August 13, 2015

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 six months ended June 30, 2015. Because GWRC's investment in 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 six months ended June 30, 2015 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.

Best Regards,



Mike Liebman
Chief Financial Officer and Corporate Secretary

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GWR GLOBAL WATER RESOURCES CORP.

UNAUDITED FINANCIAL STATEMENTS AS OF AND FOR
THE THREE AND SIX MONTHS ENDED
JUNE 30, 2015

GWR GLOBAL WATER RESOURCES CORP.
UNAUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

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GWR GLOBAL WATER RESOURCES CORP.
BALANCE SHEETS
As of June 30, 2015 and December 31, 2014
(Unaudited)

	June 30, 2015	December 31, 2014
	(in thousands of US$, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 450	$ 189
Other current assets	51	18
Total current assets	501	207
Equity method investment	57,921	59,794
TOTAL ASSETS	$ 58,422	$ 60,001
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Dividends payable, accounts payable and accrued expenses	$ 196	$ 212
Due to related party	268	—
Other noncurrent liabilities	229	155
Deferred tax liability	1,635	1,666
Total liabilities	2,328	2,033
COMMITMENTS AND CONTINGENCIES (see Note 9)		
SHAREHOLDERS' EQUITY:		
Common stock, unlimited shares authorized, 8,737,412 shares issued and outstanding at June 30, 2015 and December 31, 2014	55,712	55,807
Retained earnings	382	2,161
Total shareholders' equity	56,094	57,968
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 58,422	$ 60,001

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2015 and 2014
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands of US$, except share and per share data)			
GAIN (LOSS) FROM EQUITY INVESTMENT	$ 194	$ (235)	$ (246)	$ 31,641
OPERATING EXPENSES	262	262	496	408
OPERATING INCOME (LOSS)	(68)	(497)	(742)	31,233
INCOME (LOSS) BEFORE INCOME TAXES	(68)	(497)	(742)	31,233
INCOME TAX BENEFIT (EXPENSE)	(81)	311	32	(1,526)
NET INCOME (LOSS)	$ (149)	$ (186)	$ (710)	$ 29,707
WEIGHTED AVERAGE SHARES:				
Basic	8,744,912	8,754,612	8,749,682	8,754,612
Diluted	8,744,912	8,754,612	8,749,682	8,762,348
EARNINGS (LOSS) PER SHARE:				
Basic	$ (0.02)	$ (0.02)	$ (0.08)	$ 3.39
Diluted	$ (0.02)	$ (0.02)	$ (0.08)	$ 3.39

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2015 and 2014
(Unaudited)

	Shares	Common Stock	Retained Earnings (Accumulated Deficit)	Total Equity
		(in thousands of US$, except share amounts)		
BALANCE – December 31, 2013	8,754,612	$ 55,815	$ (24,935)	$ 30,880
Declared dividends paid or payable	—	—	(717)	(717)
Net income	—	—	29,707	29,707
BALANCE – June 30, 2014	8,754,612	55,815	4,055	59,870
BALANCE – December 31, 2014	8,754,612	$ 55,807	$ 2,161	$ 57,968
Declared dividends paid or payable	—	—	(1,069)	(1,069)
Share repurchase	(17,200)	(95)	—	(95)
Net loss	—	—	(710)	(710)
BALANCE – June 30, 2015	8,737,412	$ 55,712	$ 382	$ 56,094

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF CASH FLOWS
For the Three and Six Months Ended June 30, 2015 and 2014
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands of US$)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ (149)	$ (186)	$ (710)	$ 29,707
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
(Gain) loss from equity investment	(194)	235	246	(31,641)
Deferred income tax expense (benefit)	81	(311)	(32)	1,526
Deemed distribution from related party	326	182	502	182
Cash distributions received from related party	580	535	1,132	535
Other changes in assets and liabilities	16	80	83	100
Net cash provided by (used in) operating activities	660	535	1,221	409
CASH FLOWS FROM INVESTING ACTIVITIES:				
Repayment of related party cash advance	(642)	—	(840)	—
Cash advance from related party	—	—	1,107	—
Deemed distribution from related party	—	—	—	126
Net cash provided by investing activities	(642)	—	267	126
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid	(580)	(535)	(1,132)	(535)
Share repurchase	(95)	—	(95)	—
Net cash used in financing activities	(675)	(535)	(1,227)	(535)
INCREASE IN CASH AND CASH EQUIVALENTS	(657)	—	261	—
CASH AND CASH EQUIVALENTS – Beginning of period	1,107	—	189	—
CASH AND CASH EQUIVALENTS – End of period	$ 450	$ —	$ 450	$ —
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 June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 are unaudited. The December 31, 2014 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, 2014. 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 six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year.

Overview – 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 ("GWM") (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.

GWRI historically operated an unregulated business through its subsidiary GWM, whose services were marketed by GWRI as FATHOM Utility-to-Utility 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 GWM to a third party investor group. As of June 30, 2015, GWRI owned approximately 8.0% of GWM's outstanding shares, which is recorded 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% upon completion of the Offering and the over-allotment (see Note 3 and Note 6).

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

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 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 upon completion of the Offering and the over-allotment (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. However, as a result of the sale of the FATHOM business, we determined that it was appropriate to fully amortize the intangible asset as GWRI no longer owned the FATHOM contracts.

The Company's gain on equity investment totaled approximately $194,000 for the three months ended June 30, 2015 compared to a loss of $235,000 for the three months ended June 30, 2014. The Company's loss on equity investment totaled $246,000 for the six months ended June 30, 2015 compared to a gain of $31.6 million for the six months ended June 30, 2014. The Company's $31.6 million gain recorded in 2014 was driven by (i) a nonrecurring gain recognized by GWRI upon receipt of a regulatory order from GWRI's economic regulator, and (ii) by GWRI's release of its deferred income tax asset valuation allowance during the 2014 period.

The following contains summarized financial data of GWRI's financial position as of June 30, 2015 and December 31, 2014 (in thousands of US$):

		June 30, 2015		**December 31, 2014**
ASSETS:				
Net property, plant and equipment	$	194,098	$	240,424
Current assets		65,815		12,293
Other assets		41,875		54,884
TOTAL ASSETS	$	301,788	$	307,601
LIABILITIES:				
Current liabilities	$	52,432	$	13,630
Noncurrent liabilities		225,044		266,291
TOTAL LIABILITIES		277,476		279,921
SHAREHOLDERS' EQUITY		24,312		27,680
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	301,788	$	307,601

The following contains summarized financial data of GWRI's results of operations for the three and six months ended June 30, 2015 and 2014 (U.S. GAAP in thousands of US$):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	$ 9,082	$ 8,855	$ 16,704	$ 15,851
Operating expenses	6,802	7,402	13,649	(36,046)
Operating income	2,280	1,453	3,055	51,897
Total other expense, net	(1,685)	(2,277)	(3,903)	(2,561)
Income (loss) before income taxes	595	(824)	(848)	49,336
Income tax benefit (expense)	(192)	335	336	16,460
Net income (loss)	$ 403	$ (489)	$ (512)	$ 65,796

The Company evaluates its investment in GWRI for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. In February 2014, GWRI completed the regulatory rate case which was initiated by GWRI's utility companies in 2011. The regulatory rate case provides, among other things, additional revenues to GWRI which will be phased-in over time. As of June 30, 2014, GWRI evaluated the impact of the rate case decision, including whether sufficient evidence exists that GWRI's net deferred tax assets would be utilized in the future, thus allowing the reversal of the valuation allowance that had been 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 six months ended June 30, 2014. As a result of GWRC's 48.1% interest in GWRI, GWRC recorded $32.1 million of equity method earnings for the six months ended June 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 concluded that an impairment of the investment did not exist as of December 31, 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. No such analysis has been performed for the six months ended June 30, 2015 as there has been no indication of an other-than-temporary decline in the value of our investment in GWRI.

4. RELATED PARTY TRANSACTIONS

Except for the Chief Executive Officer and Chief Financial Officer of the Company (who receive no compensation from the Company in connection with their roles), we have no employees and the management and general administration services of our business and affairs are provided by GWRI pursuant to a management agreement. Significant terms of, and the services provided by GWRI under, the management agreement are summarized in the notes to our 2014 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 totaled $326,000 and $182,000 for the three months ended June 30, 2015 and 2014, and totaled $502,000 and $308,000 for the six months ended June 30, 2015 and 2014, respectively. The Company accounts for the amounts paid by GWRI on its behalf as distributions from GWRI. As such, the amounts paid by GWRI reduce the carrying value of the Company's equity method investment.

In March 2015, GWRI provided a cash advance of $1.1 million to satisfy the Company's short term cash obligations. The amount advanced is being utilized to fund the Company's monthly dividend and other cash requirements, as needed. The residual balance of the cash advance is presented on the Company's June 30, 2015 balance sheet as due to related party. The related party balance is reduced upon dividend declaration, when the amount declared is presented as a dividend payable. As of June 30, 2015, the due to related party balance was $268,000.

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.

Due to attrition and the sale of FATHOM, certain former employees of GWRI forfeited their stock options. The number of stock options forfeited totaled 116,470, resulting in stock options of 269,227 outstanding at June 30, 2015 and December 31, 2014.

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. As of June 30, 2015, the carrying value of the equity investment exceeded the tax basis in the investment by approximately $6.2 million and a deferred tax liability was recorded in the amount of $1.6 million based on a combined statutory tax rate of 26.5%. At December 31, 2014, the carrying value of the equity investment exceeded the tax basis in the investment by approximately $6.4 million and a deferred tax liability was recorded in the amount of $1.7 million based on a combined statutory tax rate of 26.0%. The decrease in deferred tax liability was recorded as a reduction to income tax expense.

6. SHAREHOLDERS' EQUITY

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

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

As discussed in Note 1, on December 30, 2010, the Company completed its Offering of 8,185,000 common shares at C$7.50 per share for gross proceeds totaling C$61,387,500, or approximately US$61,189,000. The costs incurred in connection with the Offering have been netted against equity in our balance sheet as of December 31, 2010. Net proceeds

from the Offering, after taking into consideration underwriters' commissions of approximately $3,671,000 and legal, professional and other Offering costs of approximately $5,859,000, totaled approximately $51,659,000.

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

Normal Course Issuer Bid — On May 11, 2015, GWRC received approval from the Toronto Stock Exchange ("TSX") to repurchase, for cancellation, common shares of the Company pursuant to a normal course issuer bid ("NCIB"). The NCIB enables GWRC to repurchase up to 87,500 common shares, representing approximately 1% of the Company's 8,754,612 issued and outstanding common shares as of May 5, 2015. The NCIB commenced on May 13, 2015 and will terminate on May 12, 2016. Except as permitted under TSX rules, daily purchases will be limited to a maximum of 3,239 common shares other than block purchase exemptions, which represents 25% of the average daily trading volume on the TSX for the six months ended April 30, 2015. All purchases under the NCIB will be made on the open market through the facilities of the TSX by a participating organization. The actual number of shares to be purchased and the timing of such purchases will be determined by GWRC considering market conditions, stock prices, its cash position and other factors. For the six months ended June 30, 2015, GWRC repurchased 17,200 shares of stock for a total of $95,000, which reduced the GWRC's ownership interest in GWRI from 48.1% to 48.0%.

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss) available to GWRC common shareholders - basic	$ (149)	$ (186)	$ (710)	$ 29,707
Net income (loss) available to GWRC common shareholders - diluted	$ (149)	$ (186)	$ (710)	$ 29,707
Weighted-average shares outstanding - basic	8,744,912	8,754,612	8,749,682	8,754,612
Effect of dilutive securities:				
Incremental shares from stock options	—	—	—	7,736
Weighted-average shares outstanding - diluted	8,744,912	8,754,612	8,749,682	8,762,348
Earnings (loss) per common share - basic	$ (0.02)	$ (0.02)	$ (0.08)	$ 3.39
Earnings (loss) per common share - diluted	$ (0.02)	$ (0.02)	$ (0.08)	$ 3.39

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock options	269,227	278,511	269,227	209,561

8. CAPITAL MANAGEMENT AND LIQUIDITY MATTERS

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

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

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

9. COMMITMENTS AND CONTINGENCIES

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

Contingencies – From time to time, we may become involved in proceedings arising in the ordinary course of business of which the ultimate resolution of such matters could materially affect our financial position, results of operations, or cash flows. Since inception, the Company has not identified any contingencies which we believe could materially affect our financial statements.

10. SUBSEQUENT EVENTS

On July 28, 2015 the Company announced a special cash dividend of C$1.55 per share. This dividend was paid out on August 12, 2015 to shareholders of record as of the close of business on August 7, 2015.

On July 31, 2015 the Company announced an increase to the monthly dividend on the common shares of the Company to an amount of C$0.0283 per share. The annualized dividend amount of C$0.3396 per share is an approximate 9% increase over previous declarations.

During July 2015, GWRC continued to repurchase, for cancellation, common shares of the Company pursuant to the NCIB approved in May 2015. During the month of July, GWRC repurchased an additional 13,200 shares on the open market, for a total of approximately $80,000.

Subsequent to the quarter ending June 30, 2015, two individuals exercised a total of 59,636 options, with an exercise price of C$4.00, which resulted in the issuance of 59,636 common shares of the Company.

Subsequent events have been evaluated up to and including August 13, 2015, the date of this report.

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GLOBAL WATER RESOURCES, INC.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2015

GLOBAL WATER RESOURCES, INC.
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

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GLOBAL WATER RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
As of June 30, 2015 and December 31, 2014
(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS	(in thousands of US$, except share data)	
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	$ 254,790	$ 318,995
Less accumulated depreciation	(60,692)	(78,571)
Net property, plant and equipment	194,098	240,424
CURRENT ASSETS:		
Cash and cash equivalents	3,564	6,577
Accounts receivable – net	1,416	1,365
Due from related party	598	457
Accrued revenue	1,830	1,762
Prepaid expenses and other current assets	615	541
Deferred tax assets - current	1,675	1,591
Assets held for sale	56,117	—
Total current assets	65,815	12,293
OTHER ASSETS:		
Goodwill	—	13,082
Intangible assets – net	12,772	12,772
Regulatory assets	333	400
Deposits	19	25
Bond service fund and other restricted cash	10,043	9,927
Debt issuance costs - net	2,601	2,722
Equity method investment	1,050	1,150
Deferred tax assets	15,057	14,806
Total other assets	41,875	54,884
TOTAL	$ 301,788	$ 307,601
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 982	$ 1,531
Accrued expenses	5,032	6,832
Deferred revenue – current portion	9	13
Customer and meter deposits	1,855	2,601
Long-term debt – current portion	2,683	2,653
Liabilities held for sale	41,871	—
Total current liabilities	52,432	13,630
NONCURRENT LIABILITIES:		
Long-term debt	127,104	127,491
Deferred regulatory gain	19,730	19,730
Regulatory liability	7,859	7,859
Advances in aid of construction	60,940	89,206
Contributions in aid of construction – net	4,520	17,096
Acquisition liability	4,688	4,688
Other noncurrent liabilities	203	221
Total noncurrent liabilities	225,044	266,291
Total liabilities	277,476	279,921
Commitments and contingencies (see Note 12)		
EQUITY (DEFICIT):		
Common stock, $0.01 par value, 1,000,000 shares authorized, 181,878 and 182,050 shares issued and outstanding at June 30, 2015 and December 31, 2014	2	2
Paid in capital	47,783	50,639
Accumulated deficit	(23,473)	(22,961)
Total equity	24,312	27,680
TOTAL	$ 301,788	$ 307,601

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2015 and 2014
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands of US$)			
REVENUES:				
Water services	$ 5,114	$ 5,127	$ 9,007	$ 8,744
Wastewater and recycled water services	3,793	3,612	7,395	6,977
Unregulated revenues	175	116	302	130
Total revenues	9,082	8,855	16,704	15,851
OPERATING EXPENSES:				
Operations and maintenance	2,675	2,695	5,146	5,178
General and administrative	1,807	2,280	3,871	4,769
Gain on regulatory order	—	—	—	(50,664)
Depreciation	2,320	2,427	4,632	4,671
Total operating expenses	6,802	7,402	13,649	(36,046)
OPERATING INCOME	2,280	1,453	3,055	51,897
OTHER INCOME (EXPENSE):				
Interest income	2	22	4	41
Interest expense	(2,050)	(2,152)	(4,129)	(4,376)
Other	363	(147)	222	1,774
Total other income (expense)	(1,685)	(2,277)	(3,903)	(2,561)
INCOME (LOSS) BEFORE INCOME TAXES	595	(824)	(848)	49,336
INCOME TAX BENEFIT (EXPENSE)	(192)	335	336	16,460
NET INCOME (LOSS)	$ 403	$ (489)	$ (512)	$ 65,796

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
For the Six Months Ended June 30, 2015 and 2014
(Unaudited)

	Common Stock	Paid-in Capital	Accumulated Deficit	Total Equity (Deficit)
		(in thousands of US$)		
BALANCE – December 31, 2013	$ 2	$ 55,048	$ (87,892)	$ (32,842)
Stock-based compensation	—	(1,556)	—	(1,556)
Deemed distribution to related party	—	(308)	—	(308)
Net income	—	—	65,796	65,796
BALANCE – June 30, 2014	$ 2	$ 53,184	$ (22,096)	$ 31,090
BALANCE – December 31, 2014	$ 2	$ 50,639	$ (22,961)	$ 27,680
Dividend declared	—	(2,344)	—	(2,344)
Deemed distribution to related party	—	(416)	—	(416)
Share repurchase	—	(96)	—	(96)
Net loss	—	—	(512)	(512)
BALANCE – June 30, 2015	$ 2	$ 47,783	$ (23,473)	$ 24,312

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three and Six Months Ended June 30, 2015 and 2014
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands of US$)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 403	$ (489)	$ (512)	$ 65,796
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Deferred compensation	256	564	443	864
Depreciation	2,320	2,427	4,632	4,671
Amortization of deferred debt issuance costs and discounts	56	89	112	176
Loss on disposal of fixed assets	—	3	—	3
Gain on sale of 303 contracts	(296)	—	(296)	—
Loss on equity method investment	56	232	100	406
Gain on regulatory order	—	—	—	(50,664)
Other gains and losses	—	—	176	—
Provision for doubtful accounts receivable	12	28	28	43
Deferred income tax expense (benefit)	192	(335)	(336)	(16,460)
Changes in assets and liabilities:				
Accounts receivable	(451)	(326)	(290)	(254)
Other current assets	(625)	(528)	(957)	(302)
Accounts payable and other current liabilities	(1,960)	(2,845)	(2,423)	(260)
Other noncurrent assets	35	22	85	31
Other noncurrent liabilities	—	51	—	2,853
Net cash provided by (used in) operating activities	(2)	(1,107)	762	6,903
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(590)	(560)	(1,009)	(666)
(Deposits) withdrawals of restricted cash	(76)	—	(80)	197
Cash received from the sale of Loop 303 Contracts	296	—	296	—
Cash advance to related party	—	—	(1,107)	—
Repayment of related party cash advance	651	—	833	—
Deposits received	1	1	7	2
Net cash used in investing activities	282	(559)	(1,060)	(467)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Loan repayments	(197)	(1)	(393)	(1,002)
Principal payments under capital leases	(26)	(20)	(48)	(65)
Advances in aid of construction	94	133	144	194
Dividends paid	(1,181)	(1,150)	(2,293)	(1,150)
Share repurchase	(96)	—	(96)	—
Refunds of advances for construction	(17)	—	(29)	—
Net cash used in financing activities	(1,423)	(1,038)	(2,715)	(2,023)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,143)	(2,704)	(3,013)	4,413
CASH AND CASH EQUIVALENTS – Beginning of period	4,707	9,077	6,577	1,960
CASH AND CASH EQUIVALENTS – End of period	$ 3,564	$ 6,373	$ 3,564	$ 6,373

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 June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 are unaudited. The December 31, 2014 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, 2014. 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 six months ended June 30, 2015 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 six months ended June 30, 2015 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.

Corporate Transactions

Sale of certain MXA and WMA contracts — In September 2013, the Company sold its Wastewater Facilities Main Extension Agreements ("MXA") and Offsite Water Management Agreements ("WMA") along with their related rights and obligations to a third party (collectively "Loop 303 Contracts"). Pursuant to the Transfer of Project Agreement, GWRI will receive total proceeds of approximately $4.1 million over a multi-year period. As part of the consideration, GWRI agreed to complete certain engineering work required in the WMAs, which work had been completed as of December 31, 2013. Since this engineering work has been completed, the Company has no further obligations under the WMAs or the MXAs. Through August 13, 2015, the Company has received $3.1 million of the total proceeds and has recognized income of approximately $3.6 million within other income (expense) in the statement of operations. Receipt of the remaining $1.0 million of proceeds will occur and be recorded as additional income over time as certain milestones are met between the third party acquirer and the developers/landowners.

Stipulated condemnation — On July 14, 2015, the Company closed the stipulated condemnation to transfer the assets of Valencia Water Company, Inc. ("Valencia") to the City of Buckeye ("Buckeye"). Terms of the asset transfer were agreed upon through a settlement agreement in March 2015, pursuant to which Buckeye acquired all the assets of Valencia and assumed operations of the utility upon close. Buckeye paid the Company $55.0 million at close, plus an additional $198,000 in working capital adjustments. Buckeye will also pay a growth premium equal to $3,000 for each new water meter installed within Valencia's prior service areas, for a 20-year period ending December 31, 2034, subject to a maximum payout of $45.0 million over the term of the agreement.

Pending sale of Willow Water Valley Co., Inc. — On March 23, 2015, the Company reached an agreement to sell the assets of Willow Water Valley Co., Inc. ("Willow Valley") to EPCOR Water Arizona Inc. ("EPCOR"). The terms of the agreement are that EPCOR will purchase all the assets and rights used by Willow Valley to operate the utility system for approximately $2.4 million, subject to current rate base calculations and certain post-closing adjustments. The transaction is subject to final approval from the Arizona Corporate Commission (the "Commission" or "ACC").

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

Additionally, as the carrying value of the assets and liabilities of Willow Valley were greater than the agreed upon sales price, a loss of $176,000 was recorded in other expense for the six months ended June 30, 2015 to adjust the carrying value of the asset group to the agreed upon fair value less cost to sell. The assets and liabilities included within the agreements are as follows:

	June 30, 2015		
	Willow Valley	**Valencia**	**Combined**
		(in thousands of US$)	
Property, plant and equipment	5,205	60,041	65,246
Less Accumulated Depreciation	(2,495)	(20,284)	(22,779)
Net property, plant and equipment	2,710	39,757	42,467
Accounts receivable	—	211	211
Accrued revenue	—	475	475
Prepaid expenses and other current assets	—	57	57
Goodwill	223	12,684	12,907
Total assets	2,933	53,184	56,117
Accounts payable	—	840	840
Accrued expenses	—	69	69
Customer and meter deposits	—	396	396
Advances in aid of construction	71	28,319	28,390
Contributions in aid of construction — net	441	11,735	12,176
Total liabilities	512	41,359	41,871

Normal Course Issuer Bid — On May 11, 2015, GWRC received approval from the Toronto Stock Exchange ("TSX") to repurchase, for cancellation, common shares of GWRC pursuant to a normal course issuer bid ("NCIB"). The NCIB enables GWRC to repurchase up to 87,500 common shares, representing approximately 1% of GWRC's 8,754,612 issued and outstanding common shares as of May 5, 2015. The NCIB commenced on May 13, 2015 and will terminate on May 12, 2016. Except as permitted under TSX rules, daily purchases will be limited to a maximum of 3,239 common shares other than block purchase exemptions, which represents 25% of the average daily trading volume on the TSX for the six months ended April 30, 2015. All purchases under the NCIB will be made on the open market through the facilities of the TSX by a participating organization. The actual number of shares to be purchased and the timing of such purchases will be determined by GWRC considering market conditions, stock prices, its cash position and other factors. For the six months ended June 30, 2015, GWRC repurchased 17,200 shares of stock for a total of $97,000, which reduced the GWRC's ownership interest in GWRI from 48.1% to 48.0%, and reduced GWRI's oustanding shares from 182,050 to 181,878. The Company repurchased 172 common shares held by GWRC in connection with GWRC's repurchases under its NCIB.

2. REGULATORY DECISION AND RELATED ACCOUNTING AND POLICY CHANGES

Our regulated utilities are subject to regulation by the Commission 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 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. The rulings of the decision include, but are not limited to, the following:

- For the Company's utilities, a collective revenue requirement increase of $4.3 million based on 2011 test year service connections, phased-in over time, with the first increase implemented in January 2015 as follows (in thousands of US$):

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

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

The 2010 Regulatory Rate Decision established new rates for the recovery of reasonable costs incurred by the utilities and a return on invested capital. In determining the new annual revenue requirement, the ACC imputed a reduction to rate base for all amounts related to ICFA funds collected by the Company that the ACC deemed to be CIAC for rate making purposes. As a result of the decision by the ACC, GWRI changed its accounting policy for the accounting of ICFA funds. Effective January 1, 2010, GWRI recorded ICFA funds received as CIAC. Thereafter, the ICFA-related CIAC was amortized as a reduction of depreciation expense over the estimated depreciable life of the utility plant at the related utilities. The balance of ICFA-related CIAC, net of accumulated amortization, totaled approximately $64.1 million as of December 31, 2013.

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. For ICFA funds to be received in the future, Rate Decision No. 74364 prescribes that 70% of ICFA funds to be received by the Company will be recorded in the associated utility subsidiary as a hook up fee ("HUF") liability, with the remaining 30% to be recorded as deferred revenue, to be accounted for in accordance with the Company's ICFA revenue recognition policy.

The Company 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. For facilities required under a HUF or ICFA, the utilities must first use the HUF moneys received, after which, it may use debt or equity financing for the remainder of construction. The Company will record the 30% as deferred revenue, which is to be recognized as revenue once the obligations specified within the ICFA are met.

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 June 30, 2015 and December 31, 2014, the balance of our deferred regulatory asset was $333,000 and $400,000, respectively, related to costs incurred in connection with our most recent rate case. This amount began to amortize in January 2015, and will be amortized over a three year life, which period is aligned with the phase-in of a majority 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.

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. As the Company now expects to experience an economic benefit from the 30% portion of future ICFA funds, 30% of the regulatory liability, or $3.4 million, was reversed during the first quarter of 2014. The remaining 70% of the regulatory liability, or $7.9 million, will continue to be recorded on the balance sheet. Subsequent to Rate Decision No. 74364, the ICFA-related intangibles will once again be amortized when ICFA funds are recognized as revenue.

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.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2015 and December 31, 2014 consist of the following (in thousands of US$):

	June 30, 2015	December 31, 2014	Average Depreciation Life (in years)
PROPERTY, PLANT AND EQUIPMENT:			
Mains/lines/sewers	$ 111,092	$ 138,116	47
Plant	64,468	79,983	25
Equipment	27,613	44,286	10
Meters	4,135	6,336	12
Furniture, fixture and leasehold improvements	373	430	8
Computer and office equipment	950	1,006	5
Software	178	163	3
Land and land rights	752	986	
Other	145	139	
Construction work-in-process	45,084	47,550	
Total property, plant and equipment	254,790	318,995	
Less accumulated depreciation	(60,692)	(78,571)	
Net property, plant and equipment	$ 194,098	$ 240,424	

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015 and December 31, 2014 consist of the following (in thousands of US$):

	June 30, 2015	December 31, 2014
Billed receivables	$ 1,579	$ 1,523
Less allowance for doubtful accounts	(163)	(158)
Accounts receivable – net	$ 1,416	$ 1,365

5. EQUITY METHOD INVESTMENT AND CONVERTIBLE NOTE

On June 5, 2013, the Company sold Global Water Management, LLC ("GWM") to an investor group led by a private equity firm that specializes in the water industry. GWR was a wholly-owned subsidiary of GWRI that owned and operated the FATHOM business. 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 a balance of $1.1 million as of June 30, 2015 and $1.2 million as of December 31, 2014.

The original investment in FATHOM consisted of an investment of $750,000 in the Series A preferred units and $98,000 of common units. Additionally, GWRI invested $750,000 in a 10% convertible promissory note of GWM with an original maturity of December 31, 2014. In May 2014, the maturity date of the note was extended to June 30, 2015. We accounted for this investment in accordance with relevant accounting guidance for debt and equity securities which requires the fair value measurement of the investment pursuant to ASC Topic 820, *Fair Value Measurement*. The fair value of the investment in the convertible notes at initial recognition was determined using the transaction price, of which the price paid by the Company was consistent with the price paid by third party investors for comparable convertible notes. On an ongoing basis the fair value of the convertible notes was determined using market data for comparable market instruments and transactions.

In November 2014, FATHOM experienced a qualified financing event (qualified financing was defined as an equity financing by FATHOM Partnership in which FATHOM Partnership sells its units for at least $1.75 per unit and the aggregate proceeds from such financing was at least $15 million, exclusive of convertible note amounts converted). At the time of the qualified financing, the convertible promissory note was converted into Series B preferred units, and accounted for under the equity method.

In conjunction with the qualified financing, our equity interest in the Series A and Series B preferred shares were adjusted in accordance with ASC 323, wherein we recorded a gain of $1.0 million in the fourth quarter of 2014. The adjustment to the carrying value of our investments was calculated using our proportionate share of FATHOM's adjusted net equity. The gain was recorded within other income and expense in our consolidated statement of operations.

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 was zero as of June 30, 2015, as $12.9 million of goodwill related Willow Valley and Valencia was reclassified as held for sale. The carrying value of goodwill was $13.1 million as of December 31, 2014.

Intangible assets at June 30, 2015 and December 31, 2014 consisted of the following (in thousands of US$):

	June 30, 2015			December 31, 2014		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
INDEFINITE LIVED INTANGIBLE ASSETS:						
CP Water CC&N service area	$ 1,532	$ —	$ 1,532	$ 1,532	$ —	$ 1,532
Intangible trademark	13	—	13	13	—	13
	1,545	—	1,545	1,545	—	1,545
AMORTIZED INTANGIBLE ASSETS:						
Acquired ICFAs	17,978	(12,154)	5,824	17,978	(12,154)	5,824
Sonoran contract rights	7,406	(2,003)	5,403	7,406	(2,003)	5,403
	25,384	(14,157)	11,227	25,384	(14,157)	11,227
Total intangible assets	$ 26,929	$ (14,157)	$ 12,772	$ 26,929	$ (14,157)	$ 12,772

Acquired ICFAs and Sonoran contract rights are amortized when cash is received in proportion to the amount of total cash expected to be received under the underlying agreements. Due to the uncertainty of the timing of when cash will be received under ICFA agreements, we cannot reliably estimate when the remaining intangible assets' amortization will be recorded.

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 $134,000 and $135,000 during the three months ended June 30, 2015 and 2014, respectively, and approximately $190,000 and $303,000 for the six months ended June 30, 2015 and 2014, respectively.

GWRC was organized in 2010 and currently holds an approximate 48.0% 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 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 six months ended June 30, 2015 and 2014 totaled $416,000 and $308,000, respectively. The Company accounts for such payments as equity distributions to GWRC.

In 2015, the Company provided cash advances of $1.1 million to satisfy GWRC's short term cash obligations. The amount advanced will be utilized to fund GWRC's monthly dividend and other cash requirements, as needed. The residual balance of the cash advance is presented on the Company's June 30, 2015 balance sheet in other current assets. The related party balance will be reduced upon dividend declaration, when the amount declared is presented as a reduction in equity. As of June 30, 2015, the balance of the advance was $264,000.

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, which is an annual rate of approximately $2.5 million. For the three months ended June 30, 2015 and 2014, the Company incurred FATHOM service fees of approximately $618,000 and $598,000, respectively. For the six months ended June 30, 2015 and 2014, the Company incurred FATHOM service fees of approximately $1.2 million and $1.2 million, respectively.

As part of the sale of GWM on June 5, 2013, the Company is entitled to quarterly royalty payments based on a percentage of certain of GWM's recurring revenues. These royalty payments will continue over a 10-year period subsequent to the sale of GWM, up to a maximum of $15.0 million. The Company made the election to record these quarterly royalty payments prospectively in income as the amounts are earned. Royalties recorded within other income totaled approximately $81,000 and $66,000 for the three months ended June 30, 2015 and 2014, respectively, and $160,000 and $128,000 for the six months ended June 30, 2015 and 2014, 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 June 30, 2015 and December 31, 2014 are as follows (in thousands of US$):

	June 30, 2015		December 31, 2014	
	Short-term	Long-term	Short-term	Long-term
BONDS PAYABLE –				
5.450% Series 2006, maturing December 1, 2017	$ 930	$ 2,025	$ 930	$ 2,025
5.600% Series 2006, maturing December 1, 2022	—	6,215	—	6,215
5.750% Series 2006, maturing December 1, 2032	—	23,370	—	23,370
6.550% Series 2007, maturing December 1, 2037 – net of unamortized discount of $348 and $359 at June 30, 2015 and December 31, 2014, respectively	660	50,867	660	50,856
6.375% Series 2008, maturing December 1, 2018	185	635	185	635
7.500% Series 2008, maturing December 1, 2038	—	23,235	—	23,235
	1,775	106,347	1,775	106,336
TERM LOAN –				
LIBOR plus 3.00% MidFirst Term Loan, maturing November 10, 2024	801	20,523	788	20,929
OTHER LOANS –				
Capital lease obligations	107	234	90	226
Total debt	$ 2,683	$ 127,104	$ 2,653	$ 127,491

Tax Exempt Bonds – We issued tax exempt bonds through The Industrial Development Authority of the County of Pima in the amount of $36,495,000 on December 28, 2006; $53,624,000, net of a discount of $511,000, on November 19, 2007; and $24,550,000 on October 1, 2008. The Series 2006, 2007 and 2008 bonds have interest payable semiannually on the first of June and December. Recurring 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.

MidFirst Term Loan – In November 2014, we secured a $21,800,000 term loan from MidFirst bank ("MidFirst Term Loan"). Principal and interest are paid monthly with payments calculated using a 20 year amortization schedule. The note had a maturity date in November 2024, but was retired early in July 2015 with proceeds received from the sale of Valencia (See Note 14). The MidFirst Term Loan accrued interest at a variable rate of LIBOR plus 300 basis points. The note was collateralized with a security interest from customer payments for the remaining utilities included within WMC.

The MidFirst Term Loan had financial covenants requiring the Company to maintain (a) a Fixed Charge Coverage Ratio of no less than 1.10:1.00 as of December 31, 2014, 1.20:1.00 as of December 31, 2015 and 1.20:1.00 measured on a rolling four quarter basis beginning with the quarter ended March 31, 2016; and (b) a debt service reserve fund in a controlled account in the amount of $1.0 million. The Fixed Charge Coverage Ratio is calculated as the ratio of the sum of consolidated net income plus interest expense, taxes, non-cash charges, real property rent expense, extraordinary losses, depreciation and amortization, less extraordinary and/or unusual non-recurring gains, non-cash gains and distributions, to the sum of cash paid for interest expense plus scheduled debt principal payments, real property rent expense and schedule capital lease payments.

As of June 30, 2015, the Company was in compliance with its financial debt covenants.

At June 30, 2015, the remaining aggregate annual maturities of our debt and minimum lease payments under capital lease obligations for the years ended December 31 are as follows (in thousands of US$):

	Debt	Capital Lease Obligations
2015	$ 2,173	$ 65
2016	2,699	127
2017	2,838	103
2018	2,990	68
2019	3,379	20
Thereafter	115,716	—
Subtotal	$ 129,795	$ 383
Less: amount representing interest	—	(43)
Total	$ 129,795	$ 340

At June 30, 2015, the carrying value of the non-current portion of long-term debt was $127.1 million, with an estimated fair value of $140.0 million. At December 31, 2014, the carrying value of the non-current portion of long-term debt was $127.5 million, with an estimated fair value of $143.1 million. The fair value of our debt was estimated based on interest rates considered available for instruments of similar terms and remaining maturities.

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 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 2014, the Company reversed substantially all of the deferred tax asset valuation allowance of $35.8 million recorded as of December 31, 2013. As of June 30, 2015 and December 31, 2014, the valuation allowance totaled $9,000, 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 June 30, 2015 and December 31, 2014 (in thousands of US$):

	June 30, 2015	December 31, 2014
DEFERRED TAX ASSETS:		
Taxable meter deposits	$ 733	$ 711
Net operating loss carry forwards	4,819	4,785
Balterra intangible asset acquisition	336	336
Deferred gain on Sale of GWM	888	921
Contributions in aid of construction	—	—
Deferred gain on ICFA funds received	7,364	7,364
Regulatory liability related to intangible assets	2,933	2,933
Equity investment loss	250	210
Property, plant and equipment	2,114	1,669
Other	396	761
Total deferred tax assets	19,833	19,690
DEFERRED TAX LIABILITIES:		
CP Water intangible asset acquisition	(572)	(572)
ICFA intangible asset	(2,520)	(2,712)
Total deferred tax liabilities	(3,092)	(3,284)
Valuation allowance	(9)	(9)
Net deferred tax asset (liability)	$ 16,732	$ 16,397

As of June 30, 2015, we have approximately $13.3 million in federal net operating loss ("NOL") carry forwards and $9.8 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 was determined using a Black-Scholes option-pricing model. We recognized compensation expense associated with the options over the vesting period.

At June 30, 2015 and December 31, 2014, there were options to acquire 431 shares of common stock of GWRI outstanding. The options were all vested and exercisable at December 31, 2014. The stock options have a remaining contractual life of approximately 3.00 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 total 116,470, resulting in total outstanding stock options of 269,227 as of June 30, 2015 and December 31, 2014.

No stock-based compensation expense was recorded during the three months and six months ended June 30, 2015 or June 30, 2014.

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

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

In January 2012, 135,079 additional PSUs were issued to nine members of management as a reward for performance in 2011. The PSUs issued to management vested ratably over 12 consecutive quarters beginning January 1, 2012 and were accounted for as liability compensatory awards similar to the PSUs issued in December 2010. These PSUs were remeasured each period and a liability was recorded equal to GWRC's closing share price on the period end date multiplied by the number of units vested. The remaining value of the PSUs, $38,000, was paid to the holders in January 2015.

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 are remeasured each period and a liability is recorded equal to GWRC's closing share price on the period end date multiplied by the number of units vested. As of June 30, 2015, 16,436 of these PSUs remain outstanding. For the six months ended June 30, 2015, $52,000, was paid to holders for vested PSUs.

During the first quarter of 2014, 8,775 PSUs were issued to three members of management as a reward for performance in 2013. These PSUs vest ratably over 12 consecutive quarters beginning January 1, 2014. As of June 30, 2015, 2,599 of these PSUs remain outstanding. For the six months ended June 30, 2015, $3,000, was paid to holders for vested PSUs.

During the first quarter of 2015, 28,828 PSUs were issued to two members of management as a reward for performance in 2014. These PSUs vest ratably over 12 consecutive quarters beginning January 1, 2015. As of June 30, 2015, 26,426 of these PSUs remain outstanding. For the six months ended June 30, 2015, $12,000, was paid to holders for vested PSUs.

Stock appreciation rights compensation – In January 2012, in an effort to reward employees for their performance in 2011 as well as to recognize performance since 2007, the last year the Company paid bonuses, we adopted a stock appreciation rights plan authorizing the directors of the Company to issue stock appreciation rights (''SARs'') to our employees. The value of the SARs issued under the plan track the performance of GWRC's shares. Each holder of the January 2012 award has the right to receive a cash payment amounting to the difference between C$4.00 per share exercise price and the closing price of GWRC's common shares on the exercise date, provided that the closing price is in excess of C$4.00 per share. In total, 152,091 SARs were issued to employees below the senior management level, and 16,505 remained outstanding as of June 30, 2015. The SARs vested in equal installments over the four quarters of 2012 and 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 are 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 16 quarters from the grant date and give the employee the right to receive a cash payment amounting to the difference between the C$2.00 per share exercise price and the closing price of GWRC's common shares on the exercise date, provided that the closing price is in excess of C$2.00 per share. The exercise price was determined by taking the weighted average share price of the five days prior to July 1, 2013.

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 16 quarters from the grant date and give the employee the right to receive a cash payment amounting to the difference between the C$3.38 per share exercise price and the closing price of GWRC's common shares on the exercise date, provided that the closing price is in excess of C$3.38 per share. The exercise price was determined by taking the weighted average share price of the 30 days prior to November 14, 2013.

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

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

The Company recorded approximately $217,000 and $531,000 of compensation expense related to the PSUs and SARs for the three months ended June 30, 2015 and June 30, 2014, and approximately $380,000 and $826,000 for the six months ended June 30, 2015 and June 30, 2014, respectively. Based on GWRC's closing share price on June 30, 2015 deferred compensation expense to be recognized over future periods is estimated for the years ending December 31 as follows (in thousands of US$):

	PSU	SARs
2015	$ 95	$ 161
2016	64	322
2017	55	252
2018	—	166
2019	—	32
Total	$ 214	$ 933

11. SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the three and six months ended June 30, 2015 and 2014 (in thousands of US$):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cash paid for interest	$ 3,702	$ 4,122	$ 3,883	$ 4,129
Capital expenditures included in accounts payable and accrued liabilities	348	135	348	135

12. COMMITMENTS AND CONTINGENCIES

Commitments – The Company leases certain office space from GWM for approximately $5,700 per month. Rent expense arising from the operating leases totaled approximately $17,000 for the three months ended June 30, 2015 and 2014 and $34,000 and $36,000 for the six months ended June 30, 2015 and 2014, respectively.

See also Note 7 regarding our commitment to provide services to GWRC.

Contingencies – From time to time, we may become involved in 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 of June 30, 2015, GWRI had significant notable near-term cash expenditure obligations. Most significantly, the Company has approximately $10.4 million of debt interest and principal payments due within the next twelve months. While specific facts and circumstances could change, we believe that, together with cash on hand combined with proceeds from the sale of Valencia in July 2015, 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.

In March 2014, the Company initiated a dividend program wherein we declare and pay a monthly dividend. The initial monthly dividend was C$0.0220 per share. In November 2014 the Company increased the monthly dividend to C$0.0240 per share. In March 2015, the Company increased the monthly dividend to C$0.0260 per share. In July 2015, the Company further increased the monthly dividend to C$0.0283 per share, which equates to a monthly dividend amount of approximately $437,000 based upon the number of shares outstanding and the prevailing foreign exchange rate as of June 30, 2015. The Company expects monthly dividends of similar amounts will be declared and paid for the foreseeable future. Declaration of any dividends is at the discretion of the Company's board of directors.

14. SUBSEQUENT EVENTS

On July 14, 2015, the Company closed the stipulated condemnation to transfer the assets of Valencia to the City of Buckeye. Terms of the asset transfer were agreed upon through a settlement agreement in March 2015, wherein Buckeye acquired all the assets of Valencia and assumed operations of the utility upon close. Buckeye paid the Company $55.0 million at close, subject to certain post-closing entries. Buckeye will also pay a growth premium equal to $3,000 for each new water meter installed within Valencia's prior service areas, for a 20-year period ending January 1, 2035, subject to a maximum payout of $45.0 million over the term of the agreement. A portion of the proceeds received from the condemnation were used to retire the MidFirst Term Loan.

On July 28, 2015, GWRC announced a special cash dividend of C$1.55 per share. This dividend was paid out on August 12, 2015 to shareholders of record as of the close of business on August 7, 2015.

On July 31, 2015, GWRC announced an increase to the monthly dividend on the common shares of the Company to an amount of C$0.0283 per share. The annualized dividend amount of C$0.3396 per share is an approximate 9% increase over previous declarations.

During July 2015, GWRC continued to repurchase, for cancellation, common shares of GWRC pursuant to the NCIB approved in May 2015. During the month of July, GWRC repurchased an additional 13,200 shares on the open market, for a total of approximately $80,000. The Company repurchased 132 common shares held by GWRC in connection with GWRC's repurchases under its NCIB.

Subsequent events have been evaluated up to and including August 13, 2015, the date of this report.

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