

GLOBAL WATER

2014 Third Quarter Report

GLOBAL WATER

November 12, 2014

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 three and nine months ended September 30, 2014. 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 nine months ended September 30, 2014 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 201, Phoenix, Arizona 85027

Phn 623.580.9600
Fax 623.580.9659

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 November 12, 2014 relates to the three and nine months ended September 30, 2014 and 2013 and should be read together with our unaudited interim financial statements and related notes as of and for the three and nine months ended September 30, 2014 and 2013. Investors should also refer to the 2013 audited financial statements and the accompanying notes of GWRC as well as the consolidated financial statements and 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 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.

Through its investment in technology, GWRI's utilities are some of the most automated and efficient operations in the U.S. water industry. Initially developed to support and optimize its own utilities, GWRI also had an unregulated business, whose services were marketed by GWRI as FATHOM™ Utility-to-Utility ("U_2U™") Solutions ("FATHOM"). FATHOM offers an integrated suite of advanced technology-enabled platforms to provide third party services to municipalities and private utilities. On June 5, 2013, GWRI sold a majority interest in the FATHOM business. Please see the accompanying management's discussion and analysis of GWRI for more details regarding the sale of the FATHOM business.

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, increasing the Company's ownership interest in GWRI to approximately 48.1%.

Results of operations for the three and nine months ended September 30, 2014 and 2013 –The following table summarizes GWRC's results of operations for the three and nine months ended September 30, 2014 and 2013 (in thousands of US$, except per share amounts).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gain (loss) from equity investment	$ (13)	$ 318	$ 31,628	$ (3,694)
Operating expenses	131	113	539	261
Operating income (loss)	(144)	205	31,089	(3,955)
Income (loss) before income taxes	(144)	205	31,089	(3,955)
Income tax benefit (expense)	(250)	—	(1,776)	-
Net income (loss)	$ (394)	$ 205	$ 29,313	$ (3,955)
Earnings (loss) per share	$ (0.04)	$ 0.02	$ 3.35	$ (0.45)
Diluted earnings (loss) per share	$ (0.04)	$ 0.02	$ 3.34	$ (0.45)
Loss per share, excluding the gain on GWRI's regulatory order and the effect of the reversal of GWRI's valuation allowance	$ (0.04)	$ (0.09)	$ (0.32)	$ (0.46)

Gain (loss) from Equity Investment – Gain (loss) from equity investment totaled $(13,000) and $318,000 for the three months ended September 30, 2014 and 2013, respectively, and totaled $31.6 million and $(3.7) million for the nine months ended September 30, 2014 and 2013, respectively. The gain (loss) from equity investment represents the portion of GWRI's net income (loss) attributed to the equity method investment during the period. The amount is calculated based on GWRI's net income (loss) for the three and nine months ended September 30, 2014 and 2013, multiplied by GWRC's 48.1% equity interest in GWRI. The gain from equity investment for the nine months ended September 30, 2014 primarily reflects the Company recording its proportionate share of GWRI's $50.7 million gain on regulatory order and GWRI's $16.1 million deferred tax valuation allowance reversal. For the 2013 interim period, the loss on equity investment includes amortization of the difference between the cost of the investment and the underlying net assets of the investee at the date of investment, attributed to the intangible asset (see Note 3 of the Company's financial statements for the nine months ended September 30, 2014). 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. Through December 31, 2013, GWRI's results of operations were below GWRI's previous forecasts, primarily due to slower than expected growth of the FATHOM business. This combined with the lower trading price of our stock relative to the price at the Offering warranted a review of the carrying value of our investment in GWRI for impairment. Accordingly, we performed a valuation assessment during 2013 and concluded that an impairment of the investment in GWRI did not exist as of December 31, 2013.

Since the date of the Offering through December 31, 2013, GWRC has 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 2011. The regulatory rate case provides, among other things, additional revenues to GWRI which will be phased-in over time. As of September 30, 2014, GWRI evaluated the impact of the

rate case decision, including whether sufficient evidence exists that GWRI's net deferred tax assets will 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 nine months ended September 30, 2014. As a result of GWRC's 48.1% interest in GWRI, GWRC recorded $31.6 million of equity method earnings for the nine months ended September 30, 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 September 30, 2014. 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 three and nine months ended September 30, 2014 and 2013 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 three months ended September 30, 2014 and 2013, the Company experienced net loss of $394,000 and net income of $205,000, respectively. For the nine months ended September 30, 2014 and 2013 the Company experienced net income of $29.3 million and a net loss of $4.0 million, respectively. Net income for the nine months ended September 30, 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 $2.8 million for the nine months ended September 30, 2014. The reduction in the Company's loss was primarily driven by the impact of GWRI no longer consolidating the results of operations of the FATHOM business. The respective net income and loss on equity investment for the three and nine months ended September 30, 2013 was particularly affected by GWRC's 48.1% portion of the $2.1 million gain recorded by GWRI upon selling certain contracts during the three months ended September 30, 2013, together with the $1.9 million loss recorded by GWRI related to the sale of GWRI's FATHOM business during the nine months ended September 30, 2013. Excluding the impact of the loss on the sale of the FATHOM business, the Company's net loss totaled $822,000 and $4.1 million for the three and nine months ended September 30, 2013, respectively.

The following table sets forth unaudited financial data for the last eight quarters ended September 30, 2014 (in thousands of US$). This financial information has been derived from the unaudited financial statements prepared by, and is the responsibility of, the Company's management.

	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
GAIN (LOSS) FROM EQUITY	$ (13)	$ (235)	$ 31,876	$ 66	$ 318	$ (2,399)	$ (1,613)	$ (874)
OPERATING EXPENSES	131	262	146	59	113	17	131	64
OPERATING INCOME (LOSS)	(144)	(497)	31,730	7	205	(2,416)	(1,744)	(938)
INCOME (LOSS) BEFORE INCOME TAXES	(144)	(497)	31,730	7	205	(2,416)	(1,744)	(938)
INCOME TAX BENEFIT (EXPENSE)	(250)	311	(1,837)	-	-	-	-	-
NET INCOME (LOSS)	$ (394)	$ (186)	$ 29,893	$ 7	$ 205	$ (2,416)	$ (1,744)	$ (938)
EARNINGS (LOSS) PER SHARE	$ (0.04)	$ (0.02)	$ 3.41	$ 0.00	$ 0.03	$ (0.28)	$ (0.20)	$ (0.11)
DILUTED EARNINGS (LOSS) PER SHARE	$ (0.04)	$ (0.02)	$ 3.41	$ 0.00	$ 0.03	$ (0.28)	$ (0.20)	$ (0.11)
LOSS PER SHARE, EXCLUDING LOSS ON SALE OF FATHOM AND THE EFFECT OF GWRI'S VALUATION ALLOWANCE	$ (0.04)	$ (0.02)	$ (0.26)	$ (0.07)	$ (0.09)	$ (0.17)	$ (0.20)	$ (0.07)

Outstanding Share Data

As of November 12, 2014, there were 8,754,612 common shares of the Company outstanding and options to acquire an additional 269,227 common shares of GWRC.

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, 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.

To date, capital resources have been provided from equity financing, and there were no cash flows of the Company for the nine months ended September 30, 2014 and 2013, respectively, with the exception of dividends discussed below. GWRI has funded the Company's operating expenses incurred through September 30, 2014. See Notes 3 and 6 to GWRC's financial statements for the nine months ended September 30, 2014.

In March 2014, the Company initiated a dividend program wherein we have declared and paid a monthly dividend of approximately C$0.022 per share per month. 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 September 30, 2014.

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 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; and (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 vest 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.

As part of loss from equity investment, 48.1% of the stock compensation cost recorded by GWRI as a result of the award under the Option Plan is included in the Company's statement of operations, reflecting the Company's equity method interest in GWRI's results of operations. Additionally, whereas the Company is providing the entire compensation award to GWRI despite the Company's 48.1% interest, the Company recorded compensation expense within operating expenses related to the stock option award totaling $20,000 and $8,000 for the three and nine months ended September 30, 2013, respectively, representing the remaining 51.9% of the total compensation for such awards. This 51.9% amount represents the amount that the Company's claim on GWRI's book value has not been increased which benefits the noncontributing investors. No compensation expense has been recorded during 2014 as the stock options are no longer vesting.

In addition to the amount above, due to attrition and the sale of FATHOM, certain former employees of GWRI forfeited their stock options during the year ended December 31, 2013. The number of stock options forfeited totaled 107,186, resulting in stock options of 278,511 outstanding at September 30, 2014 and December 31, 2013.

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 the three and nine months ended September 30, 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 three and nine months ended September 30, 2014.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period beginning on July 1, 2014 and ended on September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, as discussed in the financial statements, during the three months ended June 30, 2014, GWRI determined that it had incorrectly calculated and classified certain components of its net deferred tax assets and related income tax benefit in GWRI's financial statements as of and for the three months ended March 31, 2014. Since approximately 48.1% of GWRI's net income (losses) is also recorded by GWRC as gain (loss) as a result of the Company's equity investment in GWRI, the Company's financial statements were also misstated. The misstatement was determined to be immaterial; however, whereas GWRC's internal controls are similar to those of GWRI, we performed an evaluation and concluded that based on the Company's tax accounting resources and processes currently in place, it is reasonably possible that a material misstatement may not be prevented or detected in a timely manner in the Company's financial statements. Accordingly, we have determined that the Company currently has a material weakness in internal control over financial reporting with respect to its accounting for income taxes process. We are actively working to remediate this material weakness control deficiency, which will include increased involvement of external tax accounting advisors.

Other Required Disclosures

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

* * * * * *

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 November 12, 2014 relates to the three and nine months ended September 30, 2014 and 2013 and should be read together with our unaudited interim consolidated financial statements and related notes as of and for the three and nine months ended September 30, 2014. Investors should also refer to the 2013 audited 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 "Unregulated Division" and "Infrastructure Investment", 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.

Cautionary Statement Regarding Non-GAAP Measures

This management's discussion and analysis contains references to "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. Management believes that EBITDA is a useful supplemental measure of GWRI's operating performance

and provides a meaningful measure of overall corporate performance exclusive of GWRI's capital structure and the method and timing of expenditures associated with building and placing GWRI's systems. EBITDA is also presented because management believes that it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance.

However, EBITDA is not a recognized earnings 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 issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss or other income statement data (which are determined in accordance with U.S. GAAP) as an indicator of the performance of GWRI or as a measure of liquidity and cash flows. Management's method of calculating EBITDA may differ materially from the method used by other public companies and accordingly, may not be comparable to similarly titled measures used by other public companies. See "EBITDA" for a reconciliation of EBITDA to net loss, the nearest comparable U.S. GAAP measure.

Overview

General – GWRI is a leading water resource management company, co-founded in Phoenix in 2003 by Chairman Trevor T. Hill and investor and Boardmember, William S. Levine. GWRI recognized that population growth and shrinking water supplies had the potential to overwhelm small, undercapitalized and under-engineered water utilities and that the Company's unique water management approach could have the potential to achieve local conservation objectives and maximize the economic value of water.

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. Until the sale of GWM (defined below), GWRI's business had been comprised of two principal divisions: the Regulated business consisting of the Company's regulated utilities, and the Unregulated business consisting primarily of FATHOM™ Utility-to-Utility ("U_2U™") Solutions ("FATHOM") operations. Through its Regulated division, 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.

Leveraging its investment in technology that was initially developed to support and optimize its own utilities, GWRI also historically operated an Unregulated business, whose services were marketed by GWRI's wholly-owned subsidiary Global Water Management, LLC ("GWM") as FATHOM. FATHOM offers an integrated suite of cloud-based geo-spatial advanced technology-enabled platforms to provide third party services to municipalities and private utilities of any size. The services offered by FATHOM provide automation, cost savings and opportunities for increased revenues to GWM's municipal and private utility clients. On June 5, 2013, GWRI sold GWM and now owns a minority interest in the FATHOM business. See further discussion regarding the sale of GWM below.

The Company had 62 employees at September 30, 2014 compared to 65 employees at December 31, 2013 and 64 employees at September 30, 2013.

Our Regulated division provides drinking water, wastewater and other water related services to approximately 70,000 people in Arizona as of September 30, 2014. Our Regulated business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers. Our utilities

that provide these services are subject to economic regulation by the state regulator, the Arizona Corporation Commission ("ACC"). The U.S. federal and state governments also regulate environmental, health and safety and water quality matters. GWRI's financial condition and results of operations for the Regulated division are influenced by a variety of industry-wide factors, including but not limited to (i) economic and environmental utility regulation; (ii) economic environment; (iii) the need for infrastructure investment; (iv) an overall trend of declining water usage per customer; (v) weather and seasonality; and (vi) access to and quality of water supply.

Through September 30, 2014, we continued 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.

UNREGULATED DIVISION

Background and Divestiture of FATHOM business

The Company developed and operated its FATHOM business to provide utility customer support and billing services, and automated metering infrastructure and asset management solutions to municipal and private utility clients, as well as to the Company's own regulated utilities. The Company began commercializing FATHOM in 2009 and since then the business experienced significant growth, both from the perspective of revenue generated for the Company and the number of customer accounts being serviced.

The FATHOM platform provided clients with the opportunity for increased revenue and decreased costs, and also provided them with customer facing tools, not only to improve the customer's ability to manage and pay their bills, but also providing them useful information about their own water consumption. Our prior investment in the FATHOM platform provided for more automation in business processes and more analytical capabilities, improving customer service metrics and lowering costs of operations.

However, despite the significant market interest in FATHOM, the adoption through contracting was often a lengthy process which was difficult to reliably predict. Formal contracting of new clients for FATHOM was below expectations and required significant amounts of capital to fund investments, operations and business development efforts. Notwithstanding our continued belief in the FATHOM business and its long-term growth opportunities, we believed that it was in the best interests of GWRI's core Regulated Utilities business, as well as of the FATHOM business, that FATHOM be owned, financed, managed and operated separately from GWRI. Accordingly, during the second quarter of 2013, GWRI made the decision to divest itself of GWM, the former GWRI subsidiary that directly owns the FATHOM business.

On June 5, 2013, the Company sold GWM to an investor group led by a private equity firm that specializes in the water industry. The transaction was effected through the sale of all of the outstanding membership interests of GWM to a wholly-owned subsidiary of Fathom Water Management Holdings, LLP (the "Fathom Partnership"). The Company received the following consideration for the sale of GWM: (a) a cash payment of $4.25 million (subject to a post-closing working capital adjustment resulting in a $1.7 million liability for the Company, which the Company paid as of December 31, 2013); and (b) the issuance to the Company of common and preferred units of the Fathom Partnership with a deemed initial value of $0.8 million. In addition, 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.

Concurrent with the closing, $750,000 of the cash portion of the purchase price was reinvested by the Company in a promissory note issued by GWM's parent. The promissory note had an original maturity of December 31, 2014, bears interest at a rate of 10% per annum and is convertible into equity of the FATHOM Partnership. The convertible note will be converted upon a qualified financing of FATHOM Partnership or at the discretion of the majority partner of FATHOM Partnership, but no later than the date of maturity (qualified financing has been 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 is at least $15 million, exclusive of convertible note amounts converted). In May 2014, the maturity date was extended to up to June 30, 2015.

The Company continues to hold an indirect interest in GWM through its ownership of the common and preferred units of the Fathom Partnership received in consideration for the sale of GWM. Together, these units represent an approximate 12.7% ownership interest in the Fathom Partnership (on a fully diluted basis) at September 30, 2014.

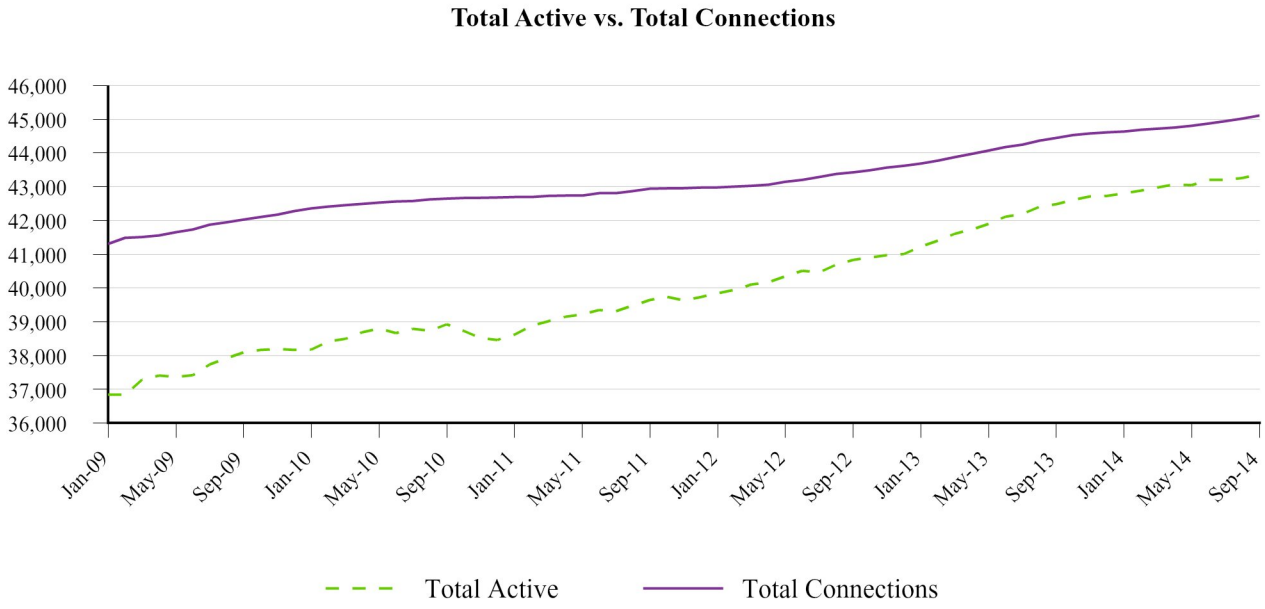
GWM has historically provided billing, customer service and other support services to the Company. The Company has entered into a services agreement with GWM whereby the Company has agreed to use the FATHOM platform for all of its regulated utility services for an initial term of 10 years. The services 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 sale of GWM has resulted in changes to the recurring costs to be recorded by the Company. Based on current connections, we estimate that costs to be paid to GWM for FATHOM services will be $7.69 per water account/month, an annual rate of approximately $2.4 million.

REGULATED DIVISION

Population and Community Growth

Population and community growth in the metropolitan Phoenix area served by GWRI's utilities have a direct impact on the Company's earnings. An increase or decrease in GWRI's active service connections will affect its revenues and variable expenses in a corresponding manner.

As illustrated in the graph below, GWRI's total service connections, which include active service connections and connections to vacant homes, increased to 45,104 as of September 30, 2014 from 44,608 as of December 31, 2013. GWRI's active service connections increased to 43,374 as of September 30, 2014 compared to 42,726 as of December 31, 2013, representing an annualized increase of 2.0%.



During the economic downturn beginning in 2008, GWRI's 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. Vacant connections represented approximately 3.8% of total connections at September 30, 2014.

Regulated Business Outlook – 2013 and year-to-date 2014 continued the trend of positive growth in new connections as well as 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 University of Arizona Forecasting Project predicts that metropolitan Phoenix will have a population of 4.8 million by 2020. Over the course of 2014, Arizona's employment improved 1.9 percent, ranking the state in the top 15 nationally for job growth. Among major metropolitan areas/cities, Phoenix ranked number twelfth with year to date job gains of 2.3 percent. According to experts, employment, personal income and population will continue to grow in 2015.

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 continue to improve. After a decline to fewer than 6,800 units in 2011, single family housing permits bounced back to 11,615 units in 2012, and continued to climb in 2013 to 12,785 units. The Blue Chip consensus forecast projects a slight dip in 2014 to 12,245 units before increasing to 16,608 units in 2015. From there, growth in the region is expected to steadily return to its normal historical rate of greater than 30,000 Single Family Dwelling permits. Additionally, multifamily, office, retail, and industrial market vacancy rates declined in 2013 and are expected to continue to decline through 2014 and 2015. Phoenix was one of the worst performing housing markets during the housing downturn, but home prices have risen 15.2% over the last eighteen months, ending August 31, 2014, according to the S&P/Case-Shiller Phoenix Home Price Index.

GWRI believes that its acquired utilities and monopolistic service territories are directly in the anticipated path of growth primarily in the metropolitan Phoenix area. Market data indicates that the Company's service areas currently incorporate a large portion of the final platted lots, partially finished lots and finished lots in metropolitan Phoenix. Management believes that GWRI 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 GWRI's services areas.

Economic Utility Regulation

The ACC 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 ACC 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 the depreciated original cost of the plant in service (net of contributions in aid of construction ("CIAC") and advances in aid of construction ("AIAC")), that has been determined to have been "prudently invested" and "used and useful". The ACC also decides on an applicable capital structure based on actual or hypothetical analyses. The ACC determines a "fair rate of return" on that rate base which includes the actual cost of debt and an established return on equity. The overall revenue requirement for rate making purposes is established by multiplying the rate of return on rate base 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, GWRI's water utility operating revenue is based on two components: a fixed fee and a consumption or volumetric fee. For GWRI's 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 47% to 60% 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 ACC. For all investor-owned water utilities, the ACC 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. GWRI's 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.

To obtain approval for a change in rates, GWRI's utilities must file rate cases with the ACC. 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. GWRI's rate case management program includes a proactive approach to rate design and management of rate case applications to mitigate the risk of regulatory lag. The Company routinely updates a rate model that reviews changes in current connection growth and expense structure combined with capital invested to determine the appropriate timing of filing for a rate increase. In normal conditions, it would not be uncommon to see the Company 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 ACC (see next section for further details) and extended new rate phase-in period, the Company will not be initiating the next rate case on such a timeline.

Recent Rate Case Activities

On September 15, 2010, the ACC issued its rate decision (the "2010 Regulatory Rate Decision") for the rate cases filed in February 2009 for the following GWRI utilities: Santa Cruz Water Company ("Santa Cruz"), Palo Verde Utilities Company ("Palo Verde"), Valencia Water Company, Inc. ("Valencia"), Water Utility of Greater Buckeye ("Greater Buckeye"), Water Utility of Greater Tonopah ("Greater Tonopah") and Willow Valley Water Company ("Willow Valley"). The ACC 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 ACC 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 GWRI's utilities, Greater Tonopah (for which rates were reduced), resulting in an overall 47% increase over previous rates. For a discussion of the impacts of 2010 Regulatory Rate Decision, refer to Note 3 to GWRI's audited consolidated financial statements for the year ended December 31, 2011.

On July 11, 2012, we filed 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, a collective revenue requirement increase of $4.3 million based on 2011 test year service connections, phased-in over time, with the first increase in January 2015 as follows (in thousands of US$):

	Incremental	Cumulative
2015	$ 1,416	$ 1,416
2016	1,219	2,635
2017	335	2,970
2018	336	3,306
2019	335	3,641
2020	335	3,976
2021	335	4,311

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 Contributions in Aid of Construction ("CIAC") associated with funds previously received under Infrastructure Coordination and Financing Agreements ("ICFA"), as required in the Company's last rate case.
- The Company has agreed to not enter into any new ICFA agreements. Existing ICFAs will remain in place, but a portion (approximately 70%) 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 (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 ICFA payments will be recognized using the same income recognition accounting applied to ICFA funds already received, wherein such funds will be recorded as revenue or deferred revenue.
- A 9.5% return on common equity is adopted for rate making.
- None of the Company's utilities will file another rate application before May 31, 2016. GWRI's subsidiaries, Santa Cruz and Palo Verde may not file for another rate increase before May 31, 2017.

For a more comprehensive discussion of the impact of Rate Decision No. 74364 on the Company, refer to Note 2 of GWRI's consolidated financial statements for the three months ended March 31, 2014.

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.

Infrastructure Investment

Capital expenditures for infrastructure investment are a component of the rate base on which GWRI's regulated utility subsidiaries are allowed to earn an equity return. Capital expenditures for infrastructure provide a basis for earnings growth by expanding GWRI's "used and useful" rate base, which is a component of its permitted return on investment and revenue requirement. GWRI is 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 it charges.

GWRI has made significant capital investments in its territories within the last ten years and because the infrastructure is new, significant capital, either for growth or to maintain the existing infrastructure, is not expected to be required in the near term. GWRI estimates that capital expenditures of the Regulated business will total approximately $2.5 to $3.0 million annually over the next few years. Nevertheless, GWRI will repair and replace existing infrastructure as needed. Non-growth capital investments are needed 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 described above.

Production and Treatment Costs

GWRI's water and wastewater services require significant production resources and therefore result in significant production costs. Although GWRI is permitted to recover these costs through the rates it charges, regulatory lag can decrease GWRI's margins and earnings if production costs or other operating expenses increase significantly before GWRI is able to recover them through increased rates. GWRI's most significant costs include labor, chemicals used to treat water and wastewater, and power, which is used to operate pumps and other equipment. Power and chemical costs can be volatile. However, GWRI employs a variety of technologies and methodologies to minimize costs and maximize operational efficiencies. For power alone, GWRI has been successful in offsetting the rise in power costs by vigilantly focusing on timing and duration of power requirements. Additionally, with GWRI's unique resources management approach, TWM, whereby we maximize the direct beneficial reuse of recycled water, there are significant treatment costs and power savings that can be realized due to the fact that smaller volumes of water are required for potable use. The old paradigm requires that all water be treated to potable standards irrespective of use. TWM 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 contaminant.

Weather and 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. However, summer weather that is cooler or wetter than average generally suppresses customer water demand and can have a downward effect on GWRI's operating revenue and operating income. The limited geographic diversity of GWRI's service areas could make the results of GWRI's 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.

Selected Financial Information

The following contains selected unaudited financial information of GWRI's financial position as of September 30, 2014 and December 31, 2013 (in thousands of US$):

	September 30, 2014	December 31, 2013
ASSETS:		
Net property, plant and equipment	$ 242,187	$ 249,010
Current assets	15,957	7,010
Other assets	55,293	41,917
Total Assets	$ 313,437	$ 297,937
LIABILITIES:		
Current liabilities	$ 16,064	$ 12,338
Noncurrent liabilities	267,588	318,441
Total Liabilities	283,652	330,779
SHAREHOLDERS' EQUITY (DEFICIT)	29,785	(32,842)
Total Liabilities and Shareholders' Equity	$ 313,437	$ 297,937

The following contains selected unaudited financial information of GWRI's results of operations for the three and nine months ended September 30, 2014 and 2013 (in thousands of US$):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	$ 8,795	$ 8,990	$ 24,646	$ 25,668
Operating expenses	6,773	7,957	(29,273)	25,154
Operating income	2,022	1,033	53,919	514
Total other income (expense)	(2,065)	(371)	(4,626)	(6,686)
Income (loss) before income taxes	(43)	662	49,293	(6,172)
Income tax benefit (expense)	17	(2)	16,477	(5)
Net income (loss)	$ (26)	$ 660	$ 65,770	$ (6,177)

Comparison of Results of Operations for the three months ended September 30, 2014 and 2013

Revenues – The following table summarizes GWRI's revenues for the three months ended September 30, 2014 and 2013 (in thousands of US$).

	Three Months Ended September 30,	
	2014	2013
Water services	$ 5,087	$ 5,405
Wastewater and recycled water services	3,584	3,536
Unregulated revenues	124	49
Total revenues	$ 8,795	$ 8,990

Total revenues decreased $195,000, or 2.2%, for the three months ended September 30, 2014 compared with the three months ended September 30, 2013, reflecting the relative decrease in consumption during the three months ended September 30, 2014 compared with the three months ended September 30, 2013. The decrease in water consumption was primarily driven by an unusually wet monsoon season, wherein we received approximately 13 inches of rain during the three months ended September 30, 2014 compared to approximately 1 inch of rain during the three months ended September 30, 2013. The decrease was partially offset by the positive impact of increased active service connections.

Water Services – Water services revenues decreased $318,000, or 5.9%, to $5.1 million for the three months ended September 30, 2014 compared to $5.4 million for the three months ended September 30, 2013.

Water consumption decreased 16.5% to 833 million gallons for the three months ended September 30, 2014 from 998 million gallons for the three months ended September 30, 2013. Water services revenue based on consumption decreased 12.6% to $2.5 million for the three months ended September 30, 2014 from $2.8 million for the three months ended September 30, 2013. Though active water connections increased 2.0% to 26,064 as of September 30, 2014 from 25,544 as of September 30, 2013, the unusually wet monsoon season led to significant decreases in consumption and revenue for the three months ended September 30, 2014.

Water services revenue, excluding miscellaneous charges, associated with the basic service charge increased to $2.5 million for the three months ended September 30, 2014 compared to $2.4 million for the three months ended September 30, 2013, reflecting growth in total active connections.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenues increased 1.4% to $3.6 million for the three months ended September 30, 2014 from $3.5 million for the three months ended September 30, 2013. This increase was primarily due to the growth in active connections, which increased 2.2% to 17,310 as of September 30, 2014 from 16,938 as of September 30, 2013.

Wastewater revenue, excluding miscellaneous charges, which is billed and recognized at a flat rate per connection, totaled $3.4 million for both the three months ended September 30, 2014 and September 30, 2013.

Recycled water revenue, which is based on gallons delivered, decreased $2,000, or 2.3%, to $101,000 for the three months ended September 30, 2014 compared to $103,000 for the three months ended September 30, 2013. The volume of recycled water delivered decreased to 177 million gallons for the three months ended September 30, 2014 from 183 million gallons for the three months ended September 30, 2013, also due to the unusually wet monsoon season.

Unregulated Revenues – Unregulated revenues totaled $124,000 for the three months ended September 30, 2014 compared to $49,000 for the three months ended September 30, 2013, representing an increase of $75,000. The increase was driven by an increase in revenues imputed from ICFA arrangements.

Operating Expenses – Operating expenses decreased $1.2 million, or 14.9% for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

The following table summarizes GWRI's operating expenses for the three months ended September 30, 2014 and 2013 (in thousands of US$):

	Three Months Ended September 30,	
	2014	2013
Operations and maintenance	$ 2,677	$ 3,043
General and administrative	1,841	2,608
Depreciation	2,255	2,306
Total operating expenses	$ 6,773	$ 7,957

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 $366,000, or 12.0%, for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

GWRI's contract services decreased $204,000 for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. The majority of the decrease is attributable to reductions in personnel expense, contract services and utility expenses. Personnel costs decreased for the three months ended September 30, 2014 compared to the three months ended September 30, 2013 due to a reduction in headcount. Contract services during the three months ended September 30, 2014 as we began direct land application of our water reclaimed bio-solids after entering into a disposal agreement with a local farmer, who will beneficially reuse the bio-solids. Utility expenses decreased due to the reduction in consumption related to the unusually wet monsoon season.

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 $767,000, or 29.4%, during the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Personnel costs decreased $256,000 or 20.4% to $996,000 for the three months ended September 30, 2014 from $1.3 million for the three months ended September 30, 2013. This decrease is primarily driven by a $165,000 decrease in deferred compensation as a result of a lower stock price in relation to the Company's deferred compensation program, combined with a decrease in salary and wages and accrued bonus expense related to the certain personnel changes.

Regulatory fees decreased $455,000 or 95.8% to $20,000 for the three months ended September 30, 2014 from $475,000 for the three months ended September 30, 2013. The decrease in regulatory expense is a result of the rate case settlement agreement in 2013, wherein approximately $442,000 of previously deferred rate case costs were written off as they were no longer expected to be recoverable through rates to be charged in the future.

Depreciation – Depreciation expense decreased by $51,000, or 2.2%, to $2.3 million for the three months ended September 30, 2014. The decrease primarily reflects the impact of the number of assets reaching their depreciable life during 2014. This reduction is partially offset by an increase in depreciation at the regulated utilities due to the Rate Decision No. 74364, whereby ICFA funds are no longer recorded as CIAC, and therefore, ICFA-related CIAC amortization will no longer be recorded as a reduction to depreciation expense.

Other Income (Expense) – Other income (expense) totaled $2.1 million of net expense for the three months ended September 30, 2014 compared to $371,000 of net expense for the three months ended September 30, 2013. Other income (expense) primarily consists of interest expense which remained relatively flat for the reported 2014 and 2013 interim periods. The increase in net expense was primarily attributable to a one-time gain of $2.1 million related to the sale of certain contracts held by the 303 Utilities Company ("303 sale") recognized during the three months ended September 30, 2013. During the three months ended September 30, 2014, the Company also recorded a $67,000 loss on equity method investment related to our investment in FATHOM compared to a loss of $324,000 for the three months ended September 30, 2013, which losses were partially offset by earn-out royalties from FATHOM in the amounts of $69,000 and $47,000 for the three month periods ending September 30, 2014 and 2013, respectively.

Income Tax Benefit (Expense) – Effective June 2012 and through December 31, 2013, the Company maintained a full income tax valuation allowance against its net deferred tax assets. As a result of the valuation allowance, effectively no income tax expense or benefit was recorded during that period. Accordingly, income tax expense for the three months ended September 30, 2013 was minimal.

In early 2014, we reversed substantially all of the valuation allowance, and for the three months ended September 30, 2014, we recorded a $17,000 income tax benefit related to our current period losses.

Net Income (Loss) – The Company's net loss totaled $26,000 for the three months ended September 30, 2014 compared to net income of $660,000 for the three months ended September 30, 2013. This difference was due to the $2.1 million gain related to the 303 sale in the third quarter of 2013, partially offset by the reduction of operating and maintenance and general and administrative expenses in the third quarter of 2014.

EBITDA and Adjusted EBITDA – EBITDA totaled $4.3 million for the three months ended September 30, 2014 compared to $5.2 million for the three months ended September 30, 2013. This difference was primarily due to the one-time $2.1 million gain related to the 303 sale in the third quarter of 2013, partially offset by the reduction of operating and maintenance and general and administrative expenses in the third quarter of 2014.

Adjusted EBTIDA totaled $4.3 million for the three months ended September 30, 2014 compared to $3.0 million for the three months ended September 30, 2013. The increase in Adjusted EBITDA was due to the general reduction of operating and maintenance and general and administrative expenses in the third quarter of 2014 as discussed above.

A reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA in the three months ended September 30, 2014 and 2013 is as follows (in thousands of US$):

	Three Months Ended September 30,	
	2014	2013
Net income (loss)	**$ (26)**	**$ 660**
Income tax expense (benefit)	(17)	2
Interest income	(23)	(20)
Interest expense	2,111	2,209
Depreciation	2,255	2,306
EBITDA[(1)]	**4,300**	**5,157**
EBITDA Adjustments	—	(2,135)
Adjusted EBITDA[(2)]	**$ 4,300**	**$ 3,022**

(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 Statements 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 the 303 sale in the third quarter of 2013. 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 net income (loss). See "Cautionary Statements Regarding Non-GAAP Measures" for further information regarding EBITDA.

Net Income (Loss) and EBITDA Per Share Information – The common stock of GWRI is not publicly traded and reporting per share information is not a required disclosure. However, management believes that net earnings (loss) per share and EBITDA per share data may be useful to some users of the financial statements as those users make decisions related to GWRC, which holds an approximate 48.1% interest in GWRI. The following table summarizes such information for the three months ended September 30, 2014 and 2013 (amounts in thousands of US$, except share and per share data):

	Net Loss	EBITDA
Amount for the three months ended September 30, 2014	$ (26)	$ 4,300
Weighted average number of GWRI shares outstanding during the three months ended September 30, 2014	182,050	182,050
GWRI per share amount [(1)]	$ (0.14)	$ 23.62

	Net Income	EBITDA
Amount for the three months ended September 30, 2013	$ 660	$ 5,157
Weighted average number of GWRI shares outstanding during the three months ended September 30, 2013	182,050	182,050
GWRI per share amount [(1)]	$ 3.63	$ 28.33
GWRI per share, excluding loss on sale of GWM [(2)]	$ (8.10)	$ 16.60

(1) Each share of GWRI is approximately equivalent to 100 common shares of GWRC. Therefore, GWRI's net loss per share and EBITDA per share amounts in terms of GWRC's common shares is approximately $0.00 and $0.24 for three months ended September 30, 2014, respectively, and net income per share and EBITDA per share of approximately $0.04 and $0.28 for the three months ended September 30, 2013, respectively. EBITDA and EBITDA per share data are not U.S. GAAP measures.

(2) Excluding the gain on sale of 303 contracts, EBITDA would total $1.5 million and $3.0 million, respectively, for the three months ending September 30, 2013.

Comparison of Results of Operations for the Nine Months Ended September 30, 2014 and 2013

Revenues – The following table summarizes GWRI's revenues for the nine months ended September 30, 2014 and 2013 (in thousands of US$).

	Nine Months Ended September 30,	
	2014	2013
Water services	$ 13,831	$ 13,977
Wastewater and recycled water services	10,561	10,331
Unregulated revenues	254	1,360
Total revenues	$ 24,646	$ 25,668

Total revenues decreased $1.0 million, or 4.0%, for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013, primarily from the decrease in unregulated revenues due to the absence of FATHOM-related revenues which are no longer recorded by the Company subsequent to the sale of GWM on June 5, 2013.

Water Services – Water services revenues decreased $146,000, or 1.0%, to $13.8 million for the nine months ended September 30, 2014 compared with $14.0 million in the same period of 2013.

Active water connections increased 2.0% to 26,064 as of September 30, 2014 from 25,544 as of September 30, 2013. Water consumption decreased 6.6% to a total of 2.2 billion gallons for the nine months ended September 30, 2014 from a total of 2.4 billion gallons for the nine months ended September 30, 2013. Water services revenue based on consumption decreased 4.2% to $6.1 million from $6.4 million for the nine months ended September 30, 2014 and September 30, 2013, respectively. Water service revenue and consumption decreased due to significant decreases in irrigation and commercial water consumption in the third quarter of 2014 due to the unusually wet monsoon season.

Water services revenue, excluding miscellaneous charges, associated with the basic service charge increased 2.9% to $7.4 million for the nine months ended September 30, 2014 compared to $7.2 million for the nine months ended September 30, 2013, reflecting growth in total active connections.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenues increased $230,000, or 2.2%, for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. The increase was primarily due to increased active wastewater and recycled water connections, which increased 2.2% to 17,310 as of September 30, 2014 from 16,938 on September 30, 2013.

Wastewater revenue, excluding miscellaneous charges, which is billed and recognized at a flat rate per connection, totaled $10.1 million for the nine months ended September 30, 2014 compared to $9.8 million for the nine months ended September 30, 2013. The 2.5% increase in revenue reflects the growth of active connections.

Recycled water revenue, which is based on gallons delivered remained relatively flat at approximately $250,000 for both the nine months ended September 30, 2014 and September 30, 2013. The volume of recycled water delivered also remained relatively flat at 444 million gallons for the nine months ended September 30, 2014 compared to 448 million gallons for the nine months ended September 30, 2013.

Unregulated Revenues – Unregulated revenues totaled $254,000 for the nine months ended September 30, 2014 compared to $1.4 million in the nine months ended September 30, 2013. Historically, unregulated revenues primarily consisted of revenues generated from customers of GWRI's FATHOM business. Subsequent to the June 5, 2013 sale of GWM, unregulated revenues for the period have been limited to rental revenue and imputed revenues resulting from ICFA arrangements, thus the decline comparatively to the prior year period.

Operating Expenses – The following table summarizes GWRI's operating expenses for the nine months ended September 30, 2014 and 2013 (in thousands of US$):

	Nine Months Ended September 30,	
	2014	2013
Operations and maintenance	$ 7,855	$ 9,535
General and administrative	6,610	7,952
Gain on regulatory order	(50,664)	—
Depreciation	6,926	7,667
Total operating expenses	$ (29,273)	$ 25,154

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 $1.7 million, or 17.6%, in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Total personnel costs decreased $1.4 million, or 44.0%, in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. The decrease is primarily attributed to the June 5, 2013 sale of FATHOM whereby GWRI's total employee headcount was reduced from an average of 149 for the five months ended May 31, 2013 and reduced to 64 as of September 30, 2013 and to 62 as of September 30, 2014. The majority of the headcount reduction in 2013 and 2014 pertained to operations and maintenance.

As a result of the June 5, 2013 sale of GWM, the costs in several operating expense categories associated with the FATHOM business decreased. The Company experienced a decrease of approximately $797,000 in operating expenses for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 due to lower costs in expense categories such as meals and travel, phone and communication expense, computer repairs and maintenance, bank fees, and postage.

By contrast, GWRI's contract services increased $517,000 for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. The increase is primarily driven by the sale of GWM on June 5, 2013. Historically, all FATHOM service fees charged by FATHOM to GWRI's regulated utilities would eliminate upon consolidation. As a result of the sale, this service fee no longer eliminates; thus resulting in charges totaling $1.8 million for the nine months ended September 30, 2014 compared to $751,000 for the nine months ended September 30, 2013. The impact of the FATHOM service fee was partially offset by a $455,000 reduction of costs associated with contractors used during 2013 but not in 2014 for non-development work in support of FATHOM operations.

Property taxes increased $93,000, or 6.1%, in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Whereas property tax is based in part on revenues experienced at our utilities, the increase in property taxes can be attributed to the increase in revenues. Property tax expense for 2013 was based on the average revenues from 2009-2011. Property tax expense for 2014 is based on the average revenues from 2010-2012. The increase in property tax is therefore primarily attributed to customer growth and the increased rates being charged pursuant to the 2010 Regulatory Rate Decision.

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 $1.3 million, or 16.9%, during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

For the nine months ended September 30, 2014, personnel costs decreased $132,000, or 3.3%, compared to the nine months ended September 30, 2013. For the nine months ended September 30, 2014 personnel expenses exclusive of

deferred compensation decreased $800,000 as compared to the nine months ended September 30, 2013. These decreases are associated with the reduced personnel costs associated with the FATHOM business due to the sale of GWM on June 5, 2013. Deferred compensation included within personnel expenses increased $688,000, or 182.4% to $1.0 million for the nine months ended September 30, 2014 compared to $366,000 for the nine months ended September 30, 2013. The increase in deferred compensation expense is attributable to the rising stock price in relation to the Company's Phantom Stock Unit ("PSU") deferred compensation program.

For the nine months ended September 30, 2014, contract service costs decreased $222,000, or 86.0%, rent expense decreased $216,000, or 80.3%, promotion and marketing expense decreased $125,000, or 84.5%, and meals, travel and entertainment decreased $155,000, or 70.5% as compared to the nine months ended September 30, 2013. These decreases were driven by the June 5, 2013 sale of GWM.

For the nine months ended September 30, 2014, regulatory expense decreased $529,000, or 90.7% as compared to the nine months ended September 30, 2013. The decrease in regulatory expense related to a regulatory settlement in 2013, wherein $442,000 of previously deferred rate case expenses were written off as they were no longer expected to be recoverable through future rates to be charged to customers. Additionally, the 2010 Rate Case Decision became fully amortized in July 2013, leading to an additional $66,000 in amortization expense in 2013 that did not occur in 2014.

These decreases were partially offset by a $111,000, or 11.3%, increase in professional fees for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. The increase in professional fees relates accounting fees related to Rate Decision No. 74364 along with higher legal fees related to various corporate matters.

Gain on regulatory order – The $50.7 million gain on regulatory order recorded during the nine months ended September 30, 2014 represents the benefit to the Company's current period earnings as a result of the ACC's February 2014 Rate Decision No. 74364 which concluded that ICFA funds received historically would no longer be recorded as CIAC.

Depreciation – Depreciation expense decreased by $741,000, or 9.7%, to $6.9 million for the nine months ended September 30, 2014 compared to $7.7 million for the nine months ended September 30, 2013. The decrease primarily reflects the impact of the reduction of assets on GWRI's balance sheet as a result of the sale of GWM. For reference, for the nine months ended September 30, 2013, GWM's depreciation expense totaled $1.0 million. The reduction in depreciation due to the absence of GWM was partially offset by increased depreciation expense at the regulated utilities due to the Rate Decision No. 74364, whereby ICFA funds are no longer recorded as CIAC, and therefore, ICFA-related CIAC amortization will no longer be recorded as a reduction to depreciation expense.

Other Income (Expense) – Other expense totaled $4.6 million of net expense for the nine months ended September 30, 2014 compared to $6.7 million of net expense for the nine months ended September 30, 2013. Other income (expense) primarily consists of interest expense which remained relatively flat at $6.5 million for the nine months ended September 30, 2014 compared to $6.6 million for the nine months ended September 30, 2013. The improvement in other expense was primarily attributable to approximately $2.0 million of interest income related to the SNR litigation recorded during the nine months ended September 30, 2014 combined with a loss of $1.9 million on the sale of GWM net against a gain of $2.1 million related to the 303 sale recorded during the nine months ending September 30, 2013. During the nine months ended September 30, 2014, the Company also recorded a $473,000 loss on equity method investment related to our investment in FATHOM compared to a loss of $399,000 for the nine months ending September 30, 2013. The loss on equity was partially offset by $197,000 and $62,000 of earn-out royalties for the nine month periods ending September 30, 2014 and 2013, respectively.

Income Tax Benefit (Expense) – Effective June 2012 and through December 31, 2013, the Company maintained a full income tax valuation allowance against its net deferred tax assets. As a result of the valuation allowance, effectively

no income tax expense or benefit was recorded during that period. Accordingly, income tax expense for the nine months ended September 30, 2013 was minimal.

During the nine months ended September 30, 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 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, the Company reversed substantially all of the deferred tax valuation allowance previously recorded, resulting in a $16.1 million income tax benefit. For the nine months ended September 30, 2014 we recorded a $351,000 income tax benefit related to current year losses.

Net Income (Loss) – The Company's income totaled $65.8 million for the nine months ended September 30, 2014 compared to a net loss of $6.2 million for the nine months ended September 30, 2013. This difference was due to several factors as mentioned above, but was primarily attributed to the $50.7 million gain on regulatory order and the $16.1 million income tax benefit recognized in the current year in connection with the release of the deferred income tax valuation allowance.

EBITDA and Adjusted EBITDA – EBITDA totaled $62.6 million for the nine months ended September 30, 2014 compared to $8.1 million for the nine months ended September 30, 2013. This increase was due to several factors as mentioned above, but was primarily attributed to the $50.7 million gain on regulatory order recorded in the current year. For additional discussion, refer to the sections *Revenues* and *Operating Expenses* above.

Adjusted EBTIDA totaled $10.0 million for the nine months ended September 30, 2014 compared to $7.9 million for the nine months ended September 30, 2013. The increase in Adjusted EBITDA was primarily related to the sale of GWR in 2013, wherein we recorded a negative EBITDA of $2.6 million prior to the sale of GWR on June 5, 2013.

A reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA in the nine months ended September 30, 2014 and 2013 is as follows (in thousands of US$):

	Nine Months Ended September 30,	
	2014	**2013**
Net Income (Loss)	**$ 65,770**	**$ (6,177)**
Income tax expense (benefit)	(16,477)	5
Interest income	(64)	(27)
Interest expense	6,487	6,584
Depreciation	6,926	7,667
EBITDA[(1)]	**62,642**	**8,052**
EBITDA Adjustments	(52,685)	(201)
Adjusted EBITDA[(2)]	**$ 9,957**	**$ 7,851**

(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 Statements 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 regulatory gain related to Rate Decision No. 74364 and $2.0 million of interest income related to the SNR litigation for nine months ended September 30, 2014. Adjustments for the nine months ended September 30, 2013 include the $2.1 million gain on the 303 sale and the $1.9 million loss on the sale of GWR. 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 net income (loss). See "Cautionary Statements Regarding Non-GAAP Measures" for further information regarding EBITDA.

Net Income (Loss) and EBITDA Per Share Information – The common stock of GWRI is not publically traded and reporting per share information is not a required disclosure. However, management believes that net earnings (loss) per share and EBITDA per share data may be useful to some users of the financial statements as those users make

decisions related to GWRC, which holds an approximate 48.1% interest in GWRI. The following table summarizes such information for the nine months ended September 30, 2014 and 2013 (amounts in thousands of US$, except share and per share data):

	Net Income	EBITDA
Amount for the nine months ended September 30, 2014	$ 65,770	$ 62,642
Weighted average number of GWRI shares outstanding during the nine months ended September 30, 2014	$ 182,050	$ 182,050
GWRI per share amount [1]	361.27	344.09
GWRI per share, excluding SNR interest income, the gain on regulatory order and the release of the income tax valuation allowance [2]	(16.71)	54.69

	Net Loss	EBITDA
Amount for the nine months ended September 30, 2013	$ (6,177)	$ 8,052
Weighted average number of GWRI shares outstanding during the nine months ended September 30, 2013	182,050	182,050
GWRI per share amount [1]	$ (33.93)	$ 44.23
GWRI per share, excluding loss on sale of GWM and gain on 303 sale [3]	$ (35.03)	$ 43.13

(1) Each share of GWRI is approximately equivalent to 100 common shares of GWRC. Therefore, GWRI's net income per share and EBITDA per share amounts in terms of GWRC's common shares is approximately $3.61 and $3.44 for the nine months ended September 30, 2014, respectively, and approximately $(0.34) and $0.44 for the nine months ended September 30, 2013, respectively. EBITDA and EBITDA per share data are not U.S. GAAP measures.

(2) Excluding the gain on regulatory order and the release of the income tax valuation allowance, the Company's net loss and EBITDA would total $3.0 million and $10.0 million, respectively, for the nine months ending September 30, 2014.

(3) Excluding the loss on sale of GWM and gain on 303 sale, GWRI's net loss and EBITDA would total $6.4 million and $7.9 million, respectively, for the nine months ending September 30, 2013.

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 unaudited consolidated financial data for the last eight quarters ended September 30, 2014 (in thousands of US$). This financial information has been derived from the unaudited interim financial statements prepared by and is the responsibility of the Company's management.

	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
REVENUES:								
Water services	$ 5,087	$ 5,127	$ 3,617	$ 4,223	$ 5,405	$ 4,973	$ 3,599	$ 4,156
Wastewater and recycled water services	3,584	3,612	3,365	3,498	3,536	3,482	3,313	3,331
Unregulated revenues	124	116	14	45	49	634	677	937
Total revenues	8,795	8,855	6,996	7,766	8,990	9,089	7,589	8,424
OPERATING EXPENSES:								
Operations and maintenance	2,677	2,695	2,483	2,460	3,043	3,338	3,154	2,862
General and administrative	1,841	2,280	2,489	1,671	2,608	2,535	2,809	2,362
Gain on regulatory order	—	—	(50,664)	—	—	—	—	—
Depreciation	2,255	2,427	2,244	2,134	2,306	2,664	2,697	2,866
Total operating expenses	6,773	7,402	(43,448)	6,265	7,957	8,537	8,660	8,090
OPERATING INCOME (LOSS)	2,022	1,453	50,444	1,501	1,033	552	(1,071)	334
OTHER INCOME (EXPENSE):								
Interest income	23	22	19	20	20	6	1	5
Interest expense	(2,111)	(2,152)	(2,224)	(2,351)	(2,209)	(2,136)	(2,239)	(2,085)
Other	23	(147)	1,921	978	1,818	(1,964)	17	(14)
Total other income (expense)	(2,065)	(2,277)	(284)	(1,353)	(371)	(4,094)	(2,221)	(2,094)
INCOME (LOSS) BEFORE INCOME TAXES	(43)	(824)	50,160	148	662	(3,542)	(3,292)	(1,760)
INCOME TAX BENEFIT (EXPENSE)	17	335	16,125	(11)	(2)	(1)	(2)	(6)
NET INCOME (LOSS)	$ (26)	$ (489)	$ 66,285	$ 137	$ 660	$ (3,543)	$ (3,294)	$ (1,766)
LOSS, EXCLUDING GAIN ON REGULATORY ORDER, GAIN ON SALE OF 303 CONTRACTS, LOSS ON THE SALE OF GWM AND TAX VALUATION ALLOWANCE	(26)	(489)	(496)	(1,017)	(1,475)	(1,609)	(3,294)	(1,073)
EBITDA, ADJUSTED TO EXCLUDE GAIN ON REGULATORY ORDER, GAIN ON SALE OF 303 CONTRACTS, LOSS ON THE SALE OF GWM AND DEFERRED COMPENSATION	4,508	4,264	4,240	3,601	3,396	3,071	1,750	3,176

Business Divisions

The following table summarizes GWRI's operating results by business division for the three and nine months ended September 30, 2014 and 2013 (in thousands of US$).

	Regulated	Unregulated	Other	Eliminations	Total
Three months ended September 30, 2014					
Revenues	$ 8,686	$ —	$ 109	$ —	$ 8,795
Operations and Maintenance	2,677	—	—	—	2,677
General and Administrative	1,392	—	449	—	1,841
Gain on regulatory order	—	—	—	—	—
Depreciation	2,255	—	—	—	2,255
Operating income (loss)	2,362	—	(340)	—	2,022
Other income (expense)	(24)	—	(2,041)	—	(2,065)
Income (loss) before income taxes	2,338	—	(2,381)	—	(43)
Income tax (expense) benefit	(896)	—	913	—	17
Net Income (Loss)	$ 1,442	$ —	$ (1,468)	$ —	$ (26)
EBITDA[(1)]	$ 4,638	$ —	$ (338)	$ —	$ 4,300
EBITDA, adjusted to exclude deferred compensation and equity loss	$ 4,643	$ —	$ (135)	$ —	$ 4,508

	Regulated	Unregulated	Other	Eliminations	Total
Three months ended September 30, 2013					
Revenues					
Recurring	$ 8,955	$ —	$ —	$ —	$ 8,955
Non recurring	35	—	—	—	35
Operations and Maintenance					
Recurring	3,023	—	—	—	3,023
Non recurring	20	—	—	—	20
General and Administrative	2,608	—	—	—	2,608
Depreciation	2,306	—	—	—	2,306
Operating income (loss)	1,033	—	—	—	1,033
Other income (expense)	2,115	—	(2,486)	—	(371)
Income (loss) before income taxes	3,148	—	(2,486)	—	662
Income tax expense	—	—	(2)	—	(2)
Net Income (Loss)	$ 3,148	$ —	$ (2,488)	$ —	$ 660
EBITDA[(1)]	$ 5,493	$ —	$ (336)	$ —	$ 5,157
EBITDA, adjusted to exclude deferred compensation, equity loss and gain on 303 sale.	$ 3,732	$ —	$ (13)	$ —	$ 3,719

	Regulated	Unregulated	Other	Eliminations	Total
Nine months ended September 30, 2014					
Revenues	$ 24,435	$ —	$ 211	$ —	$ 24,646
Operations and maintenance	7,855	—	—	—	7,855
General and administrative	4,752	—	1,858	—	6,610
Gain on regulatory order	—	—	(50,664)	—	(50,664)
Depreciation	6,926	—	—	—	6,926
Operating income (loss)	4,902	—	49,017	—	53,919
Other income (expense)	(77)	—	(4,549)	—	(4,626)
Income (loss) before income taxes	4,825	—	44,468	—	49,293
Income tax (expense) benefit	25,494	—	(9,017)	—	16,477
Net Income (Loss)	$ 30,319	$ —	$ 35,451	$ —	$ 65,770
EBITDA(1)	$ 11,888	$ —	$ 50,754	$ —	$ 62,642
EBITDA, adjusted to exclude gain on regulatory order, equity loss and deferred compensation	$ 12,130	$ —	883	—	$ 13,013

	Regulated	Unregulated	Other	Eliminations	Total
Nine months ended September 30, 2013					
Revenues					
Recurring	$ 24,350	$ 1,942	$ —	$ (752)	$ 25,540
Non recurring	128	—	—	—	128
Operations and maintenance					
Recurring	6,964	2,486	—	—	9,450
Non recurring	72	13	—	—	85
General and administrative	6,713	1,991	—	(752)	7,952
Depreciation	6,642	1,025	—	—	7,667
Operating income (loss)	4,087	(3,573)	—	—	514
Other income (expense)	2,086	(12)	(8,760)	—	(6,686)
Income (loss) before income taxes	6,173	(3,585)	(8,760)	—	(6,172)
Income tax expense	—	(3)	(2)	—	(5)
Net Income (Loss)	$ 6,173	$ (3,588)	$ (8,762)	$ —	$ (6,177)
EBITDA(1)	$ 12,932	$ (2,550)	$ (2,330)	$ —	$ 8,052
EBITDA, adjusted to exclude deferred compensation, equity loss, loss on sale of GWM and gain on 303 sale.	$ 11,565	$ (2,553)	$ (396)	$ —	$ 8,616

(1) EBITDA data are not U.S. GAAP measures. See "Cautionary Statements Regarding Non-GAAP Measures" for further information regarding EBITDA.

Regulated – Our Regulated division primarily consists of our water, wastewater and recycled water utilities which are regulated by the ACC. Revenues from our Regulated division decreased $304,000, or 3.4%, for the three months ended September 30, 2014 compared with the three months ended September 30, 2013, and decreased $43,000, or 0.2%, for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013. As discussed above, weather was a significant factor in the reduction of revenue in for the three months ended September 30, 2014 compared with the three months ended September 30, 2013. The reduction in revenue from the abnormal weather conditions from the third quarter, combined with the positive impact of continued growth in the number of active service

connections led to the slight increase in regulated revenue for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013.

Unregulated – Our Unregulated division, which consisted of the FATHOM business, was sold on June 5, 2013, and therefore there were no Unregulated revenues and or expenses recorded for the three and nine months ended September 30, 2014 or for the three months ended September 30, 2013. For the nine months ended September 30, 2013, before intercompany eliminations, revenues of our Unregulated division totaled $1.9 million.

The Company's Unregulated division historically considered the Regulated division as a FATHOM client. GWM has provided the same or similar services to the Regulated division as it provides to third-party FATHOM clients. For the nine months ended September 30, 2013, fees charged by FATHOM to the Regulated division totaled $752,000, and were included in revenues of the Unregulated division and in expenses of the Regulated division in the table above, and prior to the sale of GWM, these amounts were eliminated in consolidation.

Other – The Company's "Other" category consists of all activities not classified under the Regulated and Unregulated divisions. During the periods presented, activities of this category included interest on parent company debt, which is not allocated to the other divisions.

For the three months ended September 30, 2014, this category also includes $109,000 of imputed revenues resulting from ICFA arrangements, a $67,000 equity method loss recorded as a result of losses incurred by FATHOM, approximately $23,000 of interest income related to our convertible promissory notes, and approximately $69,000 of earn-out royalties received from FATHOM. For the nine months ended September 30, 2014, this category also includes the $50.7 million gain on regulatory order resulting from the ACC's Rate Decision No. 74364, a $473,000 equity method loss recorded as a result of losses incurred by FATHOM, approximately $64,000 of interest income related to our convertible promissory notes, and approximately $197,000 of earn-out royalties received from FATHOM.

The Company periodically reviews its overhead allocation methodology to ensure business divisions are being allocated a reasonable share of corporate costs. These reviews take into consideration changes in the operations and environmental circumstances of the actual business units and attempt to allocate indirect costs of the Company to those business units in an equitable manner. There is no impact on the consolidated financial statements when the Company updates its overhead allocation. Prior to the sale of GWM, substantially all operating costs were allocated between the Regulated utilities division and the Unregulated division. In 2013 following the sale of GWM, corporate overhead costs were no longer allocated to the Unregulated division due to the absence of the FATHOM business, and accordingly, the overhead costs which remained following the sale of GWM were absorbed entirely by the Regulated utilities division. Effective January 1, 2014, the Company made changes to the allocation of specific overhead costs primarily as a result of the sale of GWM as well as recent changes in management duties and responsibilities. As a result of the changes, certain general and administrative costs will be held at the parent company level and will not be allocated to the Regulated utilities.

Outstanding Share Data

As of November 12, 2014, there were 182,050 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, GWRI'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. GWRI uses its capital resources to (i) fund operating costs, (ii) fund capital requirements, including construction

expenditures, (iii) make debt and interest payments, and (iv) invest in new and existing ventures. GWRI's utility subsidiaries operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as recovery through rate increases is subject to regulatory lag. As a result of these factors, GWRI's working capital, defined as current assets less current liabilities, as of September 30, 2014, is in a net deficit position.

As of September 30, 2014, GWRI had notable near-term cash expenditure obligations. Most significantly, the Company has approximately $7.0 million of debt interest and principal payments due December 2014. While specific facts and circumstances could change, we believe that, together with cash on hand, we 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 for at least the next twelve months. However, based on our current forecasts, we do anticipate that receipt of the remaining $1.3 million proceeds from the Sale of 303 Contracts (see Note 1 to the Company's financial statements for the three months ended September 30, 2014) will be necessary to be in compliance with our financial covenants for the three months ended March 31, 2015. See Note 14—Subsequent Events to GWRI's Consolidated Financial Statements for further discussion surrounding the refinancing of the facilities included within Note 8—Debt —2012 Financings.

In March 2014, the Company initiated a dividend program wherein we have declared and paid a monthly dividend of approximately $379,000 (or approximately $0.021 per share) each month since the inception of the program. The Company expects that 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 from operating activities are used for operating needs and to meet capital expenditure requirements. GWRI'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.

The following table provides a summary of the major items affecting GWRI's cash flows from operating activities for the three and nine months ended September 30, 2014 and 2013 (in thousands of US$):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$ (26)	$ 660	$ 65,770	$ (6,177)
Add (subtract):				
Non-cash operating activities[1]	2,638	1,088	(58,323)	8,657
Changes in working capital[2]	2,767	(117)	1,951	885
Changes in noncurrent assets and liabilities	(4)	417	2,880	248
Net cash provided by operating activities	$ 5,375	$ 2,048	$ 12,278	$ 3,613

(1) Includes deferred compensation, depreciation, gains and losses, income tax expense (benefit), and provision for losses on accounts receivable, as well as the $50.7 million gain on regulatory order recorded during the nine months ended September 30, 2014.

(2) Changes in working capital include changes to accounts receivable and accrued revenue, other current assets, accounts payable, accrued expenses and other current liabilities.

For the three months ended September 30, 2014, GWRI's net cash provided by operating activities totaled $5.4 million compared to $2.0 million for the three months ended September 30, 2013. The $3.3 million increase in cash provided by operating activities was primarily due to the timing of when payments on accounts payable and accrued liabilities are made combined with the $2.1 million non-cash gain on the 303 sale that occurred in 2013. These increases were partially offset by the $458,000 non-cash write off of regulatory assets in 2013 that did not occur during the 2014 period.

For the nine months ended September 30, 2014, GWRI's net cash provided by operating activities totaled $12.3 million compared to net cash provided by operating activities of $3.6 million for the nine months ended September 30, 2013. The $8.7 million increase in cash provided from operating activities was driven by $2.8 million of ICFA funds and approximately $2.0 million of interest income received in the first quarter of 2014 in connection with the settlement of the SNR litigation. In addition, the Company has experienced an improvement in earnings and operating cash flows as a result of the sale of GWM as GWRI is no longer financing the losses generated by the FATHOM business.

Cash Flows Used in Investing Activities – Cash flows used in investing activities for the three and nine months ended September 30, 2014 and 2013 were as follows (in thousands of US$):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Capital expenditures	$ (388)	$ (1,071)	$ (1,054)	$ (4,720)
Other investing activities, net[(1)]	(2)	1,212	197	3,006
Net cash provided by (used in) investing activities	$ (390)	$ 141	$ (857)	$ (1,714)

(1) Includes proceeds from the disposal of assets, and deposits and withdrawals of restricted cash.

For the three months ended September 30, 2014, GWRI's net cash used in investing activities totaled $0.4 million compared to net cash provided by investing activities of $0.1 million in the same period in 2013. The $0.5 million change was primarily driven by the $2.0 million in proceeds received from the 303 sale in 2013 that were not received in 2014, net against the $0.7 million decline in cash used to fund capital expenditures in 2014 and $0.8 million in restricted cash deposits in 2013.

For the nine months ended September 30, 2014, GWRI's net cash used in investing activities totaled $0.9 million compared to net cash used in investing activities of $1.7 million in the same period in 2013. The decrease in cash used in investing activities was primarily driven by the $3.7 million decrease in cash used to fund capital expenditures primarily related to the sale of GWM in 2013, combined with a $1.0 million increase related to cash withdrawn from restricted cash in 2014 compared to cash deposits in 2013. These increases were partially offset by proceeds of $1.8 million and $2.0 million for the respective sales of GWM and 303 contracts, which occurred in 2013.

GWRI continues to invest capital prudently in its existing, core service areas where GWRI is able to deploy its TWM 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. GWRI'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 – GWRI's net cash used in financing activities totaled $1.9 million for the three months ended September 30, 2014 compared to net cash used in financing activities of $0.4 million for the same period in 2013. The increase in cash used for financing activities is principally due to the $1.2 million of dividend payments in 2014 that were not paid in 2013.

Net cash used in financing activities for the nine months ended September 30, 2014 and 2013 totaled $3.9 million and $0.4 million, respectively. The increase in cash used for financing activities was primarily due to the $2.3 million of dividend payments made in 2014 that were not paid in 2013. Additionally, as discussed in Note 8 of GWRI's financial statements for the nine months ended September 30, 2014, in March 2014 we amended our 2012 Term Loan agreement with Regions Bank (the "2014 Amendment to the 2012 Term Loan"). As required by the 2014 Amendment to the 2012 Term Loan, on March 31, 2014 the Company made a $1,000,000 payment to Regions Bank representing a portion of the term loan principal payment that was previously scheduled to be paid December 1, 2014.

Regulatory Restrictions

The issuance of long-term debt securities by GWRI does not require authorization of the ACC if no guarantee or pledge of the assets of the regulated subsidiaries of GWRI is utilized. However, ACC authorization is required for the issuance of long-term debt by GWRI's regulated subsidiaries.

Under applicable law, GWRI is limited to remitting distributions to the amount of current year earnings until a surplus in equity exists. A significant loss recorded within GWRI or at a subsidiary may limit the payment of distributions and dividends.

Insurance Coverage

GWRI 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. GWRI 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 GWRI's short-term and long-term financial condition and the results of operations and cash flows.

Contractual Obligations and Commitments

GWRI enters into obligations with third parties in the ordinary course of business. The amounts of these obligations, as of September 30, 2014 are set forth in the table below (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]	$ 131,950	$ 3,082	$ 9,310	$ 10,016	$ 109,542
Interest on long term debt [3]	119,571	7,791	15,040	14,731	82,009
Capital lease obligation	311	84	168	59	—
Interest on capital lease	47	22	24	1	—
Total	$ 251,879	$ 10,979	$ 24,542	$ 24,807	$ 191,551

(1) In addition to these obligations, GWRI pays annual refunds on AIAC 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 non-refundable and are transferred to CIAC.

(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 September 30, 2014 totaled $364,000 and is netted within the bonds payable balance on GWRI's balance sheet. The debt discount is being amortized over the term of the Series 2007 bonds.

(3) Interest on GWRI's Series 2006, 2007 and 2008 bonds is based on the fixed rates. Interest on GWRI's Series 2012 bonds and term loan is variable based on the LIBOR. We put in place a five year interest rate cap contract in September 2012 to reduce the risk of an increase in interest rates.

Quantitative and Qualitative Disclosure about Market Risk

GWRI is exposed to market risk associated with changes in commodity prices, equity prices and interest rates. GWRI uses 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 $7,000 and $36,000 increase in GWRI's pre-tax loss for the three and nine months ended September 30, 2014, respectively. To reduce the risk from interest rate fluctuations, we have entered into two five-year interest rate cap transaction agreements for our variable-rate bond debt. Under the interest rate cap agreements, the Company will be reimbursed for the interest costs that may occur in excess of the interest rate cap levels.

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

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 of operations, business prospects and financial condition. These risks are discussed in GWRC's most recent Annual Information Form, which is available on GWRC's SEDAR profile at www.sedar.com.

Related Party Transactions

See Note 7 to GWRI's unaudited consolidated financial statements for the three months ended September 30, 2014.

Critical Accounting Policies and Estimates

The application of critical accounting policies is particularly important to GWRI's financial condition and results of operations and provides a framework for management to make significant estimates, assumptions and other judgments. Additionally, GWRI'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 GWRI'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 GWRI's financial condition and results of operations as reflected in GWRI's financial statements. For further discussion of the Company's accounting policies and estimates, refer to GWRI's 2013 audited consolidated financial statements.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period beginning on July 1, 2014 and ended on September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, as discussed in the consolidated financial statements, during the three months ended June 30, 2014, we determined that we had incorrectly calculated and classified certain components of our net deferred tax assets and related income tax benefit as of and for the three months ended March 31, 2014. These misstatements resulted in the need to record adjustments that were determined to be immaterial individually and in the aggregate; however, based on our evaluation of our tax resources and processes, management determined that there was a reasonable possibility that a material misstatement to the annual or interim financial statements might not have been prevented or detected in a timely manner. Accordingly, we have determined that the Company currently has a material weakness in internal control over financial reporting with respect to its accounting for income taxes process. We are actively working to remediate this material weakness control deficiency, which will include increased involvement of external tax accounting advisors.

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.

* * * * * *

GLOBAL WATER

November 12, 2014

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 three and nine months ended September 30, 2014. 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 three and nine months ended September 30, 2014 are filed together with the financial statements 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 201, Phoenix, Arizona 85027

Phn 623.580.9600
Fax 623.580.9659

gwresources.com



GWR GLOBAL WATER RESOURCES CORP.

UNAUDITED FINANCIAL STATEMENTS AS OF AND FOR
THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2014

GWR GLOBAL WATER RESOURCES CORP.
UNAUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

Balance Sheets (September 30, 2014 and December 31, 2013)	1
Statements of Operations	2
Statements of Shareholders' Equity	3
Statements of Cash Flows	4
Notes to Financial Statements	5-13

GWR GLOBAL WATER RESOURCES CORP.
BALANCE SHEETS
As of September 30, 2014 and December 31, 2013
(Unaudited)

	Notes	September 30, 2014	December 31, 2013
		(in thousands of US$, except share data)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ —	$ —
Dividend receivable		174	—
Other current assets		20	—
Total current assets		194	—
Equity method investment	3	60,847	30,962
TOTAL ASSETS		$ 61,041	$ 30,962
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Accounts payable and accrued expenses		$ 179	$ 10
Other noncurrent liabilities		140	72
Deferred tax liability		1,776	—
Total liabilities		2,095	82
COMMITMENTS AND CONTINGENCIES (see Note 9)			
SHAREHOLDERS' EQUITY:			
Common stock, unlimited shares authorized, 8,754,612 shares issued and outstanding at September 30, 2014 and December 31, 2013	6	55,815	55,815
Retained earnings (accumulated deficit)		3,131	(24,935)
Total shareholders' equity		58,946	30,880
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 61,041	$ 30,962

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2014 and 2013
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands of US$, except share and per share data)			
GAIN (LOSS) FROM EQUITY INVESTMENT	$ (13)	$ 318	$ 31,628	$ (3,694)
OPERATING EXPENSES	131	113	539	261
OPERATING INCOME (LOSS)	(144)	205	31,089	(3,955)
INCOME (LOSS) BEFORE INCOME TAXES	(144)	205	31,089	(3,955)
INCOME TAX BENEFIT (EXPENSE)	(250)	—	(1,776)	—
NET INCOME (LOSS)	$ (394)	$ 205	$ 29,313	$ (3,955)
WEIGHTED AVERAGE SHARES:				
Basic	8,754,612	8,754,612	8,754,612	8,754,612
Diluted	8,754,612	8,754,612	8,765,026	8,754,612
EARNINGS (LOSS) PER SHARE:				
Basic	$ (0.04)	$ 0.02	$ 3.35	$ (0.45)
Diluted	$ (0.04)	$ 0.02	$ 3.34	$ (0.45)

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30, 2014 and 2013
(Unaudited)

	Shares	Common Stock	Retained Earnings (Accumulated Deficit)	Total Equity
		(in thousands of US$, except share amounts)		
BALANCE – December 31, 2012	8,754,612	$ 55,767	$ (20,987)	$ 34,780
Stock-based compensation	—	15	—	15
Net loss	—	—	(3,955)	(3,955)
BALANCE – September 30, 2013	8,754,612	55,782	(24,942)	30,840
BALANCE – December 31, 2013	8,754,612	$ 55,815	$ (24,935)	$ 30,880
Declared dividends paid or payable	—	—	(1,247)	(1,247)
Net income	—	—	29,313	29,313
BALANCE – September 30, 2014	8,754,612	$ 55,815	$ 3,131	$ 58,946

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF CASH FLOWS
For the Three and Nine Months Ended September 30, 2014 and 2013
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands of US$)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ (394)	$ 205	$ 29,313	$ (3,955)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Deferred compensation	—	20	—	8
(Gain) loss from equity investment	13	(318)	(31,628)	3,694
Deferred income tax expense	250	—	1,776	—
Deemed distribution from related party	123	—	305	—
Cash distributions received from related party	537	—	1,072	—
Other changes in assets and liabilities	8	4	108	(17)
Net cash provided by (used in) operating activities	537	(89)	946	(270)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Deemed distribution from related party	—	89	126	270
Net cash provided by investing activities	—	89	126	270
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid	(537)	—	(1,072)	—
Net cash used in financing activities	(537)	—	(1,072)	—
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	—	—	—
CASH AND CASH EQUIVALENTS – Beginning of period	—	—	—	—
CASH AND CASH EQUIVALENTS – End of period	$ —	$ —	$ —	$ —
Supplementary disclosure:				
Income taxes paid	$ —	$ —	$ —	$ —
Interest paid	$ —	$ —	$ —	$ —

See accompanying notes to the financial statements

1. INTERIM FINANCIAL STATEMENTS

Basis of Presentation – The financial statements of GWR Global Water Resources Corp. (the "Company", "GWRC", "we", "us", or "our") and related disclosures as of September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013 are unaudited. The December 31, 2013 balance sheet data was derived from the Company's audited financial statements, but may not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2013. In our opinion, these financial statements include all adjustments necessary for the fair statement of the results for the interim period. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year.

GWRC 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 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.

Leveraging its investment in technology that was initially developed to support and optimize its own utilities, GWRI historically also operated an unregulated business, whose services were marketed by GWRI as FATHOM™ Utility-to-Utility ("U_2U™") Solutions ("FATHOM"). FATHOM offers an integrated suite of advanced technology-enabled platforms to provide third party services to municipalities and private utilities. The services offered by FATHOM provide automation, cost savings and opportunities for increased revenues. On June 5, 2013, GWRI sold a majority interest in the FATHOM business and retained an approximate 12.7% interest, which is being reflected as an equity method investment at GWRI.

On December 30, 2010, the Company completed its initial public offering of 8,185,000 common shares (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 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).

Amounts are stated in U.S. dollars unless otherwise noted.

Subsequent events have been evaluated through to November 12, 2014, the date on which the financial statements were approved by the board of directors.

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 investments – 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 but such rights do not result in a controlling financial interest. Under the equity method of accounting, an investment is initially recorded at cost. Any excess of the cost of the acquisition over our share of the net fair value of identifiable assets and liabilities of an equity accounted investee at the date of the acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

When there is a loss in value of an equity accounted investment that is other than temporary, 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 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 also increased or decreased to reflect the investor's share of capital transactions and 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.

Gains 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 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 (see Note 6).

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 FATHOM 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. Prior to the sale of the FATHOM business (See Note 1), 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. Approximately $65,000 of the intangible asset was amortized and approximately $16,000 of the deferred tax liability was reversed during the nine months ended September 30, 2013. However, as a result of the sale of the FATHOM business, we determined that it would be appropriate to fully amortize the intangible asset since GWRI no longer owns the FATHOM contracts. Accordingly, during the year ended December 31, 2013, the Company wrote-off the remaining $0.9 million intangible balance and reversed the remaining $0.2 million of the deferred tax liability.

The Company's loss on equity investment totaled approximately $13,000 compared to a gain of approximately $318,000 for the three months ended September 30, 2014 and 2013, respectively. For the nine months ended September 30, 2014, the Company recorded a $31.6 million gain on its equity method investment 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. For the nine months ended September 30, 2013, the Company's loss recorded on its equity investment totaled approximately $3.7 million.

The following contains summarized financial data of GWRI's financial position as of September 30, 2014 and December 31, 2013 (in thousands of US$):

	September 30, 2014	December 31, 2013
ASSETS:		
Net property, plant and equipment	$ 242,187	$ 249,010
Current assets	15,957	7,010
Other assets	55,293	41,917
TOTAL ASSETS	$ 313,437	$ 297,937
LIABILITIES:		
Current liabilities	$ 16,064	$ 12,338
Noncurrent liabilities	267,588	318,441
TOTAL LIABILITIES	283,652	330,779
SHAREHOLDERS' EQUITY (DEFICIT)	29,785	(32,842)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$ 313,437	$ 297,937

The following contains summarized financial data of GWRI's results of operations for the three and nine months ended September 30, 2014 and 2013 (U.S. GAAP in thousands of US$):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	$ 8,795	$ 8,990	$ 24,646	$ 25,668
Operating expenses	6,773	7,957	(29,273)	25,154
Operating income	2,022	1,033	53,919	514
Total other expense, net	(2,065)	(371)	(4,626)	(6,686)
Income (loss) before income taxes	(43)	662	49,293	(6,172)
Income tax benefit (expense)	17	(2)	16,477	(5)
Net income (loss)	$ (26)	$ 660	$ 65,770	$ (6,177)

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. Through December 31, 2013, GWRI's results of operations were below GWRI's previous forecasts, primarily due to slower than expected growth of the FATHOM business. This combined with the lower trading price of our stock relative to the price at the Offering warranted a review of the carrying value of our investment in GWRI for impairment. Accordingly, we performed a valuation assessment during 2013 and concluded that an impairment of the investment in GWRI did not exist as of December 31, 2013.

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 2011. The regulatory rate case provides, among other things, additional revenues to GWRI which will be phased-in over time. During the nine months ended September 30, 2014, GWRI evaluated the impact of the rate case decision, including whether sufficient evidence exists that GWRI's net deferred tax assets will 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 nine months ended September 30, 2014. As a result of GWRC's 48.1% interest in GWRI, GWRC recorded $13,000 of equity method losses and $31.6 million of equity method earnings for the three and nine months ended September 30, 2014, respectively, 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 September 30, 2014. 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.

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

4. RELATED PARTY TRANSACTIONS

Except for the Chief Executive Officer and Chief Financial Officer (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. Significant terms of, and the services provided by GWRI under, the management agreement are summarized in the notes to our 2013 audited financial statements. A copy of the management agreement is available on the Company's SEDAR profile at www.sedar.com.

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 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 during the three and nine months ended September 30, 2014 totaled $123,000 and $431,000, and total approximately $1,280,000 since the Company's incorporation in 2010. 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.

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; and (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 account 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 became fully vested on December 31, 2013.

As part of gain (loss) from equity investment, 48.1% of the stock compensation cost recorded by GWRI as a result of the award under the Option Plan is included in the Company's statement of operations, reflecting the Company's equity method interest in GWRI's results of operations. Additionally, whereas the Company is providing the entire compensation award to GWRI despite the Company's 48.1% interest, the Company recorded compensation expense within operating expenses related to the stock option award totaling $0 and $20,000 for the three months ended September 30, 2014 and 2013, respectively, and $0 and $8,000 for the nine months ended September 30, 2014 and 2013, respectively, representing

the remaining 51.9% of the total compensation for such awards. This 51.9% amount represents the amount that the Company's claim on GWRI's book value has not been increased, which benefits the noncontributing investors.

Due to attrition and the sale of FATHOM, certain former employees of GWRI forfeited their stock options during 2013, resulting in a reversal of approximately $23,000 of previously recorded stock-based compensation during the nine months ended September 30, 2013. The number of stock options forfeited totaled 107,186, resulting in stock options of 278,511 outstanding at September 30, 2014 and December 31, 2013.

5. INCOME TAXES

The Company purchased an equity investment in GWRI on December 30, 2010. Distributions from GWRI and income or loss generated by 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. At December 31, 2013, the book versus tax basis difference in the Company's equity investment totaled approximately $24.7 million and a deferred tax asset was recorded in the amount of $6.2 million based on a combined statutory tax rate of 25%. However, as it is not more-likely-than-not that the deferred tax asset will be realized in the foreseeable future, a full valuation allowance was recorded against the deferred tax asset. At September 30, 2014, the difference in the amount the carrying value exceeded the tax basis in the Company's equity investment totaled approximately $6.8 million and a deferred tax liability was recorded in the amount of $1.8 million based on a combined statutory tax rate of 26%, with an accompanying charge 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%.

7. EARNINGS PER SHARE

Basic earnings (loss) 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss) available to GWRC common shareholders - basic	$ (394)	$ 205	$ 29,313	$ (3,955)
Net income (loss) available to GWRC common shareholders - diluted	$ (394)	$ 205	$ 29,313	$ (3,955)
Weighted-average shares outstanding - basic	8,754,612	8,754,612	8,754,612	8,754,612
Effect of dilutive securities:				
Incremental shares from stock options	—	—	10,414	—
Weighted-average shares outstanding - diluted	8,754,612	8,754,612	8,765,026	8,754,612
Earnings (loss) per common share - basic	$ (0.05)	$ 0.02	$ 3.35	$ (0.45)
Earnings (loss) per common share - diluted	$ (0.05)	$ 0.02	$ 3.34	$ (0.45)

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Stock options	278,511	278,511	209,561	278,511

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 have declared and has paid a monthly dividend of approximately C$0.022 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.

******



GLOBAL WATER RESOURCES, INC.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2014

GLOBAL WATER RESOURCES, INC.
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

Consolidated Balance Sheets (September 30, 2014 and December 31, 2013)	1
Consolidated Statements of Operations	2
Consolidated Statements of Shareholders' Equity	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-19

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
As of September 30, 2014 and December 31, 2013
(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS	(in thousands of US$, except share data)	
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	$ 318,290	$ 317,319
Less accumulated depreciation	(76,103)	(68,309)
Net property, plant and equipment	242,187	249,010
CURRENT ASSETS:		
Cash and cash equivalents	9,494	1,960
Accounts receivable – net	1,504	1,474
Due from related party	664	939
Accrued revenue	1,884	1,809
Restricted cash	—	197
Prepaid expenses and other current assets	554	631
Convertible note	417	—
Deferred tax assets - current	1,440	—
Total current assets	15,957	7,010
OTHER ASSETS:		
Goodwill	13,082	13,082
Intangible assets – net	12,772	12,772
Regulatory assets	400	400
Deposits	27	28
Bond service fund and other restricted cash	11,385	11,383
Debt issuance costs - net	3,188	3,361
Convertible note	—	750
Equity method investment	—	141
Deferred tax assets	14,439	—
Total other assets	55,293	41,917
TOTAL	$ 313,437	$ 297,937
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 1,523	1,778
Accrued expenses	8,699	3,793
Deferred revenue – current portion	13	16
Customer and meter deposits	2,665	2,579
Long-term debt – current portion	3,164	4,172
Total current liabilities	16,064	12,338
NONCURRENT LIABILITIES:		
Long-term debt	128,734	128,738
Deferred regulatory gain	19,526	—
Regulatory liability	7,859	11,227
Advances in aid of construction	90,714	97,253
Contributions in aid of construction – net	15,861	74,774
Deferred income tax liability	—	589
Acquisition liability	4,688	4,688
Other noncurrent liabilities	206	1,172
Total noncurrent liabilities	267,588	318,441
Total liabilities	283,652	330,779
Commitments and contingencies (see Note 12)		
EQUITY (DEFICIT):		
Common stock, $0.01 par value, 1,000,000 shares authorized, 182,050 shares issued and outstanding at September 30, 2014 and December 31, 2013	2	2
Paid in capital	51,905	55,048
Accumulated deficit	(22,122)	(87,892)
Total equity (deficit)	29,785	(32,842)
TOTAL	$ 313,437	$ 297,937

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2014 and 2013
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands of US$)			
REVENUES:				
Water services	$ 5,087	$ 5,405	$ 13,831	$ 13,977
Wastewater and recycled water services	3,584	3,536	10,561	10,331
Unregulated revenues	124	49	254	1,360
Total revenues	8,795	8,990	24,646	25,668
OPERATING EXPENSES:				
Operations and maintenance	2,677	3,043	7,855	9,535
General and administrative	1,841	2,608	6,610	7,952
Gain on regulatory order	—	—	(50,664)	—
Depreciation	2,255	2,306	6,926	7,667
Total operating expenses	6,773	7,957	(29,273)	25,154
OPERATING INCOME	2,022	1,033	53,919	514
OTHER INCOME (EXPENSE):				
Interest income	23	20	64	27
Interest expense	(2,111)	(2,209)	(6,487)	(6,584)
Other	23	1,818	1,797	(129)
Total other income (expense)	(2,065)	(371)	(4,626)	(6,686)
INCOME (LOSS) BEFORE INCOME TAXES	(43)	662	49,293	(6,172)
INCOME TAX BENEFIT (EXPENSE)	17	(2)	16,477	(5)
NET INCOME (LOSS)	$ (26)	$ 660	$ 65,770	$ (6,177)

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
For the Nine Months Ended September 30, 2014 and 2013
(Unaudited)

	Common Stock	Paid-in Capital	Accumulated Deficit	Total Equity (Deficit)
		(in thousands of US$)		
BALANCE – December 31, 2012	$ 2	$ 55,286	$ (81,852)	$ (26,564)
Stock-based compensation	—	15	$ —	15
Deemed distribution to related party	—	(270)	$ —	(270)
Net loss	—	—	$ (6,177)	(6,177)
BALANCE – September 30, 2013	$ 2	$ 55,031	$ (88,029)	$ (32,996)
BALANCE – December 31, 2013	$ 2	$ 55,048	$ (87,892)	$ (32,842)
Dividend declared	—	(2,712)	—	(2,712)
Deemed distribution to related party	—	(431)	—	(431)
Net income	—	—	65,770	65,770
BALANCE – September 30, 2014	$ 2	$ 51,905	$ (22,122)	$ 29,785

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three and Nine Months Ended September 30, 2014 and 2013
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands of US$)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ (26)	$ 660	$ 65,770	$ (6,177)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Deferred compensation	228	425	1,092	396
Depreciation	2,255	2,306	6,926	7,667
Amortization of deferred debt issuance costs and discounts	90	90	266	256
Loss on disposal of fixed assets	3	—	6	2
Loss on disposal of GWM net assets	—	—	—	1,934
Gain on sale of 303 assets	—	(2,135)	—	(2,135)
Loss on equity method investment	67	324	473	399
Gain on regulatory order	—	—	(50,664)	—
Provision for doubtful accounts receivable	12	76	55	133
Deferred income tax expense (benefit)	(17)	2	(16,477)	5
Changes in assets and liabilities:				
Accounts receivable	170	216	(85)	(611)
Other current assets	147	(1,070)	(154)	(2,826)
Accounts payable and other current liabilities	2,450	737	2,190	4,322
Other noncurrent assets	(3)	455	28	350
Other noncurrent liabilities	(1)	(38)	2,852	(102)
Net cash provided by operating activities	5,375	2,048	12,278	3,613
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(388)	(1,071)	(1,054)	(4,720)
Proceeds from the disposal of fixed assets	—	—	—	12
Net cash received from the sale of GWM	—	—	—	1,771
Initial proceeds received from the sale of 303 contracts	—	2,000	—	2,000
Withdrawals of restricted cash	—	(787)	197	(787)
Deposits received (paid)	(2)	(1)	—	10
Net cash provided by (used in) investing activities	(390)	141	(857)	(1,714)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Loan repayments	(5)	(1)	(1,007)	(4)
Principal payments under capital leases	(20)	(8)	(85)	(69)
Debt issuance costs paid	(46)	—	(46)	(195)
Advances in aid of construction	107	140	301	389
Dividends paid	(1,164)	—	(2,314)	—
Refunds of advances for construction	(736)	(504)	(736)	(505)
Net cash used in financing activities	(1,864)	(373)	(3,887)	(384)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,121	1,816	7,534	1515
CASH AND CASH EQUIVALENTS – Beginning of period	6,373	3,515	1,960	3,816
CASH AND CASH EQUIVALENTS – End of period	$ 9,494	$ 5,331	$ 9,494	$ 5,331

See accompanying notes to the consolidated financial statements

1. INTERIM FINANCIAL STATEMENTS

Basis of Presentation and Principles of Consolidation – The consolidated financial statements of Global Water Resources, Inc. (the "Company", "GWRI", "we", "us", or "our") and related disclosures as of September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013 are unaudited. The December 31, 2013 consolidated balance sheet data was derived from the Company's audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These financial statements follow the same accounting policies and methods of their application as the Company's most recent annual consolidated financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013. In our opinion, these financial statements include all adjustments necessary for the fair statement of the results for the interim period. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year. Further, due to the seasonality of our business, the results for the three and nine months ended September 30, 2014 may not be consistent with results of operations for the full year.

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 U.S. GAAP. 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. Certain previously reported amounts have been reclassified to conform to the current presentation (see Note 6).

Corporate Transactions — *Sale of Global Water Management, LLC* — 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. GWM was a wholly-owned subsidiary of GWRI that owns and operates the FATHOM business, which historically served as one of GWRI's two business divisions.

The transaction was effected through the sale of all of the outstanding membership interests of GWM to a wholly-owned subsidiary of Fathom Water Management Holdings, LLP (the "FATHOM Partnership"). The Company received the following consideration for the sale of GWM: (a) a cash payment of $4.25 million (subject to a post-closing working capital adjustment resulting in a $1.7 million liability for the Company, which the Company has paid as of December 31, 2013); and (b) the issuance to the Company of common and preferred units of the FATHOM Partnership valued at approximately $0.85 million (see Note 5). In addition, 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 million.

The Company has made the election to record these quarterly royalty payments prospectively in income as the amounts are earned. Royalty payments earned totaled approximately $69,000 and $197,000 for the three and nine months ended September 30, 2014, respectively, and totaled $47,000 and $62,000 for the three and nine months ended September 30, 2013, respectively.

Including the working capital adjustment, the following table summarizes the asset and liability balances sold by major classifications (in thousands of US$):

Net property, plant and equipment	$	6,560
Total current assets[(1)]		5,486
Total other assets		—
Total assets	$	12,046
Total current liabilities	$	4,952
Total noncurrent liabilities		499
Total liabilities	$	5,451

(1) Total current assets included approximately $1.8 million of cash.

Based on the above, and exclusive of any future quarterly royalty payments, the Company recorded a loss on the sale of GWM in the amount of $1.9 million, which is included within other income (expense) in the Company's statement of operations for the year ended December 31, 2013. Included within the $1.9 million amount is approximately $0.5 million in legal and other transaction related costs associated with completing the sale of GWM.

Concurrent with the closing, $750,000 of the cash portion of the purchase price was reinvested by the Company in a convertible promissory note issued by GWM's parent. The promissory note had an original maturity of December 31, 2014, bears interest at a rate of 10% per annum and is convertible into equity of the FATHOM Partnership. In May 2014, the maturity date was extended to up to June 30, 2015 (See note 5).

The Company continues to hold an indirect interest in GWM through its ownership of the common and preferred units of the FATHOM Partnership received in consideration for the sale of GWM. Together, these units represent an approximate 12.7% ownership interest in the FATHOM Partnership (on a fully diluted basis).

GWM has historically provided billing, customer service and other support services for the Company's regulated utilities. The Company has 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 sale of GWM has resulted in changes to the recurring costs to be recorded by the Company. Based on current customer service connections, we estimate that costs to be paid to GWM for FATHOM services will be $7.69 per water account/month, an annual rate of approximately $2.4 million.

Sale of certain MXA and WMA contracts — In October 2012, GWRI, GWRI's subsidiary Global Water – 303 Utilities Company, Inc. ("303 Utilities Company"), and the City of Glendale (the "City") entered into an agreement for future wastewater and recycled water services, advancing GWRI's public-private-partnership originally established in a Memorandum of Understanding approved by the City in March 2010. The agreement named 303 Utilities Company as the future wastewater and recycled water provider for a 7,000-acre territory within a portion of the City's western planning area known as the Loop 303 Corridor ("303 Corridor").

The 303 Utilities Company had also signed Wastewater Facilities Main Extension Agreements ("MXA") with numerous developers/landowners in the service area to fund the initial design and construction of a wastewater and recycled water utility.

In addition, GWRI had signed separate Offsite Water Management Agreements ("WMA") with the same developers/ landowners to provide the coordination, permitting, and engineering work for the related water utility service element of

the project (note, whereas the 303 Utilities Company had agreements with the developers/landowners to service wastewater and recycled water, the Company did not have the rights to service *water*).

In September 2013, the Company sold the MXAs and WMAs along with their related rights and obligations to a third party (the "Transfer of Project Agreement", or "Sale of 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 as of December 31, 2013. Since this engineering work has been completed, the Company effectively has no further obligations under the WMAs, MXAs or the Transfer of Project Agreement. Through December 31, 2013, the Company received $2.8 million of proceeds and recognized income of approximately $3.3 million within other income (expense) in the statement of operations. Receipt of the remaining $1.3 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.

2. REGULATORY DECISION AND RELATED ACCOUNTING AND POLICY CHANGES

Our regulated utilities are subject to regulation by the Arizona Corporation Commission (the "Commission" or "ACC") and are therefore subject to Accounting Standards Codification ("ASC") Topic 980, *Regulated Operations* ("ASC Topic 980").

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. Initial rates are set by the ACC at the time the Certificate of Convenience and Necessity ("CC&N") is established for an area granting the utility the exclusive right to serve. The initial rates are determined based on an application submitted by us that includes anticipated customer counts and required infrastructure with rates set to achieve a rate of return on equity invested in the utility. Changes in rates, if any, are made through further formal rate applications.

On September 15, 2010, the ACC issued Rate Decision No. 71878 for the February 2009 filed rate cases for six of our utilities (the "2010 Regulatory Rate Decision"). The Commission established new rates for the utilities effective August 1, 2010, including a phase-in of rates for Palo Verde between August 1, 2010 through January 1, 2012. The rate changes increased rates for water, wastewater and recycled water services for all but one of the utilities, Greater Tonopah, for which rates were reduced.

On July 11, 2012, we filed 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, a collective revenue requirement increase of $4.3 million based on 2011 test year service connections, phased-in over time, with the first increase in January 2015 as follows (in thousands of US$):

	Incremental	Cumulative
2015	$ 1,416	$ 1,416
2016	1,219	2,635
2017	335	2,970
2018	336	3,306
2019	335	3,641
2020	335	3,976
2021	335	4,311

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 contributions in aid of construction ("CIAC") associated with funds previously received under Infrastructure Coordination and Financing Agreements ("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, the GWRI parent company 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 *Contributions in Aid of Construction* ("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 December 31, 2013.

Pursuant to the 2010 Regulatory Rate Decision and through the date of Rate Decision No. 74364, the Company accounted for funds received under ICFA agreements as CIAC. However, with the issuance of Rate Decision No. 74364, the ACC changed how ICFA funds would be characterized and accounted for going forward. Most notably, ICFA funds would no longer be CIAC. 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.

Regarding the treatment of ICFA funds to be received in the future, Rate Decision No. 74364 prescribes that a portion of ICFA funds to be received by the Company will be paid to the associated utility subsidiary as a hook-up fee ("HUF"), and the remaining portion of the funds will be available to GWRI parent for use pursuant to the provisions of the applicable ICFA. Rate Decision No. 74364 specifies that each payment received under the ICFA shall be allocated on the following basis: 70% of the payment shall go toward payment of the HUF and the remaining payment shall be allocated to the GWRI parent. However, regardless of the timing of payments that may be required for any particular ICFA, the Company is responsible for ensuring that the entire HUF is paid no later than the time the ICFA payment is received for: (1) final plat, (2) the start work date, or (3) the date required by the HUF tariffs, whichever is earliest. When constructing facilities required under a HUF or ICFA, the utility subsidiaries must first use the HUF moneys received, and only after those funds are spent, may it use debt or equity financing.

The Company intends to account for the portion allocated to the HUF as a contribution, similar to CIAC. However, from the regulator's perspective, the HUF is not technically CIAC and does not impact rate base until the related funds are expended. Such funds will be segregated in a separate bank account and used for plant. A HUF liability will be established and will be relieved once the HUF funds are utilized for the construction of plant. With respect to the remaining 30%, the Company will record such funds as deferred revenue. Whereas, the GWRI parent is responsible for ensuring that the entire HUF is paid no later than the time the ICFA payment is received for: (1) final plat, (2) the start work date, or (3) the date required by the HUF tariffs, whichever is earliest, the 30% of funds received will be recorded as deferred revenue and will be accounted for in accordance with the Company's ICFA revenue recognition policy discussed above.

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 September 30, 2014 and December 31, 2013, we have deferred $400,000 as a regulatory asset on our balance sheet related to costs incurred in connection with our most recent rate case. This amount will be amortized over a three year period beginning January 2015, which period is aligned with the phase-in of the new rates provided by Rate Decision No. 74364.

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 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. As of December 31, 2013, the regulatory liability amounted to $11.2 million and was presented net against the related intangible assets on our balance sheet.

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 $3,368,000, was reversed during the three months ended March 31, 2014. The remaining 70% of the regulatory liability, or $7,859,000, will continue to be recorded on the balance sheet.

Notwithstanding the historical balance sheet presentation of the regulatory liability being reflected net against the related intangible assets on our balance sheet, effective March 31, 2014, the Company will present the intangible assets and the regulatory liability on a gross basis, with the regulatory liability being reflected in the liability section of the balance sheet (see Note 6).

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. Nevertheless, whereas 70% of the regulatory liability remains recorded, the recognition of amortization expense will be reduced since the intangible assets 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, the Company has reversed substantially all of the deferred tax valuation allowance previously recorded (see Note 9).

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 2014 and December 31, 2013 consist of the following (in thousands of US$):

	September 30, 2014	December 31, 2013	Average Depreciation Life (in years)
PROPERTY, PLANT AND EQUIPMENT:			
Mains/lines/sewers	$ 138,106	$ 137,944	47
Plant	79,604	79,527	25
Equipment	44,101	42,617	10
Meters	6,226	6,097	12
Furniture, fixture and leasehold improvements	430	400	8
Computer and office equipment	950	934	5
Software	161	158	3
Land and land rights	986	986	
Other	139	139	
Construction work-in-process	47,587	48,517	
Total property, plant and equipment	318,290	317,319	
Less accumulated depreciation	(76,103)	(68,309)	
Net property, plant and equipment	$ 242,187	$ 249,010	

4. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2014 and December 31, 2013 consist of the following (in thousands of US$):

	September 30, 2014	December 31, 2013
Billed receivables	$ 1,633	$ 1,576
Less allowance for doubtful accounts	(129)	(102)
Accounts receivable – net	$ 1,504	$ 1,474

5. EQUITY METHOD INVESTMENT AND CONVERTIBLE NOTE

As discussed in Note 1, in connection with the sale of GWM, the Company made an investment in the FATHOM Partnership. This investment is accounted for under the equity method and consisted of the following at September 30, 2014 (in thousands of US$):

	September 30, 2014	December 31, 2013
Series A Preferred Units of FATHOM Partnership	$ 750	$ 750
Common Units of FATHOM Partnership	98	98
Cumulative loss on equity investment	(848)	(707)
Equity method investment	$ —	$ 141

As a result of the cumulative losses on equity investment, the carrying value of equity method investment has been reduced to zero as of September 30, 2014.

Additionally, GWRI invested $750,000 in a 10% convertible promissory note of GWM, with an original maturity of December 31, 2014. We have classified the convertible note as available-for-sale since we expect it to be converted prior to maturity. The convertible note will be converted upon a qualified financing of FATHOM Partnership or at the discretion of the majority partner of FATHOM Partnership, but no later than the date of maturity (qualified financing has been 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 is at least $15 million, exclusive of convertible note amounts converted). We account 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*. We define fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. In May 2014, the maturity date of the note was extended to up to June 30, 2015. In the event that the note is not converted by FATHOM Partnership as of December 31, 2014, the note shall accrue interest at a rate of 16% per annum, with the new rate applied retroactively since inception.

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. On an ongoing basis the fair value of the convertible notes is determined using market data for comparable market instruments and transactions. 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 ability of FATHOM to achieve and sustain an earnings capacity that would justify the carrying amount of our investment, as of December 31, 2013 we did not believe there was an impairment. At September 30, 2014, as a result of the cumulative losses generated by FATHOM, and the fact that the carrying value of the equity method investment has been reduced to zero, the carrying value of the convertible note has been reduced from $750,000 to $417,000, which, together with the reduction in the carrying value of the equity method investment, is a reflection of GWRI's proportionate share of FATHOM's losses for the nine months ended September 30, 2014.

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.

6. GOODWILL AND INTANGIBLE ASSETS

The carrying value of goodwill totaled $13.1 million as of September 30, 2014 and December 31, 2013.

Intangible assets at September 30, 2014 and December 31, 2013 consisted of the following (in thousands of US$):

	September 30, 2014			December 31, 2013		
	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, we cannot reliably estimate when the remaining intangible assets amortization will be recorded.

The Company has reclassified the regulatory liability related to the amortized intangible assets to the liability section of the balance sheet (see Note 2). As reported in the Company's 2013 audited financial statements, an $11.2 million regulatory liability was reflected as an offset against intangible assets, resulting in a net intangible balance of only $1.5 million as of December 31, 2013. For comparability, the regulatory liability balance as of December 31, 2013 has also been reclassified to the liability section of the balance sheet to conform with the current presentation.

7. TRANSACTIONS WITH RELATED PARTIES

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 $103,000 and $91,000 during the three months ended September 30, 2014 and 2013, respectively, and $407,000 and $494,000 during the nine months ended September 30, 2014 and 2013, respectively. Also, we have historically obtained legal services from a law firm in which one of our shareholders and directors has an interest. Total legal fees paid to this law firm were $7,000 and $11,000 for the three months and nine months ended September 30, 2013, respectively. No fees were paid to this law firm in 2014.

GWR Global Water Resources Corp. ("GWRC") was organized in 2010 and holds an approximate 48.1% interest in the Company. GWRI provides for the ongoing management and general administration 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 has no cash and does not expect to generate cash flows from operating activities, the operating costs incurred by GWRC are paid by the Company. Amounts paid by GWRI on GWRC's behalf during the nine months ended September 30, 2014 and 2013 totaled $431,000 and $270,000, respectively. The Company accounts for such payments as equity distributions to GWRC.

As discussed in Note 1, 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. 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 $7.69 per water account/month, an annual rate of approximately $2.4 million. Since the sale of GWM, the Company has incurred approximately $3.1 million of fees for FATHOM services, approximately $1.8 million and $751,000 of which were incurred during the nine months ended September 30, 2014 and 2013, respectively.

8. DEBT

The outstanding balances and maturity dates for short-term (including the current portion of long-term debt) and long-term debt as of September 30, 2014 and December 31, 2013 are as follows (in thousands of US$):

	September 30, 2014		December 31, 2013	
	Short-term	Long-term	Short-term	Long-term
BONDS PAYABLE –				
5.450% Series 2006, maturing December 1, 2017	$ 880	$ 2,955	$ 880	$ 2,955
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 $364 and $379 at September 30, 2014 and December 31, 2013, respectively	625	51,511	625	51,496
6.375% Series 2008, maturing December 1, 2018	175	820	175	820
7.500% Series 2008, maturing December 1, 2038	—	23,235	—	23,235
Variable – 65% of LIBOR plus 2.92% Series 2012A, maturing December 1, 2021	654	6,154	654	6,154
Variable - LIBOR plus 3.00% Series 2012B, maturing December 1, 2021	546	5,146	546	5,146
	2,880	119,406	2,880	119,391
TERM LOAN –				
LIBOR plus 3.25% Regions Term Loan, maturing December 1, 2021	200	9,100	1,200	9,100
OTHER LOANS –				
8.000% Garcia loan, maturing January 2015	—	—	6	1
Capital lease obligations	84	228	86	246
Total debt	$ 3,164	$ 128,734	$ 4,172	$ 128,738

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 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 have semiannual interest payments and annual principal payments, which commenced December 1, 2012. The Series 2012A Bonds accrue 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 accrue interest at a rate of LIBOR plus 250 or 300 bps also depending upon debt service coverage ratios. The 2012 Term Loan accrues interest at a rate of LIBOR plus 325 bps.

These loans have financial covenants requiring the Company to maintain (a) a Fixed Charge Coverage Ratio ((EBITDA-Cash Taxes-Unfinanced Capex) / (Annual Consolidated Debt Service requirements + Distributions)) of 1.00:1.00, tested on a consolidated basis for each consecutive four fiscal quarter period; (b) a minimum Debt Service Coverage Ratio of 1.10:1.00, tested on a consolidated basis for each consecutive four fiscal quarter period; (c) a minimum liquidity level of Cash and Cash Equivalents of 60 days; and (d) a debt service reserve fund (i) in the amount of $626,000 for the 2012 Term Loan, and (ii) equal to the least of (1) 10% of the outstanding principal amount of the Series 2012A and Series 2012B Bonds, (2) 100% of maximum annual debt service on the Series 2012A and Series 2012B Bonds, and (3) 110% of the average annual debt service on the Series 2012A and Series 2012B Bonds. These covenants are required to be tested on a consolidated basis as of the last day of each fiscal quarter.

In the fourth quarter of 2012, the Company and Regions Bank amended the 2012 Term Loan agreement (the "Amended 2012 Term Loan") effective December 31, 2012 to temporarily revise the required provisions of the financial covenants and interest rates.

In March 2014, we further amended our 2012 Term Loan agreement with Regions Bank (the "2014 Amendment to the 2012 Term Loan"). The 2014 Amendment to the 2012 Term Loan redefines the term EBITDA, which is used in certain covenants, to mean consolidated net income excluding interest expense, income taxes, depreciation and amortization and deferred compensation. The 2014 Amendment to the 2012 Term Loan requires the Company maintain a Fixed Charge Coverage Ratio of at least 1.00:1:00 and a minimum liquidity level of no less than 60 days of cash on hand (cash on hand now being defined as cash and cash equivalents net of deferred compensation liabilities).

The 2014 Amendment to the 2012 Term Loan returns the Company to the original lower interest rates, with the 2012 Term Loan accruing interest at a rate of LIBOR plus 325 bps while the Debt Service Coverage Ratio is greater than 1:10 and less than 1:35. To the extent that the Debt Service Coverage Ratio is greater than 1:35, the 2014 Amendment to the 2012 Term Loan will accrue interest at a rate of LIBOR plus 275 bps. Subsequent to June 28, 2018, the interest rate will be calculated pursuant to the foregoing, plus an additional 325 bps.

In conjunction with the 2014 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.

In July 2014, Regions Bank further amended the definition of minimum liquidity under the 2014 Amendment to the 2012 Term Loan to no longer require that cash and cash equivalents be netted with deferred compensation liabilities. As of September 30, 2014, the Company was in compliance with its financial debt covenants.

At September 30, 2014, 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
2014	$ 3,080	$ 26
2015	4,475	105
2016	4,835	104
2017	4,945	79
2018	5,070	45
Thereafter	109,545	—
Subtotal	$ 131,950	$ 359
Less: amount representing interest	—	(47)
Total	$ 131,950	$ 312

At September 30, 2014, the carrying value of the non-current portion of long-term debt was $128.7 million, with an estimated fair value of $144.0 million. At December 31, 2013, the carrying value of the non-current portion of long-term debt was $128.7 million, with an estimated fair value of $138.6 million. The fair value of our debt was estimated based on interest rates considered available for instruments of similar terms and remaining maturities.

9. 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.

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 2 above, as a result of the additional revenues expected to be provided by Rate Decision No. 74364, as well as other factors, the Company reevaluated 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 nine months ended September 30, 2014, the Company reversed substantially all of the deferred tax valuation allowance of $35.8 million recorded as of December 31, 2013. As of September 30, 2014, the valuation allowance totaled $85,000, 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 September 30, 2014 and December 31, 2013 (in thousands of US$):

	September 30, 2014	December 31, 2013
DEFERRED TAX ASSETS:		
Taxable meter deposits	$ 705	$ 708
Net operating loss carry forwards	4,152	6,147
Balterra intangible asset acquisition	336	345
Deferred gain on Sale of GWM	842	878
Contributions in aid of construction	—	24,187
Deferred gain on ICFA funds received	7,252	-
Regulatory liability related to intangible assets	2,926	3,011
Equity investment loss	440	271
Property, plant and equipment	1,460	767
Other	1,019	617
Total deferred tax assets	19,132	36,931
DEFERRED TAX LIABILITIES:		
CP Water intangible asset acquisition	(571)	(589)
ICFA intangible asset	(2,597)	(1,123)
Total deferred tax liabilities	(3,168)	(1,712)
Valuation allowance	(85)	(35,808)
Net deferred tax asset (liability)	$ 15,879	$ (589)

As of September 30, 2014, we have approximately $10.9 million in federal net operating loss ("NOL") carry forwards and $11.8 million in state NOLs available to offset future taxable income, with the NOLs expiring in 2029-2033 for the federal return and expiring in 2014-2033 for the state return (effective for the 2012 tax year and thereafter, state NOLs for the state of Arizona expire after 20 years).

10. 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 September 30, 2014 and December 31, 2013, there were options to acquire 431 shares of common stock of GWRI outstanding. The options were all vested and exercisable at December 31, 2013. The stock options have a remaining contractual life of approximately 3.75 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 account 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 became fully vested on December 31, 2013.

Due to attrition and the sale of GWM, certain former employees of the Company forfeited their stock options. The number of stock options forfeited totaled 107,186, resulting in stock options of 278,511 outstanding at September 30, 2014 and December 31, 2013.

Stock-based compensation expense recorded during the three and nine months ended September 30, 2013 totaled $38,000 and $15,000, respectively. No stock-based compensation expense was recorded during 2014.

Phantom stock compensation – On December 30, 2010, we adopted a phantom stock unit plan (the ''PSU 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. PSUs are 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 is recorded as expense in the Company's financial statements over the related vesting period. The December 30, 2010 PSUs vest at the end of four years from the date of their issuance. Accordingly, the value of the PSU will be paid to the holder on the fourth anniversary of the award grant date. There is no exercise price attached to PSU awards. As of September 30, 2014, 303,333 of these PSUs remain outstanding.

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 vest ratably over 12 consecutive quarters beginning January 1, 2012 and are accounted for as liability compensatory awards similar to the PSUs issued in December 2010. These PSUs will be remeasured each period and a liability will be recorded equal to GWRC's closing share price on the period end date multiplied by the number of units vested. As of September 30, 2014, 17,726 of these PSUs remain outstanding.

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 will be remeasured each period and a liability will be recorded equal to GWRC's closing share price on the period end date multiplied by the number of units vested. As of September 30, 2014, 34,480 of these PSUs remain outstanding.

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 September 30, 2014, 7,313 of these PSUs remain outstanding.

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 (the ''SAR 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 has 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 is in excess of C$4.00 per share. In total, 152,091 SARs were issued to employees below the senior management level, and 31,059 remained outstanding as of September 30, 2014. The SARs vested in equal installments over the four quarters of 2012 and will expire four years after the date of issuance. Holders of SARs may exercise their awards once they have vested. Individuals who voluntarily or involuntarily leave the Company forfeit their rights under the awards.

SARs are accounted for as liability compensatory awards under ASC 710, Compensation – General, rather than as equity awards. The 2012 SAR awards will be 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 exceeds C$4.00 per share, a liability will be 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 (the "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.

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 (the "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.

The Company recorded approximately $208,000 and $374,000 of compensation expense related to the PSUs and SARs for the three months ended September 30, 2014 and September 30, 2013, respectively, and approximately $1.0 million and $366,000 for the nine months ended September 30, 2014 and September 30, 2013, respectively. Based on GWRC's closing share price on September 30, 2014 deferred compensation expense to be recognized over future periods is estimated for the years ending December 31 as follows (in thousands of US$):

	PSU	SARs
2014	$ 217	$ 26
2015	118	106
2016	13	107
2017	—	63
Total	$ 348	$ 302

11. SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the three and nine months ended September 30, 2014 and 2013 (in thousands of US$):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Cash paid for interest	$ 7	$ 2	$ 4,135	$ 4,061
Capital expenditures included in accounts payable and accrued liabilities	70	329	70	329
Convertible note received in the sale of GWM	—	—	—	750
Series A Preferred Units in FATHOM Partnership received in the sale of GWM	—	—	—	750

12. 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 lease agreements, and GWRI agreed to reimburse GWM up to approximately $25,000 per month through December 31, 2013 for the Company's use of the office space. This rate and office space was renegotiated in January 2014. For the 2014 year, the Company leases office space from GWM for approximately $5,000 per month. Rent expense arising from the operating leases totaled approximately $17,000 and $82,000 for the three months ended September 30, 2014 and 2013, respectively, and $53,000 and $341,000 for the nine months ended September 30, 2014 and 2013, respectively.

See also Note 7 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 $3,700,000 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 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 $2.1 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. With respect to the $719,000 of interest received from NWP, the Company has recorded the amount within *other income (expense)* in our statements of operations for the year ended December 31, 2012.

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 nine months ended September 30, 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 December 31, 2013, 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 has 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.

13. 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, GWRI'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. GWRI uses its capital resources to (i) fund operating costs, (ii) fund capital requirements, including construction expenditures, (iii) make debt and interest payments, and (iv) invest in new and existing ventures. GWRI's utility subsidiaries operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as recovery through rate increases is subject to regulatory lag. As a result

of these factors, GWRI's working capital, defined as current assets less current liabilities, as of September 30, 2014, is in a net deficit position.

As of September 30, 2014, GWRI had significant notable near-term cash expenditure obligations. Most significantly, the Company has approximately $7.0 million of debt interest and principal payments due December 2014. While specific facts and circumstances could change, we believe that, together with cash on hand, we 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 for at least the next twelve months. However, based on our current forecasts, we do anticipate that receipt of the remaining $1.3 million proceeds from the Sale of 303 Contracts (see Note 1) will be necessary to be in compliance with our financial covenants for the three months ended March 31, 2015. See Note 14—Subsequent Events for further discussion surrounding the refinancing of the facilities included within Note 8—Debt—2012 Financings.

In March 2014, the Company initiated a dividend program wherein we have declared and paid a monthly dividend of approximately $379,000 (or approximately $0.021 per share) per month since the inception of the program. The Company expects that 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.

14. SUBSEQUENT EVENTS

On November 11, 2014 we refinanced $21.8 million of our outstanding debt through a new consolidated facility with MidFirst Bank. The new facility replaces the Series 2012A and Series 2012B bonds, as well as the term loan, all of which were held by Regions Bank. The facility has a term of 10 years with amortization calculated over 20 years. Principal amounts outstanding under the facility bear interest at LIBOR plus 3.00%. Under the terms of the new agreement, the financial debt covenants explained in "Note 8-2012 Financings" are no longer applicable.

Subsequent events have been evaluated up to and including November 12, 2014, which is the date these financial statements were approved by GWRI's board of directors.

* * * * * *

Global Water Resources, Inc.
21410 N 19th Avenue, Suite 201
Phoenix, AZ 85027 USA

gwresources.com