March 15, 2016

To Our Shareholders:

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

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

Warm regards,

Mike Liebman
Chief Financial Officer and Corporate Secretary

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

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

Basis of Presentation

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

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

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

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

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

Cautionary Statement Regarding Forward-Looking Statements

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

Executive Overview

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We evaluate our investment in GWRI for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. In February 2014, GWRI completed the regulatory rate case which was initiated by GWRI's utility companies in 2012. The regulatory rate case provides, among other things, additional revenues to GWRI which will be phased-in over time. As of December 31, 2014, GWRI evaluated the impact of the rate case decision, including whether sufficient evidence existed that GWRI's net deferred tax assets would be utilized in the future, thus allowing the reversal of the valuation allowance currently recorded at GWRI. With the exception of the phase-in of new rates to be charged to GWRI's utility customers, the impact of the rate decision was effective for GWRI in the first quarter of 2014. The impact of the rate decision, combined with the effect of reversing the valuation allowance, resulted in approximately $66.8 million of additional income in GWRI's financial statements for the year ended December 31, 2014. As a result of GWRC's then 48.1% interest in GWRI, GWRC recorded a total of $31.2 million of equity method earnings for the year ended December 31, 2014, which had the effect of significantly increasing the carrying value of GWRC's investment in GWRI. The Company performed an analysis comparing the carrying value of GWRC's investment in GWRI with its estimated fair value, and we concluded that an impairment of the investment did not exist as of December 31, 2014.

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

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

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

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

Outstanding Share Data

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

Liquidity and Capital Resources

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

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

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

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

Insurance Coverage

As we do not carry on any active business operation, the Company does not carry insurance coverage other than a $15,000,000 Directors' and Officers' Liability insurance policy. GWRI carries financial insurance policies with limits, deductibles and exclusions consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims.

Contractual Obligations and Commitments

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

Quantitative and Qualitative Disclosure about Market Risk

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

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

Related Party Transactions

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

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

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

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

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

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

Off Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

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

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Evaluation of Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control Over Financial Reporting

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

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

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

Changes in Internal Control over Financial Reporting

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

Other Required Disclosures

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

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

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

Basis of Presentation

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Cautionary Statement Regarding Forward-Looking Statements

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

Overview

We are a leading water resource management company that owns, operates and manages water, wastewater and recycled water utilities in strategically located communities, principally in metropolitan Phoenix, Arizona. We seek to deploy our integrated approach, which we refer to as "Total Water Management," a term we use to mean managing the entire water cycle by owning and operating the water, wastewater and recycled water utilities within the same geographic areas in order to both conserve water and maximize its total economic and social value. We use Total Water Management to promote sustainable communities in areas where we expect growth to outpace the existing potable water supply. Our model focuses on the broad issues of water supply and scarcity and applies principles of water conservation through water reclamation and reuse. Our basic premise is that the world's water supply is limited and yet can be stretched significantly through effective planning, the use of recycled water and by providing individuals and communities resources that promote wise water usage practices.

Business Outlook

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

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

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

Factors Affecting our Results of Operations

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

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

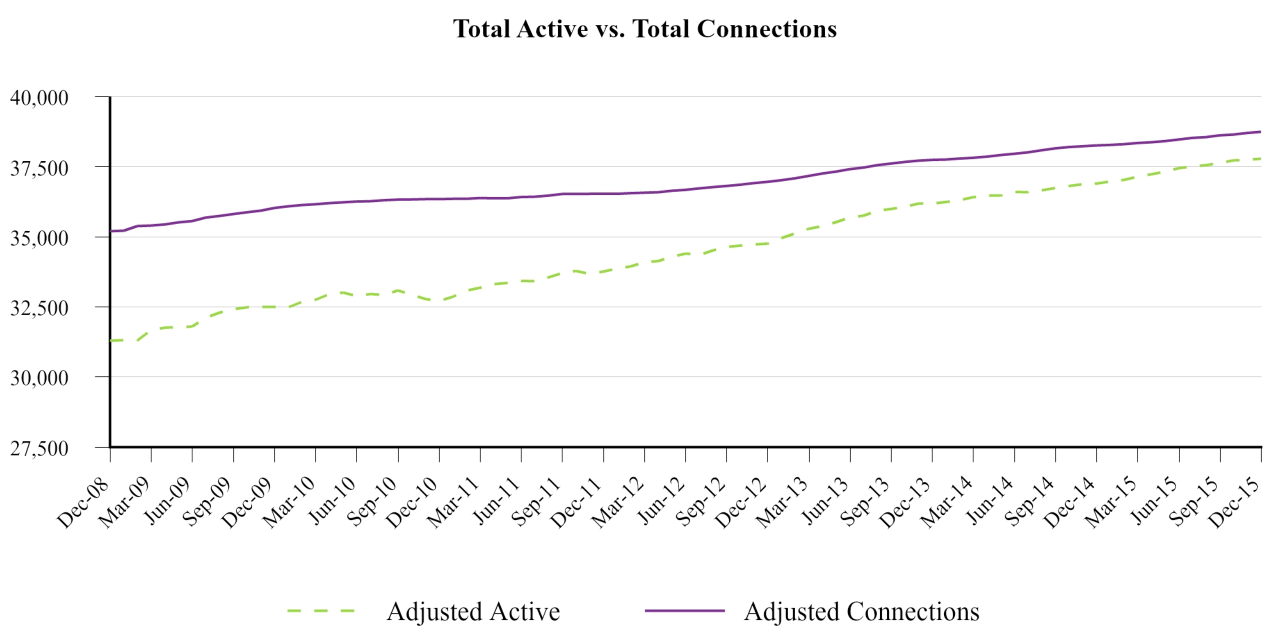
- access to and quality of water supply.

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

Population and Community Growth

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

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



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

Economic and Environmental Utility Regulation

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

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

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

Our water and wastewater operations are also subject to extensive United States federal, state and local laws and regulations governing the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights and the manner in which we collect, treat and discharge wastewater. We are also required to obtain various environmental permits from regulatory agencies for our operations. The Arizona Corporation Commission also sets conditions and standards for the water and wastewater services we deliver. We incur substantial costs associated with compliance with environmental, health and safety and water quality regulation.

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

Economic Environment

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

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

Infrastructure Investment

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

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

Production and Treatment Costs

Our water and wastewater services require significant production resources and therefore result in significant production costs. Although we are permitted to recover these costs through the rates we charge, regulatory lag can decrease our margins and earnings if production costs or other operating expenses increase significantly before we are able to recover them through increased rates. Our most significant costs include labor, chemicals used to treat water and wastewater, and power used to operate pumps and other equipment. Power and chemical costs can be volatile. However, we employ a variety of technologies and methodologies to minimize costs and maximize operational efficiencies. Additionally, with our Total Water Management approach, whereby we maximize the direct beneficial reuse of recycled water, we can realize significant treatment costs and power savings because smaller volumes of water are required for potable use. Many utilities require that all water be treated to potable standards irrespective of use. Total Water Management focuses on the right water for the right use. Potable water is needed for consumption and recycled water is acceptable for non-potable uses such as irrigation and toilet flushing. Non-potable water does not need to be treated for commonly occurring and regulated constituents such as arsenic, or for other current or future human consumption health-based contaminants.

Weather and Seasonality

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

Access to and Quality of Water Supply

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

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

Recent Rate Case Activities

On September 15, 2010, the Arizona Corporation Commission issued Rate Decision No. 71878 for the rate cases filed in February 2009 for the following utilities: Santa Cruz, Palo Verde, Valencia Water Company, Water Utility of Greater Buckeye, Inc. (“Greater Buckeye”), Water Utility of Greater Tonopah, Inc. (“Greater Tonopah”) and Willow Valley Water Co., Inc. (“Willow Valley”). The Arizona Corporation Commission established new rates for the utilities resulting in approximately $9.6 million of additional annual revenues retroactive to August 1, 2010, including a phase-in of rates for Palo Verde on January 1, 2011 and January 1, 2012. The Arizona Corporation Commission established new rates based on connections during the 2008 test year for the recovery of reasonable costs incurred by the utilities. Such rate changes increased rates for water and wastewater services for all but one of our utilities, Greater Tonopah (for which rates were reduced), resulting in a collective overall 47% increase over previous rates.

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

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

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

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

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

Prior to January 1, 2010, we accounted for funds received under infrastructure coordination and financing agreements as revenue once the obligations specified in the agreements were met. As these arrangements are with developers and not with the end water or wastewater customer, the timing of revenue recognition coincided with the completion of our performance obligations under the agreement with the developer and with our ability to provide fitted capacity for water and wastewater service to the applicable development or parcel through our regulated subsidiaries. In Rate Decision No. 71878 in 2010, the Arizona Corporation Commission imputed a reduction to our rate base for all amounts we collected under these agreements as the Commission deemed these payments to be contributions in aid of construction for rate making purposes. As a result of that decision, effective January 1, 2010, we changed our accounting policy for the accounting of infrastructure coordination and financing agreement funds and recorded these funds received as contributions in aid of construction. Thereafter, the infrastructure coordination and financing agreement-related contributions in aid of construction were amortized as a reduction of depreciation expense over the estimated depreciable life of the utility plant at the related utilities. The balance of infrastructure coordination and financing agreement related contributions in aid of construction, net of accumulated amortization, totaled approximately $64.1 million as of December 31, 2013.

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

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

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

In addition to infrastructure coordination and financing agreements, we have various line extension agreements with developers and builders, whereby funds, water line extensions, or wastewater line extensions are provided to us by the developers and are considered refundable advances for construction. These advances in aid of construction are subject to refund by us to the developers through annual payments that are computed as a percentage of the total annual gross revenue earned from customers connected to utility services constructed under the agreement over a specified period. Upon the expiration of the agreements' refunding period, the remaining balance of the advances in aid of construction becomes nonrefundable and at that time is considered contributions in aid of construction. Contributions in aid of construction are amortized as a reduction of depreciation expense over the estimated remaining life of the related utility plant. For rate-making purposes, an utility plant funded by advances in aid of construction and contributions in aid of construction is excluded from rate base. For the year ended December 31, 2014, we transferred $7.4 million of advances in aid of construction balances to contributions in aid of construction for amounts for which the refunding period had expired. For the year ended December 31, 2015, we did not transfer any advances in aid of construction balances to contributions in aid of construction.

Recent Events

Proposed Transaction

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

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

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

Stipulated Condemnation of the Operations and Assets of Valencia Water Company

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

Pending Sale of Willow Valley

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

Sierra Negra Ranch, LLC Settlement

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

Sale of Loop 303 Contracts

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

Sale of FATHOM™ Business

In June 2013, the Company sold its wholly-owned subsidiary, Global Water Management, LLC ("GWM"), to an investor group led by a private equity firm which specializes in the water industry. The Company recorded a loss on the sale of GWM in the amount of $1.9 million. GWM owns and operates the FATHOM™ business. Initially developed to support and optimize our own utilities, the Company commercialized the FATHOM™ business in 2009 and marketed the FATHOM™ platform as an integrated suite of technology-enabled services to municipally-owned utilities. The services offered by FATHOM™ provide automation, cost savings and opportunities for operational efficiencies. Pursuant to the purchase agreement for the sale of GWM, the Company is entitled to quarterly royalty payments based on a percentage of certain of GWM's recurring revenues for a 10-year period, up to a maximum of $15.0 million. In addition, the Company entered into a services agreement with GWM whereby the Company has agreed to use the FATHOM™ platform for all of its regulated utility services for an initial term of 10 years. The services agreement is automatically renewable thereafter for successive 10-year periods, unless notice of termination is given prior to any renewal period. The services agreement may be terminated by either party for default only and the termination of the services agreement will also result in the termination of the royalty payments payable to the Company. The Company retains an approximate 8% interest in GWM at December 31, 2015.

Cautionary Statement Regarding Non-GAAP Measures

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

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

Segment Reporting

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

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

Selected Financial Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operations and Maintenance - related party – Operations and maintenance related party expenses are for service fees paid to FATHOM™ with respect to billing, customer service and other support provided to the Company's regulated utilities. FATHOM™ service fees totaled $2.2 million for the year ended December 31, 2015 compared to $2.4 million for the year ended December 31, 2014. Fathom services fees decreased as a result of the condemnation of the operations and assets of Valencia Water Company.

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

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

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

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

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

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

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

Depreciation. Depreciation expense decreased by $992,000, or 10.8%, to $8.2 million for the year ended December 31, 2015 compared to $9.2 million the year ended December 31, 2014. The decrease of depreciation expense is primarily due to the condemnation of the operations and assets of Valencia Water Company combined with some of our assets reaching their full useful life and, therefore, having been fully depreciated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Total revenues decreased $804,000, or 10.2%, for the three months ended December 31, 2015 compared with the three months ended December 31, 2014. The decrease in revenues is due to the condemnation of the operations and assets of Valencia Water Company which occurred in July 2015. Adjusting for the condemnation of the operations and assets of Valencia Water Company, which contributed revenue of $1.4 million for the three months ended December 31, 2014, revenue increased $604,000 or 9.3% in the three months ended December 31, 2015 compared to the three months ended December 31, 2014. The increase in adjusted revenues reflects the increase in rates related to Rate Decision No. 74364 in February 2014 combined with a 2.4% increase in active service connections combined with a 4.6% increase in consumption during the fourth quarter of 2015 compared to the fourth quarter of 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outstanding Share Data

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

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

Insurance Coverage

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

Contractual Obligations and Commitments

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

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

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

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

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

Off Balance Sheet Arrangements

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

Risk Factors

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

Related Party Transactions

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

Quantitative and Qualitative Disclosure about Market Risk

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

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

Critical Accounting Policies and Estimates

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

Income Taxes

Estimation of income taxes includes an evaluation of the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize fewer of the tax deductions as assets, which would increase the income tax expense in the period in which the determination is made.

Goodwill

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

Recent Accounting Pronouncements

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

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

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

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

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

JOBS Act Accounting Election and Other Matters

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

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Evaluation of Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control Over Financial Reporting

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

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

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

Changes in Internal Controls over Financial Reporting

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

Other Required Disclosures

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

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