capital structure of the industry. We have also considered other qualitative and quantitative factors including the regulatory environment that can significantly impact future earnings and cash flows and the effects of the volatile current economic environment. Changes in these projections or estimates could result in a reporting unit either passing or failing the first step in the goodwill impairment model.

If the fair value of a reporting unit is determined to be less than book value, a second step is performed to determine if goodwill is impaired, and if so, the amount of such impairment. In this process, an implied fair value for goodwill is estimated by allocating the fair value of the reporting unit to the applicable reporting unit's assets and liabilities resulting in any excess fair value representing the implied fair value of goodwill. The amount by which carrying value exceeds the implied fair value represents the amount of goodwill impairment (see Note 7).

Intangible Assets - Intangible assets not subject to amortization consist of certain permits expected to be renewable indefinitely, water rights and certain service areas acquired in transactions which did not meet the definition of business combinations for accounting purposes, and are considered to have indefinite lives. Intangible assets with indefinite lives are not amortized but are tested for impairment annually, or more often if certain circumstances indicate a possible impairment may exist. Amortized intangible assets consist primarily of acquired ICFA contract rights.

Pursuant to Rate Decision No. 71878 issued by the ACC on September 15, 2010 for the February 2009 filed rate cases for Santa Cruz, Palo Verde, Valencia, Greater Buckeye, Greater Tonopah and Willow Valley (the "2010 Regulatory Rate Decision"), ICFA funds received were accounted for as CIAC. The Company established a regulatory liability against the Company's intangible assets balance to offset the value of the intangible assets related to the expected receipt of ICFA fees in the future. As of January 1, 2014 the Company had a regulatory liability balance of $11.4 million. However, in 2014, in conjunction with Rate Decision No. 74364, the ACC determined that ICFA funds were no longer to be recorded as CIAC, but rather approximately 70% of funds received should be recorded as HUF, with the remaining 30% to be deferred and recognized according to the Company's ICFA revenue recognition policy (see Note 3). Accordingly, in 2014 30%, or $3.4 million, of the regulatory liability was reversed in connection with the recognition of the rate decision.

Debt Issuance Costs - In connection with the issuance of some of our long-term debt, we have incurred legal and other costs that we believe are directly attributable to realizing the proceeds of the debt issued. These costs are capitalized in other assets and amortized as interest expense using the effective interest method over the term of the respective debt. Amortization of debt issuance costs and discounts totaled $486,000 for the year ended December 31, 2015, of which $282,000 was for the write off of debt issuance costs related to the MidFirst loan which was retired in July 2015, and $204,000 was for the current year amortization. Amortization of debt issuance costs and discounts totaled $1.0 million for the year ended December 31, 2014, of which $696,000 was for the write off of debt issuance costs and $327,000 was

for the current year amortization. The 2014 write off of debt issuance costs was related to the Series 2012A and 2012B bonds and the Regions Term loan, which were retired in 2014.

Impairment of Long-Lived Assets - Management evaluates the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If an indicator of possible impairment exists, an undiscounted cash flow analysis would be prepared to determine whether there is an actual impairment. Measurement of the impairment loss is based on the fair value of the asset. Generally, fair value will be determined using appraisals or valuation techniques such as the present value of expected future cash flows.

Advances and Contributions in Aid of Construction - The Company has various agreements with Developers and builders, whereby funds, water line extensions, or wastewater line extensions are provided to us by the Developers and are considered refundable advances for construction. These advances in aid of construction ("AIAC") are non-interest-bearing and are subject to refund to the Developers through annual payments that are computed as a percentage of the total annual gross revenue earned from customers connected to utility services constructed under the agreement over a specified period. Upon the expiration of the agreements' refunding period, the remaining balance of the advance becomes nonrefundable and at that time is considered CIAC. CIAC are amortized as a reduction of depreciation expense over the estimated remaining life of the related utility plant. For rate-making purposes, utility plant funded by advances and contributions in aid of construction are excluded from rate base. For the year ended December 31, 2014, the Company transferred $7.4 million of AIAC balances to CIAC for amounts for which the refunding period had expired. No AIAC balances were transferred to CIAC for the year ended December 31, 2015.

Fair Value of Financial Instruments - The carrying values of cash equivalents, trade receivables, and accounts payable approximate fair value due to the short-term maturities of these instruments. See Note 10 for information as to the fair value of our long-term debt. Our refundable AIAC have a carrying value of $61.5 million and $89.2 million as of December 31, 2015 and December 31, 2014, respectively. Portions of these non-interest-bearing instruments are payable annually through 2032 and amounts not paid by the contract expiration dates become nonrefundable. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rate increases. However, the fair value of these amounts would be less than their carrying value due to the non-interest-bearing feature.

Asset Retirement Obligations - Liabilities for asset retirement obligations are typically recorded at fair value in the period in which they are incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Our legal obligations for retirement reflect principally the retirement of wastewater treatment facilities, which are required to be closed in accordance with the Clean Closure Requirements of the Arizona Department of Environmental Quality (ADEQ). The Clean Closure Requirements of ADEQ for wastewater facilities are driven by a need to protect the environment from inadvertent contamination associated with the decommissioning of these systems. As such, our regulated subsidiaries incur asset retirement obligations. As of December 31, 2015 and December 31, 2014 we had provided $306,000 and $229,000 in certificates of deposit, respectively, or letters of credit to benefit ADEQ for such anticipated closure costs. Water systems, unlike wastewater systems, do not require Aquifer Protection Permits or the associated Clean Closure Requirement obligation.

Amounts recorded for asset retirement obligations are subject to various assumptions and determinations, such as determining whether a legal obligation exists to remove assets; estimating the fair value of the costs of removal; estimating when final removal will occur; and determining the credit-adjusted, risk-free interest rates to be utilized on discounting future liabilities. Changes that may arise over time with regard to these assumptions will change amounts recorded in the future. Estimating the fair value of the costs of removal were determined based on third-party costs.

Segments - Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing operating performance. In consideration of ASC 280 - *Segment Reporting* the Company notes it is not organized around specific products and services, geographic regions or regulatory environments. The Company currently

operates in one geographic region within the State of Arizona, wherein each operating utility operates within the same regulatory environment.

While the Company reports its revenue, disaggregated by service type, on the face of its Statements of Operations, the Company does not manage the business based on any performance measure at the individual revenue stream level. The Company does not have any customers that contribute more than 10% to the Company's revenues or revenue streams. Additionally we note that the CODM uses consolidated financial information to evaluate the Company's performance, which is the same basis on which he communicates the Company's results and performance to the Board of Directors. It is upon this consolidated basis from which he bases all significant decisions regarding the allocation of the Company's resources on a consolidated level. Based on the information described above and in accordance with the applicable literature, management has concluded that the Company is currently organized and operated as one operating and reportable segment.

2. NEW ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board ("FASB") issued Auditing Standards Update ("ASU") 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,* which change the criteria for reporting discontinued operations and changing the disclosures for disposals that meet the definition under the new guidance. Under the new guidance, only disposals representing a strategic shift in a company's strategy would be deemed a discontinued operation. To meet the definition of strategic shift, the disposal should have a major effect on the organization's operations and financial results. Certain examples of the type of disposals that would qualify as a discontinued operation include a disposal of a major geographic area, a major line of business, or a major equity method investment. For those disposals that meet the criteria, expanded disclosures on assets, liabilities, income and expenses would apply. The Company's adoption of ASU 2014-08 in the first quarter of 2015 did not have a material effect on our consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which completes the joint effort between the FASB and IASB to converge the recognition of revenue between the two boards. The new standard affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets not included within other FASB standards. The guiding principal of the new standard is that an entity should recognize revenue in an amount that reflects the consideration to which an entity expects to be entitled for the delivery of goods and services. ASU 2014-09 may be adopted using either of two acceptable methods: (1) retrospective adoption to each prior period presented with the option to elect certain practical expedients; or (2) adoption with the cumulative effect recognized at the date of initial application and providing certain disclosures. To assess at which time revenue should be recognized, an entity should use the following steps: (1) identify the contract (s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. For public business entities, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within the reporting period. For private companies, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods beginning after December 15, 2019. Earlier application is allowed in certain circumstances. The Company is currently assessing the impact that this guidance may have on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which defines management's responsibility in evaluating whether there is substantial doubt about an organizations ability to continue as a going concern. The new standard provides that an entity's management should evaluate whether conditions or events exist that would raise substantial doubt about an entity's ability to continue as a going concern. If substantial doubt exists, the guidance provides principles and definitions to assist management in assessing the appropriate timing and content in their financial statement disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016. The adoption of ASU 2014-15 is not expected to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability, consistent with the accounting of debt discounts. The effects of this update are to be applied retrospectively as a change in accounting principal. For public business entities, ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The adoption of ASU 2015-03 will require the Company to reclassify debt issuance costs retrospectively beginning January 1, 2016. The Company is currently assessing the impact that this guidance may have on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*, which requires that deferred tax liabilities and assets be classified as noncurrent in the classified statement of financial position. The purpose of this update is to simplify the presentation of deferred liabilities and assets. For public business entities, ASU 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For private companies, the ASU is effective for financial statements for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early application is permitted for all entities as of the beginning of an interim or annual reporting period. The Company has elected to early adopt ASU 2015-17 and report the impact of such adoption prospectively, which change has been reflected in our 2015 financial statements.

3. REGULATORY DECISION AND RELATED ACCOUNTING AND POLICY CHANGES

Our regulated utilities and certain other balances are subject to regulation by the ACC and meet the requirements for regulatory accounting found within ASC Topic 980, *Regulated Operations*.

In accordance with ASC Topic 980, rates charged to utility customers are intended to recover the costs of the provision of service plus a reasonable return in the same period. Changes to the rates, are made through formal rate applications, which we have done for all of our operating utilities and which are described below.

On July 11, 2012, we filed formal rate applications with the ACC to adjust the revenue requirements for seven utilities representing a collective rate increase of approximately 28% over 2011's revenue. In August 2013, the Company entered into a settlement agreement with ACC Staff, the Residential Utility Consumers Office, the City of Maricopa, and other parties to the rate case. The settlement required approval by the ACC's Commissioners before it could take effect. In February 2014, the rate case proceedings were completed and the ACC issued Rate Decision No. 74364, effectively approving the settlement agreement. The rulings of the decision include, but are not limited to, the following:

- For the Company's utilities, adjusting for the condemnation of Valencia, a collective revenue requirement increase of $4.0 million based on 2011 test year service connections, phased-in over time, with the first increase in January 2015 as follows (in thousands of US$):

	Incremental	Cumulative
2015	$ 1,285	$ 1,285
2016	1,089	2,374
2017	335	2,709
2018	335	3,044
2019	335	3,379
2020	335	3,714
2021	335	4,049

Whereas this phase-in of additional revenues was determined using a 2011 test year, to the extent that the number of active service connections increases from 2011 levels, the additional revenues may be greater than the amounts set forth above.

- Full reversal of the imputation of CIAC balances associated with funds previously received under ICFAs, as required in the Company's last rate case. The reversal restores rate base or future rate base, and has a significant impact of restoring shareholder equity on the balance sheet.
- The Company has agreed to not enter into any new ICFAs. Existing ICFAs will remain in place, but a portion of future payments to be received under the ICFAs will be considered as hook-up fees, which are accounted for as CIAC once expended on plant.
- A 9.5% return on common equity will be adopted.
- None of the Company's utilities will file another rate application before May 31, 2016. GWRI's subsidiaries, Santa Cruz Water Company ("Santa Cruz") and Palo Verde Utilities Company ("Palo Verde") may not file for another rate increase before May 31, 2017.

The following provides additional discussion on accounting and policy changes resulting from Rate Decision No. 74364.

Infrastructure Coordination and Financing Agreements – ICFAs are agreements with developers and homebuilders whereby the GWRI parent company, which owns the operating utilities, provides services to plan, coordinate and finance the water and wastewater infrastructure that would otherwise be required to be performed or subcontracted by the developer or homebuilder.

Under the ICFAs, GWRI has a contractual obligation to ensure physical capacity exists through its regulated utilities for water and wastewater to the landowner/developer when needed. This obligation persists regardless of connection growth. Fees for these services are typically a negotiated amount per equivalent dwelling unit for the specified development or portion of land. Payments are generally due in installments, with a portion due upon signing of the agreement, a portion due upon completion of certain milestones, and the final payment due upon final plat approval or sale of the subdivision. The payments are non-refundable. The agreements are generally recorded as a lien against the land and must be assumed in the event of a sale or transfer. The regional planning and coordination of the infrastructure in the various service areas has been an important part of GWRI's business model.

Prior to January 1, 2010, GWRI accounted for funds received under ICFAs as revenue once the obligations specified in the ICFA were met. As these arrangements are with developers and not with the end water or wastewater customer, the timing of revenue recognition coincided with the completion of GWRI's performance obligations under the agreement with the developer and with GWRI's ability to provide fitted capacity for water and wastewater service through its regulated subsidiaries.

The 2010 Regulatory Rate Decision established new rates for the recovery of reasonable costs incurred by the utilities and a return on invested capital. In determining the new annual revenue requirement, the ACC imputed a reduction to rate base for all amounts related to ICFA funds collected by the Company that the ACC deemed to be CIAC for rate making purposes. As a result of the decision by the ACC, GWRI changed its accounting policy for the accounting of ICFA funds. Effective January 1, 2010, GWRI recorded ICFA funds received as CIAC. Thereafter, the ICFA-related CIAC was amortized as a reduction of depreciation expense over the estimated depreciable life of the utility plant at the related utilities. The balance of ICFA-related CIAC, net of accumulated amortization, totaled approximately $64.1 million as of January 1, 2014.

With the issuance of Rate Decision No. 74364, in February 2014, the ACC changed how ICFA funds would be characterized and accounted for going forward. Most notably, ICFA funds would no longer be required to reduce future rates as a result of the ratemaking process. We have eliminated the CIAC liability that is no longer required and reversed the associated regulatory liability brought about by Rate Decision No. 74364 by recording a gain of $50.7 million for the year ended December 31, 2014. ICFA funds which were already received or which had become due prior to the date of Rate Decision No. 74364 would be accounted for in accordance with the Company's ICFA revenue recognition policy that had been in place prior to the 2010 Regulatory Rate Decision. For ICFA funds to be received in the future, Rate Decision No. 74364 prescribes that 70% of ICFA funds to be received by the Company will be recorded in the associated utility subsidiary as a HUF liability, with the remaining 30% to be recorded as deferred revenue, to be accounted for in accordance with the Company's ICFA revenue recognition policy.

The Company will account for the portion allocated to the HUF as a CIAC contribution. However, in accordance with the ACC directives the CIAC is not deducted from rate base until the HUF funds are expended for utility plant. Such funds will be segregated in a separate bank account and used for plant. A HUF liability will be established and will be amortized as a reduction of depreciation expense over the useful life of the related plant once the HUF funds are utilized for the construction of plant. For facilities required under a HUF or ICFA, the utilities must first use the HUF moneys received, after which, it may use debt or equity financing for the remainder of construction. The Company will record the 30% as deferred revenue, which is to be recognized as revenue once the obligations specified within the ICFA are met. As of December 31, 2015 and December 31, 2014, ICFA deferred revenue recorded on the consolidated balance sheet totaled $19.7 million, which represents deferred revenue recorded for ICFA funds received on contracts that had become due prior to Rate Decision No. 74364. For ICFA contracts coming due after Rate Decision No. 74364, 30% will be added to this balance with the remaining 70% recorded to a HUF liability.

Regulatory asset – Under ASC Topic 980, rate regulated entities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company. Certain costs associated with our rate cases have been deferred on our balance sheet as regulatory assets as approved by the ACC. At December 31, 2015 and December 31, 2014, the Company had one regulatory asset in the amount of $227,000 and $400,000, respectively, related to costs incurred in connection with our most recent rate case. This amount began to amortize in January 2015, and will amortize over a three-year period, which period is aligned with the phase-in of the new rates provided by Rate Decision No. 74364. In addition, there was a decrease of approximately $50,000 in the regulatory asset associated with the condemnation of Valencia.

Intangible assets / Regulatory liability – The Company had previously recorded certain intangible assets related to ICFA contracts obtained in connection with our Santa Cruz, Palo Verde and Sonoran Utility Services (‘‘Sonoran’’) acquisitions. The intangible assets represented the benefits to be received over time by virtue of having those contracts. Prior to January 1, 2010, the ICFA-related intangibles were amortized when ICFA funds were recognized as revenue. Effective January 1, 2010, in connection with the 2010 Regulatory Rate Decision, these assets became fully offset by a regulatory liability of $11.2 million since the imputation of ICFA funds as CIAC effectively resulted in the Company not being able to benefit (through rates) from the acquired ICFA contracts.

Effective January 1, 2010, the gross ICFAs intangibles began to be amortized when cash was received in proportion to the amount of total cash expected to be received under the underlying agreements. However, such amortization expense was offset by a corresponding reduction of the regulatory liability in the same amount.

As a result of Rate Decision No. 74364, the Company changed its policy around the ICFA related intangible assets. As discussed above, pursuant to Rate Decision No. 74364, approximately 70% of ICFA funds to be received in the future will be recorded as a HUF at the Company’s applicable utility subsidiary. The remaining approximate 30% of future ICFA funds will be recorded at the parent company level and will be subject to the Company’s ICFA revenue recognition accounting policy. Since the Company now expects to experience an economic benefit from the 30% portion of future ICFA funds, 30% of the regulatory liability, or $3.4 million, was reversed during the three months ended March 31, 2014. The remaining 70% of the regulatory liability, or $7.9 million, will continue to be recorded on the balance sheet. At December 31, 2015 and December 31, 2014, this was the Company's sole regulatory liability.

Subsequent to Rate Decision No. 74364, the intangible assets will continue to amortize when the corresponding ICFA funds are received in proportion to the amount of total cash expected to be received under the underlying agreements. The recognition of amortization expense will be partially offset by a corresponding reduction of the regulatory liability.

Income taxes – As a result of the additional revenues expected to be provided by Rate Decision No. 74364, as well as other factors, the Company performed an evaluation of its deferred income taxes and determined that sufficient evidence now exists that the majority of the Company’s net deferred tax assets will be utilized in the future. Accordingly in 2014, the Company reversed substantially all of the deferred tax asset valuation allowance previously recorded (see Note 11).

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2015 and December 31, 2014 consist of the following (in thousands of US$):

	December 31, 2015	December 31, 2014	Average Depreciation Life (in years)
PROPERTY, PLANT AND EQUIPMENT:			
Mains/lines/sewers	$ 113,318	$ 138,116	47
Plant	64,983	79,983	25
Equipment	27,961	44,286	10
Meters	4,253	6,336	12
Furniture, fixture and leasehold improvements	386	430	8
Computer and office equipment	1,022	1,006	5
Software	177	163	3
Land and land rights	752	986	
Other	148	139	
Construction work-in-process	45,244	47,550	
Total property, plant and equipment	258,244	318,995	
Less accumulated depreciation	(64,092)	(78,571)	
Net property, plant and equipment	$ 194,152	$ 240,424	

5. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2015 and December 31, 2014 consist of the following (in thousands of US$):

	December 31, 2015	December 31, 2014
Billed receivables	$ 1,326	$ 1,523
Less allowance for doubtful accounts	(194)	(158)
Accounts receivable – net	$ 1,132	$ 1,365

The following table summarizes the allowance for doubtful accounts activity as of and for the years ended December 31, 2015 and December 31, 2014 (in thousands of US$):

	December 31, 2015	December 31, 2014
Beginning balance	$ (158)	$ (102)
Allowance additions	(36)	(92)
Write-offs	12	57
Recoveries	(12)	(21)
Ending balance	$ (194)	$ (158)

6. EQUITY METHOD INVESTMENT AND CONVERTIBLE NOTE

On June 5, 2013, the Company sold Global Water Management, LLC ("GWM") to an investor group led by a private equity firm that specializes in the water industry. GWR was a wholly-owned subsidiary of GWRI that owned and operated the FATHOM business ("FATHOM"). In connection with the sale of GWM, the Company made an investment in the FATHOM Partnership. This limited partnership investment is accounted for under the equity method due to our investment being considered more than minor.

The original investment in FATHOM consisted of an investment of $750,000 in the Series A preferred units and $98,000 of common units. Additionally, GWRI invested $750,000 in a 10% convertible promissory note of GWM with an original maturity of December 31, 2014. We accounted for this investment in accordance with relevant accounting guidance for debt and equity securities which requires the fair value measurement of the investment pursuant to ASC Topic 820, *Fair Value Measurement*. The fair value of the investment in the convertible notes at initial recognition was determined using the transaction price, of which the price paid by the Company was consistent with the price paid by third party investors for comparable convertible notes.

In November 2014, FATHOM experienced a qualified financing event (qualified financing was defined as an equity financing by FATHOM Partnership in which FATHOM Partnership sells its units for at least $1.75 per unit and the aggregate proceeds from such financing was at least $15 million, exclusive of convertible note amounts converted). At the time of the qualified financing, the convertible promissory note was converted into Series B Preferred Units, and accounted for under the equity method. The Company's resulting ownership of common and preferred units represented an approximate 8.0% ownership (on a fully diluted basis).

In conjunction with the qualified financing, our equity interest in the Series A and Series B preferred shares was adjusted in accordance with ASC 323, wherein we recorded a gain of $1.0 million in the fourth quarter of 2014. The adjustment to the carrying value of our investments was calculated using our proportionate share of FATHOM's adjusted net equity. The gain was recorded within other income and expense in our consolidated statement of operations. The carrying value of our investment consisted of a balance of $821,000 as of December 31, 2015 and $1.2 million as of December 31, 2014, and reflects our initial investment, the adjustment related to the qualified financing and our proportionate share of FATHOM's cumulative losses.

We evaluate our investment in FATHOM Partnership/GWM for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. Since the sale of GWM, the losses incurred on the investment were greater than anticipated; however, based upon our evaluation of various relevant factors, including the recent equity event and the ability of FATHOM to achieve and sustain an earnings capacity that would justify the carrying amount of our investment, as of December 31, 2015 we do not believe the investment to be impaired.

We have evaluated whether GWM qualifies as a variable interest entity ("VIE") pursuant to the accounting guidance of ASC 810, *Consolidations*. Considering the potential that the total equity investment in FATHOM Partnership/GWM may not be sufficient to absorb the losses of FATHOM, we believe it is currently appropriate to view GWM as a VIE. However, considering GWRI's minority interest and limited involvement with the FATHOM business, the Company would not be required to consolidate the financial statements of GWM. Rather, we have accounted for our investment under the equity method.

7. GOODWILL AND INTANGIBLE ASSETS

The carrying value of goodwill was zero as of December 31, 2015. With the condemnation of Valencia, $12.7 million of goodwill was written off. An impairment of $176,000 was recorded against the goodwill recorded in the Willow Valley reporting unit during 2015, to bring its carrying value down to $223,000, which balance was reclassified as held for sale as of December 31, 2015. The carrying value of goodwill was $13.1 million as of December 31, 2014, which included balances of $12.7 million and $398,000 in the Valencia and Willow Valley reporting units, respectively.

Intangible assets at December 31, 2015 and December 31, 2014 consisted of the following (in thousands of US$):

	December 31, 2015			December 31, 2014		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
INDEFINITE LIVED INTANGIBLE ASSETS:						
CP Water CC&N service area	$ 1,532	$ —	$ 1,532	$ 1,532	$ —	$ 1,532
Intangible trademark	13	—	13	13	—	13
	1,545	—	1,545	1,545	—	1,545
AMORTIZED INTANGIBLE ASSETS:						
Acquired ICFAs	17,978	(12,154)	5,824	17,978	(12,154)	5,824
Sonoran contract rights	7,406	(2,003)	5,403	7,406	(2,003)	5,403
	25,384	(14,157)	11,227	25,384	(14,157)	11,227
Total intangible assets	$ 26,929	$ (14,157)	$ 12,772	$ 26,929	$ (14,157)	$ 12,772

Acquired ICFAs and Sonoran contract rights are amortized when cash is received in proportion to the amount of total cash expected to be received under the underlying agreements. Due to the uncertainty of the timing of when cash will be received under ICFA agreements and contract rights, we cannot reliably estimate when the remaining intangible assets' amortization will be recorded. No amortization was recorded for these balances for the years ended December 31, 2015 and December 31, 2014.

8. TRANSACTIONS WITH RELATED PARTIES

On January 19, 2016, GWRC announced that it has agreed to pursue a proposed transaction with the Company that will result in, subject to the satisfaction of shareholder approval and certain other conditions, GWRC merging with and into the Company (the "Proposed Transaction"). The Proposed Transaction is part of the Company's overall plan to simplify its corporate structure by eliminating one level of holding company ownership, refinance its outstanding tax-exempt bonds on more favorable terms (as described below), improve liquidity for shareholders over the medium to long-term and have a single governing jurisdiction in the U.S., where all of the assets, operations and employees of the business are located. As a result of the merger, GWRC will cease to exist as a British Columbia corporation and the Company, governed by the corporate laws of the State of Delaware, will be the surviving entity. The Proposed Transaction is conditional upon the concurrent completion of a proposed initial public offering of shares of common stock of the Company in the United States (the "U.S. IPO"). The Company has filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission in connection with the U.S. IPO.

On completion of the Proposed Transaction, the Company will have the right to redeem all of its outstanding tax-exempt bonds at a price of 103% of the principal amount, plus interest accrued at the redemption date. As of December 31, 2015, the principal balance of such bonds was U.S.$106.7 million. Following completion of the Proposed Transaction, the Company plans to refinance these bonds and, based on discussions with lenders, believes it can reduce the effective interest rate on the outstanding balance by 75 to 150 basis points. The refinancing of the Company's tax-exempt bonds at reduced interest or at all will depend on a number of factors that are beyond its control including market conditions, and therefore the completion of the bond refinancing cannot be assured. For a description of our tax exempt bonds, see Note 10.

Subject to the satisfaction of all application conditions, including the requisite shareholder approval and those conditions relating to the U.S. IPO, the Proposed Transaction is expected to close in the second quarter of 2016.

We provide medical benefits to our employees through our participation in a pooled plan sponsored by an affiliate of a shareholder and director of the Company. Medical claims paid to the plan were approximately $493,000 and $532,000 for the years ended December 31, 2015 and December 31, 2014, respectively.

GWRC was organized in 2010 and holds an approximate 47.8% interest in the Company. GWRC is not part of the consolidated Company. GWRC has no employees and GWRI provides for the ongoing management and general administration of all of GWRC's business affairs pursuant to a management agreement between GWRC and GWRI to provide such services. Accordingly, GWRC is economically dependent on the Company. Services provided by the Company under the management agreement are provided at no charge to GWRC, and are not monetarily significant. However, GWRC does incur certain costs not covered by the management agreement. These include GWRC's accounting fees, listing fees and other costs directly associated with operating as a publicly traded company. Whereas GWRC does not expect to generate cash flows from operating activities, the operating costs incurred by GWRC and other cash requirements are paid by the Company. Amounts paid by GWRI on GWRC's behalf during the years ended December 31, 2015 and December 31, 2014 totaled $1.4 million and $505,000, respectively. The Company accounts for such payments as equity distributions to GWRC.

For the years ended December 31, 2015 and December 31, 2014, the Company provided cash advances of approximately $12.7 million and $519,000 to satisfy GWRC's short term cash obligations, respectively. The amount advanced is utilized to fund GWRC's monthly dividend and other cash requirements, as needed. The residual balance of the cash advance is presented on the Company's balance sheet in due from related party. The related party balance will be reduced upon dividend declaration, when the amount declared is presented as a reduction in equity. As of December 31, 2014, the balance of the advance was $188,000. As of December 31, 2015, the balance of the advance was zero.

GWM has historically provided billing, customer service and other support services for the Company's regulated utilities. Amounts collected by GWM from the Company's customers that GWM has not yet remitted to the Company are included within the 'due from related party' caption on the Company's consolidated balance sheet. As of December 31, 2015 and December 31, 2014, the unremitted balance totaled $306,000 and $457,000, respectively. Notwithstanding the sale of GWM on June 5, 2013, FATHOM will continue to provide these services to the Company's regulated utilities under a long-term service agreement. Based on current service connections, we estimate that fees to be paid to GWM for FATHOM services will be $7.72 per water account/month, which is an annual rate of approximately $1.8 million. For the years ended December 31, 2015 and December 31, 2014 the Company incurred FATHOM service fees of approximately $2.2 million and $2.4 million, respectively.

Pursuant to the purchase agreement for the sale of GWM, the Company is entitled to quarterly royalty payments based on a percentage of certain of GWM's recurring revenues for a 10-year period, up to a maximum of $15.0 million. In addition, the Company entered into a services agreement with GWM whereby the Company has agreed to use the FATHOM™ platform for all of its regulated utility services for an initial term of 10 years. The services agreement is automatically renewable thereafter for successive 10-year periods, unless notice of termination is given prior to any renewal period. The services agreement may be terminated by either party for default only and the termination of the services agreement will also result in the termination of the royalty payments payable to the Company. The Company made the election to record these quarterly royalty payments prospectively in income as the amounts are earned. Royalties recorded within other income totaled approximately $326,000 and $272,000 for the years ended December 31, 2015 and December 31, 2014, respectively.

As part of the condemnation of Valencia the Company paid FATHOM $74,000 for consulting services rendered in relation to the transfer of customer data to Buckeye.

9. ACCRUED EXPENSES

Accrued expenses at December 31, 2015 and December 31, 2014 consist of the following (in thousands of US$):

	December 31, 2015	December 31, 2014
Deferred compensation	$ 598	$ 1,551
Interest	877	1,066
Property taxes	958	1,038
Other accrued expenses	2,704	3,177
Total accrued expenses	$ 5,137	$ 6,832

10. DEBT

The outstanding balances and maturity dates for short-term (including the current portion of long-term debt) and long-term debt as of December 31, 2015 and December 31, 2014 are as follows (in thousands of US$):

	December 31, 2015		December 31, 2014	
	Short-term	Long-term	Short-term	Long-term
BONDS PAYABLE –				
5.450% Series 2006, maturing December 1, 2017	$ 1,000	$ 1,040	$ 930	$ 2,025
5.600% Series 2006, maturing December 1, 2022	—	6,215	—	6,215
5.750% Series 2006, maturing December 1, 2032	—	23,370	—	23,370
6.550% Series 2007, maturing December 1, 2037 – net of unamortized discount of $338 at December 31, 2015 and $359 at December 31, 2014	700	50,177	660	50,856
6.375% Series 2008, maturing December 1, 2018	185	435	185	635
7.500% Series 2008, maturing December 1, 2038	—	23,235	—	23,235
	1,885	104,472	1,775	106,336
TERM LOAN –				
LIBOR plus 3.00% MidFirst Term Loan, maturing November 10, 2024	—	—	788	20,929
OTHER LOANS –				
Capital lease obligations	109	178	90	226
Total debt	$ 1,994	$ 104,650	$ 2,653	$ 127,491

Tax Exempt Bonds – We issued tax exempt bonds through The Industrial Development Authority of the County of Pima in the amount of $36,495,000 on December 28, 2006; $53,624,000, net of a discount of $511,000, on November 19, 2007; and $24,550,000 on October 1, 2008. The Series 2006, 2007 and 2008 bonds have interest payable semiannually on the first of June and December. Recurring annual payments of principal are payable annually on the first of December for the Series 2006, 2007 and 2008 Bonds. Proceeds from these bonds were used for qualifying costs of constructing and equipping the water and wastewater treatment facilities of our subsidiaries, Palo Verde and Santa Cruz. The Company has not granted any deed of trust, mortgage, or other lien on property of Santa Cruz or Palo Verde. These bonds are secured by a security agreement that gives the trustee rights to the net operating income generated by our Santa Cruz and Palo Verde utilities. The bonds are subject to an early redemption option at 103%, plus accrued interest, in the event of the Company's listing on a US stock exchange. The tax exempt bonds require we maintain a minimum debt service coverage ratio of 1.10:1.00, tested annually based on the combined operating results of our Santa Cruz and Palo Verde utilities.

2012 Financings – On June 29, 2012, we secured $25,000,000 of financing consisting of $7,625,000 of tax-exempt revenue bonds (the "Series 2012A Bonds") and $6,375,000 taxable revenue bonds (the "Series 2012B Bonds") through The Industrial Development Authority of the County of Pima, and an $11,000,000 term loan through Regions Bank (the "2012 Term Loan").

These loans had semiannual interest payments and annual principal payments, which commenced December 1, 2012. The Series 2012A Bonds accrued interest at a rate of 65% of LIBOR plus 242 or 292 basis points ("bps") depending on debt

service coverage ratios, and the Series 2012B Bonds accrued interest at a rate of LIBOR plus 250 or 300 bps also depending upon debt service coverage ratios. The 2012 Term Loan accrued interest at a rate of LIBOR plus 325 bps. The Series 2012A Bonds, Series 2012B Bonds and 2012 Term Loan were retired in November 2014, with the addition of the MidFirst Term Loan in November 2014.

Prior to retirement, we amended the 2012 Term Loan with Regions Bank in March 2014. In conjunction with the amendment to the 2012 Term Loan, on March 31, 2014, the Company agreed to make an unscheduled $1,000,000 prepayment to Regions Bank representing a portion of the term loan principal payment that was previously scheduled to be paid December 1, 2014.

MidFirst Term Loan – In November 2014, we secured a $21.8 million term loan from MidFirst bank ("MidFirst Term Loan"). Principal and interest are paid monthly with payments calculated using a 20 year amortization schedule. The MidFirst Term Loan accrued interest at a variable rate of LIBOR plus 300 basis points. The note was collateralized with a security interest from customer payments for the remaining utilities included within West Maricopa Combine, Inc. The note had a maturity date in November 2024, but was retired early in July 2015 with proceeds received from the condemnation of Valencia, at which time we incurred and paid a prepayment penalty of approximately $213,000.

As of December 31, 2015, the Company was in compliance with its financial debt covenants.

At December 31, 2015, the remaining aggregate annual maturities of our debt and minimum lease payments under capital lease obligations for the years ended December 31 are as follows (in thousands of US$):

	Debt	Capital Lease Obligations
2016	$ 1,885	$ 127
2017	1,995	103
2018	2,120	67
2019	2,480	21
2020	2,640	—
Thereafter	95,575	—
Subtotal	$ 106,695	$ 318
Less: amount representing interest	—	(31)
Total	$ 106,695	$ 287

At December 31, 2015, the carrying value of the non-current portion of long-term debt was $104.7 million, with an estimated fair value of $116.7 million. At December 31, 2014, the carrying value of the non-current portion of long-term debt was $127.5 million, with an estimated fair value of $143.1 million. The fair value of our debt was estimated based on interest rates considered available for instruments of similar terms and remaining maturities.

11. INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company does not have any uncertain tax positions.

The income tax benefit from continuing operations for the years ended December 31, 2015 and December 31, 2014 is comprised of (in thousands of US$):

	2015		
	Federal	State	Total
Current income tax expense	$ 63	$ —	$ 63
Deferred income tax expense	17,735	2,825	20,560
Income tax expense	$ 17,798	$ 2,825	$ 20,623

	2014		
	Federal	State	Total
Current income tax benefit	$ (10)	$ (1)	$ (11)
Deferred income tax benefit	(15,472)	(1,512)	(16,984)
Income tax benefit	$ (15,482)	$ (1,513)	$ (16,995)

The income tax benefit for the year ended December 31, 2015 and December 31, 2014 differs from the amount that would be computed using the federal statutory income tax rate due to the following (in thousands of US$):

	Years Ended December 31,	
	2015	2014
Computed federal tax expense at statutory rate	$ 14,275	$ 16,298
State income taxes - net of federal tax benefit	1,865	2,056
Gain on condemnation of Valencia	4,312	—
Valuation allowance	—	(35,800)
Other differences	171	451
Income tax expense	$ 20,623	$ (16,995)

ASC Topic 740, *Income Taxes*, prescribes the method to determine whether a deferred tax asset is realizable and significant weight is given to evidence that can be objectively verified. During 2012, as a result of the cumulative losses experienced over the prior three years, which under the accounting standard represented significant objective negative evidence and prohibited the Company from considering projected income, we concluded that a full valuation allowance should be recorded against our net deferred tax assets. As mentioned in Note 3 above, as a result of the additional revenues expected to be provided by Rate Decision No. 74364, as well as other factors, the Company re-evaluated its deferred income taxes and determined that sufficient evidence now exists that the majority of the Company's net deferred tax assets will be utilized in the future. Accordingly, during the year ended December 31, 2014, the Company reversed substantially all of the deferred tax valuation allowance of $35.8 million recorded as of December 31, 2013. As of December 31, 2015 and December 31, 2014, the valuation allowance totaled $8,500, which relates to state net operating loss carryforwards expected to expire prior to utilization.

The following table summarizes the Company's temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities, including the valuation allowance, as of December 31, 2015 and December 31, 2014 (in thousands of US$):

	December 31, 2015	December 31, 2014
DEFERRED TAX ASSETS:		
Taxable meter deposits	$ 46	$ 711
Net operating loss carry forwards	5,322	4,785
Balterra intangible asset acquisition	336	336
Deferred gain on Sale of GWM	1,705	921
Contributions in aid of construction	—	0
Deferred gain on ICFA funds received	7,346	7,364
Regulatory liability related to intangible assets	—	2,933
Equity investment loss	333	210
Property, plant and equipment	863	1,669
Other	482	761
Total deferred tax assets	16,433	19,690
Valuation allowance	(9)	(9)
Net deferred tax asset	16,424	19,681
DEFERRED TAX LIABILITIES:		
CP Water intangible asset acquisition	(571)	(572)
ICFA intangible asset	(141)	(2,712)
Gain on condemnation of Valencia	(19,876)	—
Total deferred tax liabilities	(20,588)	(3,284)
Net deferred tax asset	$ (4,164)	$ 16,397

As of December 31, 2015, we have approximately $14.9 million in federal net operating loss ("NOL") carry forwards and $7.8 million in state NOLs available to offset future taxable income, with the NOLs expiring in 2029-2032 for the federal return and expiring in 2016-2032 for the state return (effective for the 2012 tax year and thereafter, state NOLs for the state of Arizona expire after 20 years).

12. DEFERRED COMPENSATION AWARDS

Stock-based compensation — Stock-based compensation related to option awards is measured based on the fair value of the award. The fair value of stock option awards is determined using a Black-Scholes option-pricing model. We recognize compensation expense associated with the options over the vesting period.

At December 31, 2015 and December 31, 2014, there were options to acquire 431 shares of common stock of GWRI outstanding. The options were all vested and exercisable as of each date. The stock options have a remaining contractual life of approximately 2.5 years and have an exercise price of $870.66 per share.

GWRC stock option grant – In January 2012, GWRC's Board of Directors granted options to acquire 385,697 GWRC common shares to nine employees of GWRI in lieu of paying cash bonuses for 2011. The options vested in equal installments over the eight quarters of 2012 and 2013, with exercise prices of C$7.50 and C$4.00 per share and expire four years after the date of issuance. We accounted for the GWRC stock option grant in accordance with ASC 323, *Investment-Equity Method & Joint Ventures.* The Company remeasured the fair value of the award at the end of each period until the options fully vested as of December 31, 2013.

In the third quarter of 2015, 59,636 GWRC options were exercised by two individuals. As of December 31, 2015, 209,591 GWRC options were outstanding compared to 269,227 as of December 31, 2014. Total GWRC stock options forfeited due to attrition or the sale of GWM totaled 116,470. The 209,591 options outstanding as of December 31, 2015 expired in January 2016.

There was no stock-based compensation expense recorded during the years ended December 31, 2015 and December 31, 2014.

Phantom stock compensation – On December 30, 2010, we adopted a phantom stock unit plan authorizing the directors of the Company to issue phantom stock units (‘‘PSUs’’) to our employees. The value of the PSUs issued under the plan tracks the performance of GWRC's shares and gives rise to a right of the holder to receive a cash payment the value of which, on a particular date, will be the market value of the equivalent number of shares of GWRC at that date. The issuance of PSUs as a core component of employee compensation is intended to strengthen the alignment of interests between the employees of the Company and the shareholders of GWRC by linking their holdings and a portion of their compensation to the future value of the common shares of GWRC.

On December 30, 2010, 350,000 PSUs were issued to members of management, with an initial value of approximately $2.6 million. The PSUs were accounted for as liability compensatory awards under ASC 710, *Compensation – General*, rather than as equity awards. The PSU awards are remeasured each period based on the present value of the benefits expected to be provided to the employee upon vesting, which benefits are based on GWRC's share price multiplied by the number of units. The present value of the benefits was recorded as expense in the Company's financial statements over the related vesting period. The December 30, 2010 PSUs vested at the end of four years from the date of their issuance. There is no exercise price attached to PSU awards. The remaining value of these PSUs, $1.3 million, was paid to the holders in January 2015.

In January 2012, 135,079 additional PSUs were issued to nine members of management as a reward for performance in 2011. The PSUs issued to management vested ratably over 12 consecutive quarters beginning January 1, 2012 and were accounted for as liability compensatory awards similar to the PSUs issued in December 2010. These PSUs were remeasured each period and a liability was recorded equal to GWRC's closing share price on the period end date multiplied by the number of units vested. As of December 31, 2015 no additional PSUs remain outstanding. For the year ended December 31, 2015, $38,000 was paid to the holders for these vested PSUs. For the year ended December 31, 2014, $469,000 was paid to the holders for these vested PSUs.

During the first quarter of 2013, 76,492 PSUs were issued to nine members of management as a reward for performance in 2012. The PSUs issued to management vest ratably over 12 consecutive quarters beginning January 1, 2013 and are accounted for as liability compensatory awards similar to the PSUs issued in December 2010 and January 2012. These PSUs were remeasured each period and a liability was recorded equal to GWRC's closing share price on the period end date multiplied by the number of units vested. As of December 31, 2015, 5,479 of these PSUs remain outstanding. For the year ended December 31, 2015, $110,000, was paid to holders for these vested PSUs, with the remaining value of the PSUs, $29,000, paid out to holders in January 2016. For the year ended December 31, 2014, $178,000 was paid to the holders for these vested PSUs.

During the first quarter of 2014, 8,775 PSUs were issued to three members of management as a reward for performance in 2013. These PSUs vest ratably over 12 consecutive quarters beginning January 1, 2014. As of December 31, 2015, 1,856 of these PSUs remain outstanding. For the year ended December 31, 2015, $7,000, was paid to holders for these vested PSUs. For the year ended December 31, 2014, $10,000 was paid to the holders for these vested PSUs.

During the first quarter of 2015, 28,828 PSUs were issued to two members of management as a reward for performance in 2014. These PSUs vest ratably over 12 consecutive quarters beginning January 1, 2015. As of December 31, 2015, 21,621 of these PSUs remain outstanding. For the year ended December 31, 2015, $38,000, was paid to holders for these vested PSUs.

Stock appreciation rights compensation – In January 2012, in an effort to reward employees for their performance in 2011 as well as to recognize performance since 2007, the last year the Company paid bonuses, we adopted a stock appreciation rights plan authorizing the directors of the Company to issue stock appreciation rights (‘‘SARs’’) to our employees. The value of the SARs issued under the plan track the performance of GWRC's shares. Each holder of the January 2012 award had the right to receive a cash payment amounting to the difference between C$4.00 per share (the "exercise price") and the closing price of GWRC's common shares on the exercise date, provided that the closing price was in excess of C$4.00 per share. In total, 152,091 SARs were issued to employees below the senior management level, and zero remain outstanding as of December 31, 2015. The SARs vested in equal installments over the four quarters of

2012 and expired four years after the date of issuance. Holders of SARs could exercise their awards once they vested. Individuals who voluntarily or involuntarily leave the Company forfeit their rights under the awards. For the year ended December 31, 2015, $69,000, was paid to holders for these vested SARs. For the year ended December 31, 2014, $9,000, was paid to holders for these vested SARs.

SARs are accounted for as liability compensatory awards under ASC 710, Compensation – General, rather than as equity awards. The 2012 SAR awards were remeasured each period based on GWRC's share price relative to the C$4.00 per share exercise price. To the extent that GWRC's share price exceeded C$4.00 per share, a liability was recorded in other accrued liabilities in the Company's financial statements representing the present value of the benefits expected to be provided to the employee upon exercise.

In the third quarter of 2013, the Company granted 100,000 SARs to a key executive of the Company. These SARs vest ratably over sixteen quarters from the grant date and give the employee the right to receive a cash payment amounting to the difference between C$2.00 per share exercise price and the closing price of GWRC's common shares on the exercise date, provided that the closing price is in excess of C$2.00 per share. The exercise price was determined by taking the weighted average share price of the five days prior to July 1, 2013. As of December 31, 2015, 92,500 of these SARs remain outstanding. For the year ended December 31, 2015, $37,000, was paid to the holder for these vested SARs.

In the fourth quarter of 2013, the Company granted 100,000 SARs to a newly hired officer of the Company. These SARs vest ratably over sixteen quarters from the grant date and give the employee the right to receive a cash payment amounting to the difference between C$3.38 per share exercise price and the closing price of GWRC's common shares on the exercise date, provided that the closing price is in excess of C$3.38 per share. The exercise price was determined by taking the weighted average share price of the 30 days prior to November 14, 2013. As of December 31, 2015, 100,000 of these SARs remain outstanding.

In the first quarter of 2015, the Company granted 299,000 SARs to seven members of management. These SARs vest ratably over 16 quarters from the grant date and give the employee the right to receive a cash payment amounting to the difference between the C$5.35 per share exercise price and the closing price of GWRC's common shares on the exercise date, provided that the closing price is in excess of C$5.35 per share. The exercise price was determined to be the fair market value of one share of stock on the grant date of February 11, 2015. As of December 31, 2015, 299,000 of these SARs remain outstanding.

In the second quarter of 2015, the Company granted 300,000 SARs to two key executives of the Company. These SARs vest over 16 quarters, vesting 20% per year for the first three years, with the remainder vesting in year four. The SARs give the employee the right to receive a cash payment amounting to the difference between the C$6.44 per share exercise price and the closing price of GWRC's common shares on the exercise date, provided that the closing price is in excess of C$6.44 per share. The exercise price was determined to be the fair market value of one share of stock on the grant date of May 8, 2015. As of December 31, 2015, 300,000 of these SARs remain outstanding.

The Company recorded approximately $695,000 and $1.3 million of compensation expense related to the PSUs and SARs for the years ended December 31, 2015 and December 31, 2014, respectively. Based on GWRC's closing share price on December 31, 2015 deferred compensation expense to be recognized over future periods is estimated for the years ending December 31 as follows (in thousands of US$):

	PSU	SARs
2016	$ 61	$ 345
2017	53	276
2018	—	206
2019	—	$ 25
Total	$ 114	$ 852

13. SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the years ended December 31, 2015 and December 31, 2014 (in thousands of US$):

	Years Ended	
	December 31, 2015	December 31, 2014
Cash paid for interest	$ 7,475	$ 8,116
Capital expenditures included in accounts payable and accrued liabilities	184	253
Bond reserve funds used to repay bond debt	—	1,833
Equity method investment gain on recapitalization of FATHOM	—	1,088

14. COMMITMENTS AND CONTINGENCIES

Commitments – Prior to the sale of GWM, we leased certain office space in Arizona under operating leases with terms that expire in February 2016. The operating lease agreements are between GWM and the landlord. Accordingly, effective June 5, 2013, the Company is no longer a party under the lease agreements. Nevertheless, GWRI continues to utilize a portion of the office space covered under the lease agreements. The Company leases certain office space from GWM for approximately $5,000 per month. Rent expense arising from the operating leases totaled approximately $64,000 and $70,000 for the years months ended December 31, 2015 and December 31, 2014, respectively.

See also Note 8 regarding our commitment to provide services to GWRC.

Contingencies – *Legal Matters* **–** *Global Water Resources, Inc v. Sierra Negra Ranch, LLC and New World Properties, Inc (American Arbitration Association Case No. 76 198 Y 0010411 & 76 198 Y 0010511 respectively)*: GWRI filed a claim against Sierra Negra Ranch, LLC ("SNR") and New World Properties, Inc ("NWP") for breach of the Infrastructure Coordination and Financing Agreements ("Agreements") for their respective developments. As the Agreements require binding arbitration for any dispute arising out of or relating in any way to the Agreements, we initiated a Demand for Arbitration and Statement of Claim against SNR and NWP (collectively the "Respondents") in May 2011 in response to the non-payment of certain fees due from Respondents to GWRI for major permitting milestones achieved. SNR and NWP did not dispute that we achieved the permit milestones that trigger payment. The monies we contended GWRI was owed pursuant to the Agreements from the Respondents were in excess of $3.7 million of principal (not including interest and recovery of litigation costs, which we pursued during arbitration). Including interest and litigation costs, GWRI sought in excess of $6.0 million. In response, SNR and NWP filed counterclaims for amongst other things, breach of contract and rescission. The arbitration hearing concluded on March 2, 2012 and the interim award was received on March 28, 2012 indicating GWRI as the prevailing party in the arbitration. The final award was received April 20, 2012. According to the award, the arbitration panel found in the Company's favor on almost all claims, and ruled that the Company is entitled to approximately $4.2 million of ICFA fees, 15% per annum interest totaling $2.0 million and recovery of 1/3 of the legal costs incurred in connection with the litigation. In August 2012, we received the monies due from NWP totaling $2,044,000, consisting of $1,219,000 of past due ICFA fees, $719,000 of interest and $106,000 of reimbursed litigation costs.

Subsequent to the award, SNR filed for Chapter 11 bankruptcy. In July 2013, the Bankruptcy court ruled that SNR must cure their default in order to assume the ICFA, which would require full payment of past due ICFA fees, interest and reimbursement of legal costs by no later than March 21, 2014, stating that such value would be determined by the court at a future date. In October 2013, the Company entered into a settlement agreement with SNR wherein payment terms were set to serve as the basis of SNR's bankruptcy plan of reorganization. Under the plan and settlement agreement that was approved by the court, the Company would receive monies due from SNR totaling $5,321,000, consisting of $2,802,000 of past due ICFA fees, $2,021,000 of interest (recorded within *other income (expense)* in our statement of operations for the year ended December 31, 2014) and $498,000 of reimbursed litigation costs, all of which was received during the first quarter of 2014. With respect to the $2,802,000 ICFA fees mentioned above, since such amount was due

to the Company prior to January 1, 2014, in accordance with Rate Decision No. 74364, we were not required to allocate any portion of the amount as a HUF.

Separately, on March 18, 2014, SNR and NWP filed an application for rehearing with the ACC regarding Rate Decision No. 74364. The application relates only to the particular issue of whether ICFA funds to be paid in the future will be subject to a Consumer Price Index ("CPI") adjustment, which Rate Decision No. 74364 approved. The ACC had twenty days from the date of the application to decide if a rehearing would be granted, but that period passed without such action, eliminating any opportunity for rehearing.

From time to time, we may become involved in other proceedings arising in the ordinary course of business. Management believes the ultimate resolution of such matters will not materially affect our financial position, results of operations, or cash flows.

15. SUBSEQUENT EVENTS

On January 19, 2016, the Company filed a registration statement on Form S-1 with the Securities and Exchange Commission for a proposed offering of its common stock (the "U.S. IPO"). In connection with the proposed U.S. IPO, the Company plans to apply to list its common stock on the NASDAQ Global Market under the symbol "GWRS."

On March 2, 2016, the Arizona Corporation Commission approved the sale of Willow Valley Water Company to EPCOR Water Arizona, Inc ("EPCOR"). The ACC's approval is subject to a thirty day appeal period.

Subsequent events have been evaluated through March 15, 2016, the date of this report.

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BOARD OF DIRECTORS

Trevor T. Hill
Chairman of the Board, Co-founder
Phoenix, Arizona, USA

William S. Levine
Co-founder & Director
Phoenix, Arizona, USA

David Tedesco
Independent Director
Scottsdale, Arizona, USA

Richard M. Alexander
Independent Director
Calgary, Alberta, Canada

L. Rita Theil
Independent Director
Aurora, Ontario, Canada

Cindy M. Bowers
Director of Global Water
Resources, Inc. (US entity)
Grenada, Mississippi, USA

EXECUTIVE OFFICERS

Ron L. Fleming
President and
Chief Executive Officer

Mike Liebman
Senior Vice President and
Chief Financial Officer

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