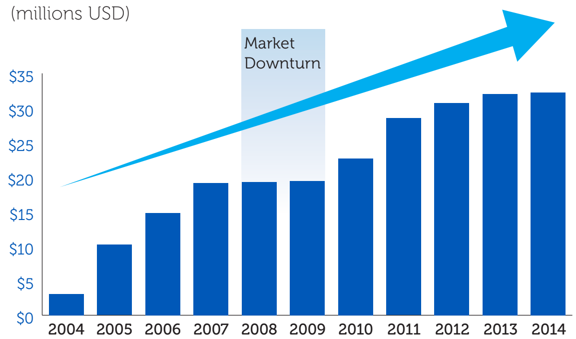
2014 Annual Report

GLOBAL WATER

Regulated Revenue Growth

26.5%
CAGR

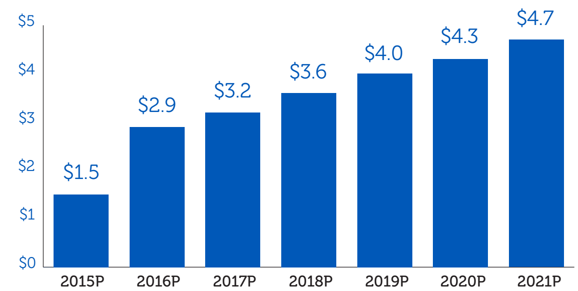


Revenue Growth

$4.7M
of additional annualized revenue based on 2014 connections

14.6%
increase over 2014 revenue

>$60M
increase in Balance Sheet equity and ratebase-able assets from reversal of 2010 Regulatory Provision

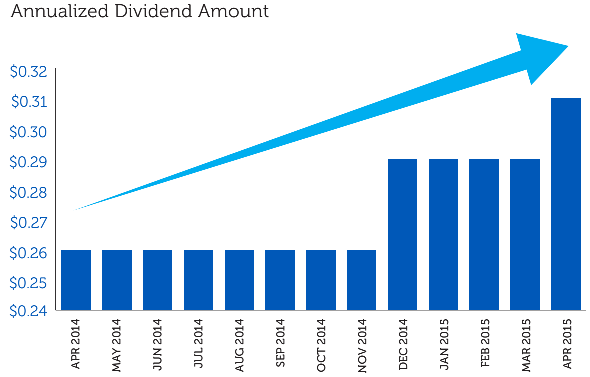


Dividend Policy & History

C$0.312
Current Annual Dividend
(paid monthly)

5%
Dividend Yield
(as of 3/31/2015)

18.2%
increase

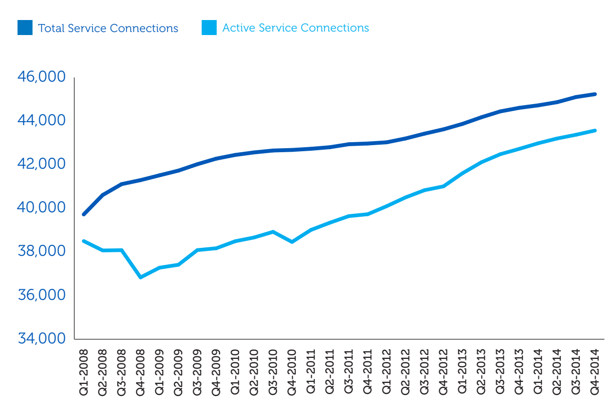


High Growth Returns to Arizona

4 Years
of accelerating connection growth

43,568
active service connections
December 2014

3.2%
average annual growth over last 4 years



Fellow Shareholders,

Two years ago, we outlined a strategic plan that would help surface Global Water's underlying value for our shareholders. Throughout 2014, we successfully executed many key components of this plan. A significant rate case was finalized, restoring more than $60 million of shareholder equity on the balance sheet and authorizing over $4.3 million of annual top line revenue growth over the coming years. $21 million in debt was refinanced, improving free cash flow by approximately $2 million per year, and we materially reduced expenses as a result of the previous year's divestiture of FATHOM and ongoing operational efficiencies. We initiated a healthy dividend policy in early 2014 and have subsequently increased our monthly dividend twice, totalling an 18% increase within the first 12 months. As a result of the effective execution of the plan, looking forward, we will generate strong, predictable cash flows, allowing us to further grow shareholder value.

Global Water was established to provide our industry with a Total Water Management ("TWM") solution and to provide shareholders with a stable growth investment. TWM is an integrated water, wastewater and recycled water provider model that allows utilities to require the maximum use of recycled water, reducing the usage of scarce potable water supplies. Beyond TWM, a key element of our business plan is to buy or build utilities in the path of growth, securing large, contiguous service areas that can be regionally planned for TWM. Global Water has been very successful in this regard, as our regulated utilities span hundreds of square miles of prime service area in Arizona's growth corridors around metropolitan Phoenix. Continued migration into this region has been fuelled by affordable living conditions, employment opportunities and low tax rates. The Arizona Department of Administration, Division of Employment and Population Statistics, predicts that metropolitan Phoenix will grow to a population of just over 5 million by 2020, an increase of over 600,000 residents, and to over 7 million by 2040, representing a 62% increase. Global Water and our development partners invested significantly in our areas before the economic downturn, resulting in a large inventory of available lots and positioning Global Water to benefit from this population growth over the coming years.

The pending water utility dispositions announced subsequent to year end are in line with Global Water's focus on this core business model and the areas described above. Upon closing, these transactions will materially strengthen our balance sheet and provide great optionality for the company in the coming years.

We are firmly committed to building on the successes of 2014. We are optimistic the beneficial dispositions will close in the second half of 2015, however regardless of completing these transactions, we see a continuously improving outlook based on the following factors:

- Seven years of pre-approved rate increases, which just began on January 1, 2015, combined with organic growth, provides a strong revenue growth profile.

- Revenue growth comes at a low cost as capital requirements are minimal, and most company expenses are flat to decreasing in our focused and streamlined position.

- Although many of the elements of the strategic plan have been achieved, there remain opportunities to add value through continued improvement of our capital structure and debt instruments.

These things will allow Global Water to consider all options to grow both the company and our dividend in the coming years.

To our employees: thank you for your dedication to the Global Water mission. This has made the successes of the last several years possible.

To our shareholders: thank you for your ongoing patience and support of the company and our team.

I look forward to another successful year and to updating you on our progress.

Sincerely,

Ron L. Fleming
President & CEO

Please refer to the Company's Management's Discussion & Analysis and its Cautionary Statements regarding Forward-looking Statements which also applies to the Letter to Shareholders, as well as for a further detailed discussion of the Company and Global Water.

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March 25, 2015

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, 2014. Because GWRI represents the sole asset of GWRC and is not consolidated into the financial statements of GWRC, management's discussion and analysis of GWRI for the three and twelve months ended December 31, 2014 is filed together with management's discussion and analysis of GWRC.

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

Warm regards,

Mike Liebman
Chief Financial Officer and Corporate Secretary

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gwresources.com

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

The following management's discussion and analysis of GWR Global Water Resources Corp.'s (the "Company", "GWRC", "we", or "us") financial condition and results of operations dated March 25, 2015 relates to the years ended December 31, 2014 and 2013 and should be read together with our audited consolidated financial statements and related notes as of and for the years ended December 31, 2014 and 2013. Investors should also refer to the 2014 audited financial statements and the accompanying notes and the management's discussion and analysis of 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.

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

On December 30, 2010, the Company completed its initial public offering of 8,185,000 common shares (the “Offering”) at C$7.50 per share for gross proceeds totaling C$61,387,500. The Company used the net proceeds of the Offering to acquire 81,850 shares of GWRI common stock. On January 28, 2011, the underwriters of the Offering exercised their over-allotment option and purchased an additional 569,611 common shares at C$7.50 per share. Net proceeds from the exercise of the over-allotment option, after taking into account underwriters’ commissions and issuance costs of

$262,000, were $4,011,000. The net proceeds of the over-allotment were used to purchase 5,696 shares of GWRI's common stock on January 28, 2011, increasing the Company's ownership interest in GWRI to approximately 48.1%.

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 2011. The regulatory rate case provided, among other things, additional revenues to GWRI which will be phased-in over time.

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

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

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

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

Gain (loss) from Equity Investment – Gain from equity investment totaled $31.2 million for the year ended December 31, 2014 compared to the loss of $3.6 million for the year ended December 31, 2013. 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, 2014 and 2013, multiplied by GWRC's 48.1% equity interest in GWRI. The gain from equity investment for the year ended December 31, 2014 primarily reflects the Company recording its proportionate share of GWRI's $50.7 million gain on regulatory order relating to the ACC's February 2014 Rate Decision No. 74364 and GWRI's $16.1 million deferred tax valuation allowance reversal. For the year ended December 31, 2013, the loss on equity investment includes amortization of the difference between the cost of the investment and the underlying net assets of the investee at the date of investment, attributed to the intangible asset (see Note 3 of the Company's financial statements for the year ended December 31, 2014). For a discussion of GWRI's results of operations, please see GWRI's management's discussion and analysis, which is available on the Company's SEDAR profile at www.sedar.com.

We evaluate our investment in GWRI for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. Through December 31, 2013, GWRI's results of operations were below GWRI's previous forecasts, primarily due to slower than expected growth of the FATHOM business. This combined with the lower trading price of our stock relative to the price at the Offering warranted a review of the carrying value of our investment in GWRI for impairment. Accordingly, we performed a valuation assessment during 2013 and concluded that an impairment of the investment in GWRI did not exist as of December 31, 2013.

Since the date of the Offering through December 31, 2013, GWRC has recorded significant equity investment losses as a result of losses generated by GWRI. However, in February 2014, GWRI completed the regulatory rate case which was initiated by GWRI's utility companies in 2011. The regulatory rate case provides, among other things, additional revenues to GWRI which will be phased-in over time. As of December 31, 2014, GWRI evaluated the impact of the rate case decision, including whether sufficient evidence exists that GWRI's net deferred tax assets will be utilized in the future, thus allowing the reversal of the valuation allowance currently recorded at GWRI. With the exception of the phase-in of new rates to be charged to GWRI's utility customers, the impact of the rate decision was effective for GWRI in the first quarter of 2014. The impact of the rate decision, combined with the effect of reversing the valuation allowance, resulted in approximately $66.8 million of additional income in GWRI's financial statements for the year ended December 31, 2014. As a result of GWRC's 48.1% interest in GWRI, GWRC recorded $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. 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, 2014 and 2013 consisted primarily of compensation provided to the independent members of the Company's board of directors, accounting and legal fees, directors' and officers' insurance, listing fees and other costs directly associated with operating as a publicly traded company.

Net Income (Loss) – Net income (loss) was determined by deducting operating and income tax expenses from gain (loss) from equity investment income. For the years ended December 31, 2014 and 2013, the Company experienced net income of $28.9 million and a net loss of $3.9 million, respectively. 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 $3.2 million, or a loss of $0.37 per share, for the year ended December 31, 2014. The reduction in the Company's loss was primarily driven by the impact of the sale of the FATHOM business and the transfer of its operating losses. Net loss on equity investment for the year ended December 31, 2013 was particularly affected by GWRC's 48.1% portion of the $3.3 million gain recorded by GWRI upon selling certain contracts during the year ended December 31, 2013, together with the $1.9 million loss recorded by GWRI related to the sale of GWRI's FATHOM business during the year ended December 31, 2013. Excluding the impact of the gain on the the contracts sale and the loss on the sale of the FATHOM business, the Company's net loss totaled $4.6 million, or a loss of $0.53 per share, for the year ended December 31, 2013.

The following table sets forth audited financial data for the last eight quarters ended December 31, 2014 (in thousands of US$). This financial information has been derived from the audited financial statements prepared by, and is the responsibility of, the Company's management.

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
GAIN (LOSS) FROM EQUITY INVESTMENT	$ (403)	$ (13)	$ (235)	$ 31,876	$ 66	$ 318	$ (2,399)	$ (1,613)
OPERATING EXPENSES	127	131	262	146	59	113	17	131
OPERATING INCOME (LOSS)	(530)	(144)	(497)	31,730	7	205	(2,416)	(1,744)
INCOME (LOSS) BEFORE INCOME TAXES	(530)	(144)	(497)	31,730	7	205	(2,416)	(1,744)
INCOME TAX BENEFIT (EXPENSE)	110	(250)	311	(1,837)	-	-	-	-
NET INCOME (LOSS)	$ (420)	$ (394)	$ (186)	$ 29,893	$ 7	$ 205	$ (2,416)	$ (1,744)
EARNINGS (LOSS) PER SHARE	$ (0.05)	$ (0.04)	$ (0.02)	$ 3.41	$ 0.00	$ 0.03	$ (0.28)	$ (0.20)
DILUTED EARNINGS (LOSS) PER SHARE	$ (0.05)	$ (0.04)	$ (0.02)	$ 3.41	$ 0.00	$ 0.03	$ (0.28)	$ (0.20)
Loss per share, excluding gain on the sale of GWRI contracts, loss on sale of FATHOM, gain on GWRI's regulatory order and the effect of GWRI's valuation allowance	$ (0.05)	$ (0.04)	$ (0.02)	$ (0.26)	$ (0.07)	$ (0.09)	$ (0.17)	$ (0.20)

Outstanding Share Data

As of March 25, 2015, there were 8,754,612 common shares of the Company outstanding and options to acquire an additional 269,227 common shares of GWRC.

Liquidity and Capital Resources

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

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

To date, capital resources have been provided from equity financing, and there were no cash flows of the Company for the years ended December 31, 2014 and 2013, respectively, with the exception of dividends discussed below. GWRI has funded the Company's operating expenses incurred through December 31, 2014. See Notes 3 and 6 to GWRC's financial statements for the years ended December 31, 2014 and 2013.

In March 2014, the Company initiated a dividend program wherein we have declared and paid a monthly dividend of approximately C$0.022 per share per month. In November 2014 the Company increased the monthly dividend to C$0.024 per share per month. The Company expects that monthly dividends of similar amounts will be declared and paid for the foreseeable future. Nevertheless, the ability of the Company to maintain its dividend program is dependent upon GWRI making distributions to the Company. Declaration of dividends is at the discretion of the Company's board of directors.

Insurance Coverage

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

Contractual Obligations and Commitments

GWRC had no significant contractual obligations or commitments with third parties as of December 31, 2014.

Quantitative and Qualitative Disclosure about Market Risk

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

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

Related Party Transactions

Except for the Chief Executive Officer and Chief Financial Officer (who 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; and (iii) if the Company no longer holds voting securities of GWRI.

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

Stock option grant to employees of GWRI – In January 2012, the Company's Board of Directors granted 385,697 options to acquire GWRC common stock to nine employees of GWRI pursuant to the GWR Global Water Resources Corp. Stock Option Plan (the "Option Plan"). The options 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.

Due to attrition and the sale of FATHOM, certain former employees of GWRI forfeited their stock options during the years ended December 31, 2013 and 2014. The number of stock options forfeited totaled 116,470, resulting in stock options of 269,227 and 278,511 outstanding at December 31, 2014 and December 31, 2013, respectively.

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, 2014 and 2013. 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, 2014.

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.

In connection with the preparation of the consolidated financial statements for the three months ended June 30, 2014, GWRI determined that it had incorrectly calculated and classified certain components of its net deferred tax assets and related income tax benefit in GWRI's financial statements as of and for the three months ended March 31, 2014. As approximately 48.1% of GWRI's net income (losses) is recorded by GWRC as a gain (loss) related to the Company's equity investment in GWRI, the Company's financial states for the three months ended March 31, 2014 were also misstated. The misstatement was determined to be immaterial; however, as GWRC's internal controls are similar to those of GWRI, we performed an evaluation and concluded based on the Company's tax accounting resources and processes currently in place, it was reasonably possible that a material misstatement to the annual or interim financial statements might not have been prevented or detected in a timely manner. Accordingly, as of March 31, 2014, we determined that the Company had a material weakness in internal control over financial reporting with respect to its accounting for income taxes process.

To remediate the material weakness and improve our control over financial reporting with respect to accounting for income taxes, the Company, with oversight from our Audit Committee, implemented certain measures to increase the level of control in our income tax processes. Specifically, the Company subjected our income tax provision to an increased level of scrutiny and review by Company personnel, as well as increased the involvement of external accounting advisors in the preparation and review of our income tax provision. As a result of these measures, Management evaluated the design and operation of our internal control over financial reporting, using 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 (1992), as of December 31, 2014, and concluded that it has remediated the material weakness over financial reporting for taxes and that internal control over financial reporting is effective as of December 31, 2014.

Changes in Internal Control over Financial Reporting

Other than the remediation of the previously-identified material weakness discussed above, there were no changes in our internal control over financial reporting that occurred during the fiscal year ended on December 31, 2014 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 25, 2015 relates to the years ended December 31, 2014 and 2013 and should be read together with the consolidated financial statements and accompanying notes of GWRI as well as GWR Global Water Resources Corp.'s ("GWRC") financial statements and associated management's discussion and analysis and current annual information form, all of which are available on GWRC's SEDAR profile at www.sedar.com. Financial information of GWRC is not consolidated with financial information of GWRI.

Basis of Presentation

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

Cautionary Statement Regarding Forward-Looking Statements

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

Cautionary Statement Regarding Non-GAAP Measures

This management's discussion and analysis contains references to "EBITDA". EBITDA is defined for the purposes of this management's discussion and analysis as net income or loss before interest, income taxes, depreciation and amortization. Management believes that EBITDA is a useful supplemental measure of GWRI's operating performance and that the use of EBITDA facilitates operating performance comparisons from period to period and company to company by removing potential differences caused by variations in capital structures (affecting primarily relative interest expense), the book amortization of intangibles (affecting relative amortization expense), the age and book depreciation of facilities and equipment (affecting relative depreciation expense), other non-cash charges and non-recurring items. Management believes that, by eliminating such effects, EBITDA provides a meaningful measure of overall corporate performance exclusive of GWRI's capital structure and the method and timing of expenditures associated with building and placing GWRI's systems. EBITDA is also presented because management believes that it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance.

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

Overview

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

The basic premise of GWRI's business is that the world's water supply is limited and yet can be stretched significantly through effective planning, the use of recycled water and by providing individuals and communities resources that promote wise water usage practices. GWRI deploys its integrated approach, Total Water Management ("TWM"), a term which it uses to mean managing the entire water cycle, both to conserve water and to maximize its total economic and social value. GWRI uses TWM to promote sustainable communities in areas where GWRI expects growth to outpace the existing potable water supply. Until the sale of GWM (defined below) in June of 2013, GWRI's business had been comprised of two principal divisions: the Regulated business consisting of the Company's regulated utilities, and the Unregulated business consisting primarily of FATHOM™ Utility-to-Utility ("U_2U™") Solutions ("FATHOM") operations. Through its Regulated division, GWRI operates in the Western United States as a water resource management company that owns and operates regulated water, wastewater and recycled water utilities in strategically located communities, principally in metropolitan Phoenix, Arizona. GWRI's model focuses on the broad issues of water supply and scarcity and applies principles of water conservation through water reclamation and reuse.

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

The Company had 61 employees at December 31, 2014 compared to 65 employees at December 31, 2013.

Our Regulated division provides drinking water, wastewater and other water related services to approximately 70,000 people in Arizona as of December 31, 2014. Our Regulated business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers. Our utilities that provide these services are subject to economic regulation by the state regulator, the Arizona Corporation Commission ("ACC"). The U.S. federal and state governments also regulate environmental, health and safety and water quality matters. GWRI's financial condition and results of operations for the Regulated division are influenced by a variety of industry-wide factors, including but not limited to (i) economic and environmental utility regulation; (ii) economic environment; (iii) the need for infrastructure investment; (iv) an overall trend of declining water usage per customer; (v) weather and seasonality; and (vi) access to and quality of water supply.

Through December 31, 2014, we continued to execute on our strategy to optimize and focus the Company in order to provide greater value to our customers and shareholders by aiming to deliver predictable financial results, making prudent capital investments and focusing our efforts on earning an appropriate rate of return on our investments.

UNREGULATED DIVISION

Background and Divestiture of FATHOM business

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

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

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

On June 5, 2013, the Company sold GWM to an investor group led by a private equity firm that specializes in the water industry. The transaction was effected through the sale of all of the outstanding membership interests of GWM to a wholly-owned subsidiary of Fathom Water Management Holdings, LLP (the "Fathom Partnership"). The Company received the following consideration for the sale of GWM: (a) a cash payment of $4.25 million (subject to a post-closing working capital adjustment resulting in a $1.7 million liability for the Company, which the Company paid as of December 31, 2013); and (b) the issuance to the Company of common and preferred units of the Fathom Partnership with a deemed initial value of $0.8 million. In addition, the Company is entitled to quarterly royalty payments based on a percentage of certain of GWM's recurring revenues for a 10-year period, up to a maximum of $15.0 million.

Concurrent with the closing, $750,000 of the cash portion of the purchase price was reinvested by the Company in a promissory note issued by GWM's parent. The promissory note had an original maturity of December 31, 2014 and bore interest at a rate of 10% per annum. In November 2014, the convertible promissory note was converted into shares of preferred stock in the FATHOM partnership.

The Company continues to hold an indirect interest in GWM through its ownership of the common and preferred units of the Fathom Partnership received in consideration for the sale of GWM. Together, these units represent an approximate 8.0% ownership interest in the Fathom Partnership (on a fully diluted basis) at December 31, 2014. Our ownership interest in GWM was diluted from 12.7% in 2014 as part of a qualified financing.

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

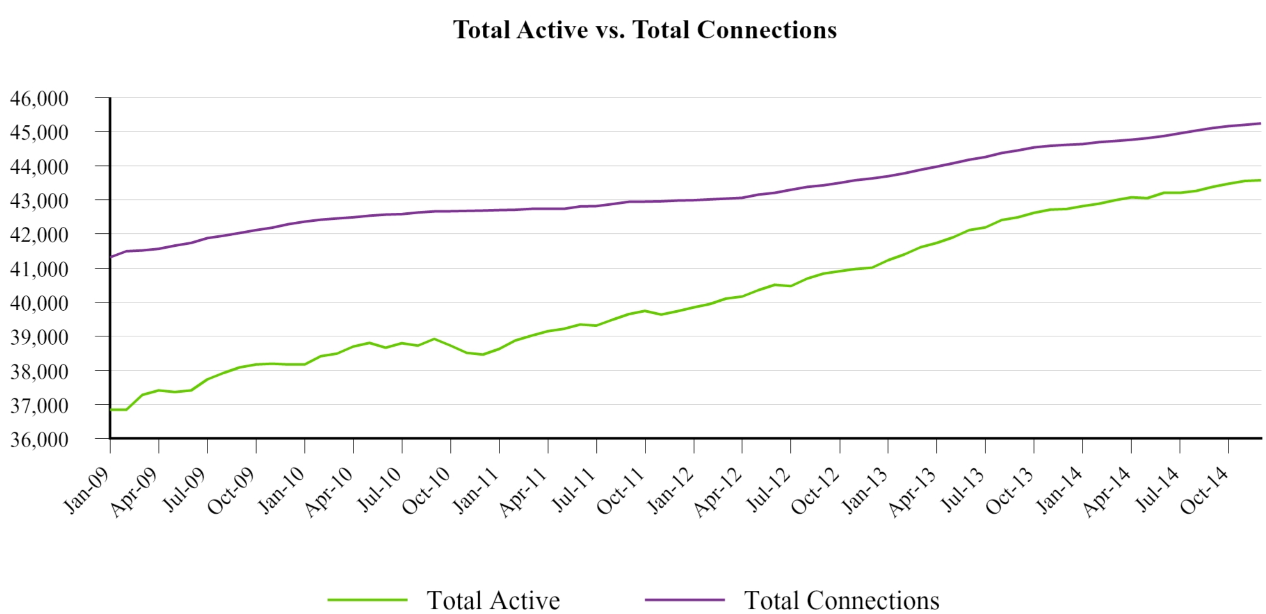
GWM has historically provided billing, customer service and other support services to the Company. The Company has entered into a services agreement with GWM whereby the Company has agreed to use the FATHOM platform for all of its regulated utility services for an initial term of 10 years. The services agreement is automatically renewable thereafter for successive 10-year periods, unless notice of termination is given prior to any renewal period. The services agreement may be terminated by either party for default only and the termination of the services agreement will also result in the termination of the royalty payments payable to the Company. The sale of GWM has resulted in changes to the recurring costs to be recorded by the Company. Based on current connections, we estimate that costs to be paid to GWM for FATHOM services will be $7.69 per water account/month, an annual rate of approximately $2.4 million.

REGULATED DIVISION

Population and Community Growth

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

As illustrated in the graph below, GWRI's total service connections, which include active service connections and connections to vacant homes, increased to 45,235 as of December 31, 2014 from 44,608 as of December 31, 2013. GWRI's active service connections increased to 43,568 as of December 31, 2014 compared to 42,726 as of December 31, 2013, representing an annual increase of 2.0%.



During the economic downturn beginning in 2008, GWRI's utilities experienced an increase in the number of vacant homes, reaching a peak of 4,647 vacant connections as of February 28, 2009, approximately 11.2% of our total connections at the time; however, the negative trend began to reverse thereafter. Vacant connections represented approximately 3.7% of total connections at December 31, 2014.

Regulated Business Outlook – 2014 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. Employment and Population Statistics department of State of Arizona (ADOA-EPS) predicts that Maricopa County will have a population of 4.5 million by 2020. Over the course of 2014, Arizona's employment improved 2.1 percent, ranking the state in the top 13 nationally for job growth. Among major metropolitan areas/cities, Phoenix ranked number eleven with year to date job gains of 2.4 percent. According to University of Arizona Economic & Business Research Center, ADOA-EPS, and other statistical projections, employment, personal income and population will continue to grow in 2015.

Also, according to the W.P. Carey School of Business Greater Phoenix Blue Chip Real Estate Consensus panel, most sectors of real estate are expected to continue to improve. After a decline to fewer than 6,800 units in 2011, single family housing permits bounced back to 11,615 units in 2012, and continued to climb in 2013 to 12,785 units. The Blue Chip consensus forecast indicate permits for 2014 declined to approximately 11,800 units, down from a forecast of 14,100 units for the year. However, the forecast for 2015 and 2016 remains positive at approximately 14,900 and 19,500 units, respectively. From there, growth in the region is expected to steadily return to its normal historical rate of greater than 30,000 Single Family Dwelling permits. Additionally, multifamily, office, retail, and industrial market vacancy rates continued to decline in 2014 compared to year 2013 and are expected to continue to decline through 2016. Phoenix was one of the worst performing housing markets during the housing downturn, but home prices have risen on average approximately 13.45% per year over the past three years ending November 2014, according to the S&P/Case-Shiller Phoenix Home Price Index.

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

In September 2013, the Company sold all contracts entered into by a subsidiary of the Company related to the Loop 303 Project, wherein we provided certain water utility coordination, permitting and engineering design work for certain developers/landowners in the City of Glendale, Arizona ("303 Sale"). The company has no further obligations under the Loop 303 project. In 2013, the Company received $2.8 million of proceeds and recognized income of approximately $3.3 million within other income (expense) in the statement of operations for the period ended December 31, 2013. Receipt of the remaining $1.3 million of proceeds will occur and be recorded as additional income over time as certain milestones are met between the third party acquirer and the developers/landowners.

Economic Utility Regulation

The ACC is charged with establishing rates based on the provision of reliable service at reasonable cost while also providing an opportunity to earn a fair rate of return on rate base for investors of utilities. The ACC uses a historical test year to evaluate whether the plant in service is used and useful, to assess whether costs were prudently incurred and to set "just and reasonable" rates. Rate base is the depreciated original cost of the plant in service (net of contributions in aid of construction ("CIAC") and advances in aid of construction ("AIAC")), that has been determined to have been "prudently invested" and "used and useful". The ACC also decides on an applicable capital structure based on actual or hypothetical analyses. The ACC determines a "fair rate of return" on that rate base which includes the actual cost of debt and an established return on equity. The overall revenue requirement for rate making purposes is established by multiplying the rate of return on rate base by the rate base, and adding "prudently" incurred operating expenses for the test year, depreciation and any applicable pro forma adjustments.

To ensure an optimal combination of access to water and water conservation balanced with a fair rate of return for investors, GWRI's water utility operating revenue is based on two components: a fixed fee and a consumption or volumetric fee. For GWRI's water utilities, the fixed fee, or "basic service charge", provides access to water for residential usage and has generally been set at a level to produce 47% to 60% of total revenue. The volumetric fee is based on the total volume of water supplied to a given customer after the minimum number of gallons, if any, covered by the basic service charge, multiplied by a price per gallon set by a tariff approved by the ACC. For all investor-owned water utilities, the ACC requires the establishment of inverted tier conservation oriented rates, meaning that the price of water increases as consumption increases. For wastewater utilities, wastewater collection and treatment can be based on volumetric or fixed fees. GWRI's wastewater utility services are billed based solely on a fixed fee, determined by the size of the water meter installed. Recycled water is sold on a volumetric basis with no fixed fee component.

To obtain approval for a change in rates, GWRI's utilities must file rate cases with the ACC. Rate cases and other rate-related proceedings can take a year or more to complete. As a result, there is frequently a delay, or regulatory lag, between the time of a capital investment or incurrence of an operating expense increase and when those costs are reflected in rates. GWRI's rate case management program includes a proactive approach to rate design and management of rate case applications to mitigate the risk of regulatory lag. The Company routinely updates a rate model that reviews changes in current connection growth and expense structure combined with capital invested to determine the appropriate timing of filing for a rate increase. In normal conditions, it would not be uncommon to see the Company file for a rate increase every three years based on year one being the test year, year two being the rate case filing year and year three being the rate case award year. However, based on the recent settlement with the ACC (see next section for further details) and extended new rate phase-in period, the Company will not be initiating the next rate case on such a timeline.

Recent Rate Case Activities

On September 15, 2010, the ACC issued its rate decision (the "2010 Regulatory Rate Decision") for the rate cases filed in February 2009 for the following GWRI utilities: Santa Cruz Water Company ("Santa Cruz"), Palo Verde Utilities Company ("Palo Verde"), Valencia Water Company, Inc. ("Valencia"), Water Utility of Greater Buckeye ("Greater Buckeye"), Water Utility of Greater Tonopah ("Greater Tonopah") and Willow Valley Water Company ("Willow Valley"). The ACC established new rates for the utilities resulting in approximately $9.6 million of additional annual revenues retroactive to August 1, 2010, including a phase-in of rates for Palo Verde on January 1, 2011 and January 1, 2012. The ACC established new rates based on connections during the 2008 test year for the recovery of reasonable costs incurred by the utilities. Such rate changes increased rates for water and wastewater services for all but one of GWRI's utilities, Greater Tonopah (for which rates were reduced), resulting in an overall 47% increase over previous rates. For a discussion of the impacts of 2010 Regulatory Rate Decision, refer to Note 3 to GWRI's audited consolidated financial statements for the year ended December 31, 2011.

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

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

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

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

- Full reversal of the imputation of Contributions in Aid of Construction ("CIAC") associated with funds previously received under Infrastructure Coordination and Financing Agreements ("ICFA"), as required in the Company's last rate case.
- The Company has agreed to not enter into any new ICFA agreements. Existing ICFAs will remain in place, but a portion (approximately 70%) of future payments to be received under the ICFAs will be considered as hook-up fees, which are accounted for as CIAC once expended on plant (i.e., hook-up fees will be recorded as a liability, but will only reduce rate base once such funds are expended on plant). The remaining approximate 30% of future ICFA payments will be recognized using the same income recognition accounting applied to ICFA funds already received, wherein such funds will be recorded as revenue or deferred revenue.
- A 9.5% return on common equity is adopted for rate making.
- None of the Company's utilities will file another rate application before May 31, 2016. GWRI's subsidiaries, Santa Cruz and Palo Verde may not file for another rate increase before May 31, 2017.

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

Infrastructure Investment

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

GWRI has made significant capital investments in its territories within the last ten years and because the infrastructure is new, significant capital, either for growth or to maintain the existing infrastructure, is not expected to be required in the near term. GWRI estimates that capital expenditures of the Regulated business will total approximately $2.5 to $3.0 million annually in the near term. Nevertheless, GWRI will repair and replace existing infrastructure as needed. Non-growth capital investments are needed on an ongoing basis to comply with existing and new regulations, to renew treatment and network assets as they age, to enhance system reliability, and to provide security and quality of service. The need for continuous investment can present a challenge due to the potential for regulatory lag described above.

Production and Treatment Costs

GWRI's water and wastewater services require significant production resources and therefore result in significant production costs. Although GWRI is permitted to recover these costs through the rates it charges, regulatory lag can decrease GWRI's margins and earnings if production costs or other operating expenses increase significantly before GWRI is able to recover them through increased rates. GWRI's most significant costs include labor, chemicals used to treat water and wastewater, and power used to operate pumps and other equipment. Power and chemical costs can be volatile. However, GWRI employs a variety of technologies and methodologies to minimize costs and maximize operational efficiencies. For power alone, GWRI has been successful in offsetting the rise in power costs by vigilantly focusing on timing and duration of power requirements. Additionally, with GWRI's unique resources management approach, TWM, whereby we maximize the direct beneficial reuse of recycled water, there are significant treatment costs and power savings that can be realized due to the fact that smaller volumes of water are required for potable use. The old paradigm requires that all water be treated to potable standards irrespective of use. TWM focuses on the right water for the right use. Potable water is needed for consumption and recycled water is acceptable for non-potable uses such as irrigation and toilet flushing. Non-potable water does not need to be treated for commonly occurring and regulated constituents such as arsenic, or for other current or future human consumption health-based contaminant.

Weather and Seasonality

GWRI's water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for irrigation and other outdoor uses. However, summer weather that is cooler or wetter than average generally suppresses customer water demand and can have a downward effect on GWRI's operating revenue and operating income. The limited geographic diversity of GWRI's service areas could make the results of GWRI's operations more sensitive to the effect of local weather extremes.

The second and third quarters of the year are generally those in which water services revenue and wastewater services revenue are highest. Accordingly, interim results should not be considered representative of the results of a full year.

Selected Financial Information

The following contains selected audited financial information of GWRI's financial position as of December 31, 2014, December 31, 2013, and December 31, 2012 (in thousands of US$):

	December 31, 2014	December 31, 2013	December 31, 2012
ASSETS:			
Net property, plant and equipment	$ 240,424	$ 249,010	$ 260,236
Current assets	12,293	7,010	8,750
Other assets	54,884	41,917	42,386
Total Assets	$ 307,601	$ 297,937	$ 311,372
LIABILITIES:			
Current liabilities	$ 13,630	$ 12,338	$ 14,707
Noncurrent liabilities	266,291	318,441	323,229
Total Liabilities	279,921	330,779	337,936
SHAREHOLDERS' EQUITY (DEFICIT)	27,680	(32,842)	(26,564)
Total Liabilities and Shareholders' Equity	$ 307,601	$ 297,937	$ 311,372

The following contains selected audited financial information of GWRI's results of operations for the years ended December 31, 2014, 2013, and 2012 (in thousands of US$):

	Years Ended December 31,		
	2014	2013	2012
Revenues	$ 32,559	$ 33,434	$ 33,538
Operating expenses	(22,232)	31,419	32,550
Operating income	54,791	2,015	988
Total other income (expense)	(6,855)	(8,039)	(8,802)
Income (loss) before income taxes	47,936	(6,024)	(7,814)
Income tax benefit (expense)	16,995	(16)	(30,667)
Net income (loss)	$ 64,931	$ (6,040)	$ (38,481)

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013

Revenues – The following table summarizes GWRI's revenues for the years ended December 31, 2014 and 2013 (in thousands of US$).

	Years Ended December 31,	
	2014	2013
Water services	$ 18,076	$ 18,200
Wastewater and recycled water services	14,112	13,829
Unregulated revenues	371	1,405
Total revenues	$ 32,559	$ 33,434

Total revenues decreased $0.9 million, or 2.6%, for the year ended December 31, 2014 compared with the year ended December 31, 2013, primarily from the decrease in unregulated revenues due to the absence of FATHOM-related revenues, which are no longer recorded by the Company subsequent to the sale of GWM on June 5, 2013.

Water Services – Water services revenues decreased $124,000, or 0.7%, to $18.1 million for the year ended December 31, 2014 compared with $18.2 million in the same period of 2013.

Active water connections increased 1.9% to 26,188 as of December 31, 2014 from 25,688 as of December 31, 2013. Water consumption decreased 5.0% to a total of 2.9 billion gallons for the year ended December 31, 2014 from a total of 3.0 billion gallons for the year ended December 31, 2013. Consumption decreased due to the unusually high levels of precipitation, wherein we received approximately 17 inches of rain during the final two quarters of 2014 compared to approximately 3 inches of rain during the final two quarters of 2013. Water services revenue based on consumption decreased 2.9% to $7.8 million for the year ended December 31, 2014 compared to $8.0 million for the year ended December 31, 2013.

Water services revenue associated with the basic service charge (excluding miscellaneous charges) increased 2.3% to $9.9 million for the year ended December 31, 2014 compared to $9.6 million for the year ended December 31, 2013, reflecting growth in total active connections.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenues increased $283,000, or 2.0%, to $14.1 million for the year ended December 31, 2014 compared to $13.8 million for the year ended December 31, 2013. The increase was primarily due to the number of active connections, which increased 2.0% to 17,380 as of December 31, 2014 from 17,038 as of December 31, 2013.

Wastewater revenue (excluding miscellaneous charges) which is billed and recognized at a flat rate per connection, totaled $13.5 million for the year ended December 31, 2014 compared to $13.2 million for the year ended December 31, 2013. The 2.4% increase in revenue reflects the growth of active connections mentioned above.

Recycled water revenue, which is based on gallons delivered remained relatively flat at approximately $330,000 for the year ended December 31, 2014 compared to $328,000 for the year ended December 31, 2013. The volume of recycled water delivered also remained relatively flat at approximately 576 million gallons for both years ended December 31, 2014 and 2013.

Unregulated Revenues – Unregulated revenues totaled $371,000 for the year ended December 31, 2014 compared to $1.4 million for the year ended December 31, 2013. Historically, unregulated revenues primarily consisted of revenues generated from customers of GWRI's FATHOM business. Subsequent to the June 5, 2013 sale of GWM, unregulated revenues for the period have been limited to rental revenue and imputed revenues resulting from ICFA arrangements, thus the decline compared to the prior year period.

Operating Expenses – The following table summarizes GWRI's operating expenses for the years ended December 31, 2014 and 2013 (in thousands of US$):

	Years Ended December 31,	
	2014	**2013**
Operations and maintenance	$ 10,418	$ 11,995
General and administrative	8,809	9,623
Gain on regulatory order	(50,664)	—
Depreciation	9,205	9,801
Total operating expenses	$ (22,232)	$ 31,419

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased power), maintenance costs, contract services, and property tax, decreased $1.6 million, or 13.1%, for the year ended December 31, 2014 compared to the year ended December 31, 2013.

Total personnel costs decreased $1.3 million, or 34.3%, for the year ending December 31, 2014 compared to the year ending December 31, 2013. The decrease is primarily attributed to the June 5, 2013 sale of FATHOM whereby GWRI's total employee headcount was reduced from an average of 149 for the five months ended May 31, 2013 to 65 as of December 31, 2013, and further reduced from 61 as of December 31, 2014. Total FATHOM personnel costs recorded for the year ending December 31, 2013 were $1.2 million, whereas no such expenses were recorded in 2014.

As a result of the June 5, 2013 sale of GWM, the costs in several operating expense categories associated with the FATHOM business decreased. The Company experienced a decrease of approximately $816,000 in operating expenses for the year ended December 31, 2014 compared to the year ended December 31, 2013 due to lower costs in expense categories such as meals and travel, phone and communication expense, computer repairs and maintenance, bank fees, and postage.

By contrast, GWRI's contract services increased $503,000 for the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase is primarily driven by the sale of GWM on June 5, 2013. Historically, all FATHOM service fees charged by FATHOM to GWRI's regulated utilities would eliminate upon consolidation. As a result of the sale, this service fee no longer eliminates; thus resulting in charges totaling $2.4 million for the year ended December 31, 2014 compared to charges totaling $1.3 million for the year ended December 31, 2013. The impact of the FATHOM service fee was partially offset by a $455,000 reduction of costs associated with contractors used during 2013 for non-development work in support of FATHOM operations, that did not occur in 2014. Contract services were further reduced by the reduction of disposal expenses as we began direct land application of bio-solids in July 2014. Total disposal expenses decreased $103,000 for the final two quarters of 2014 compared to the same periods in 2013.

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 $814,000, or 8.5%, during the year ended December 31, 2014 compared to the year ended December 31, 2013.

For the year ended December 31, 2014, personnel costs increased $182,000, or 3.7%, compared to the year ended December 31, 2013. For the year ended December 31, 2014 personnel expenses exclusive of deferred compensation decreased $592,000 as compared to the year ended December 31, 2013. The decrease in personnel costs is driven by the reduction in personnel costs associated with the FATHOM business due to the sale of GWM on June 5, 2013. Deferred compensation included within personnel expenses increased $774,000, or 152% to $1.3 million for the year ended December 31, 2014 compared to $508,000 for the year ended December 31, 2013. The increase in deferred compensation expense is attributable to GWRC's rising stock price in relation to the Company's Phantom Stock Unit ("PSU") deferred compensation program.

For the year ended December 31, 2014, contract service costs decreased $233,000, or 83.2%, rent expense decreased $278,000, or 79.9%, promotion and marketing expense decreased $126,000, or 83.4%, and meals, travel and entertainment decreased $155,000, or 64.6% as compared to the year ended December 31, 2013. These decreases were driven by the June 5, 2013 sale of GWM.

For the year ended December 31, 2014, regulatory expense decreased $529,000, or 87.6% as compared to the year ended December 31, 2013. The decrease in regulatory expense related to a regulatory settlement in 2013, wherein $442,000 of previously deferred rate case expenses were written off as they were no longer expected to be recoverable through future rates to be charged to customers. Additionally, the 2010 Rate Case Decision became fully amortized in July 2013, leading to an additional $66,000 in amortization expense in 2013 that did not occur in 2014.

These decreases were partially offset by a $275,000, or 23.7%, increase in professional fees for the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase in professional fees relates to accounting fees related to Rate Decision No. 74364 along with higher legal fees related to various strategic initiatives.

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 current period earnings as a result of the ACC's February 2014 Rate Decision No. 74364 which concluded that ICFA funds received historically would no longer be recorded as CIAC.

Depreciation – Depreciation expense decreased by $596,000, or 6.1%, to $9.2 million for the year ended December 31, 2014 compared to $9.8 million for the year ended December 31, 2013. The decrease primarily reflects the impact of the reduction of assets on GWRI's balance sheet as a result of the sale of GWM. For reference, for the year ended December 31, 2013, GWM's depreciation expense totaled $1.0 million. The reduction in depreciation due to the absence of GWM was partially offset by increased depreciation expense at the regulated utilities due to the Rate Decision No. 74364, whereby ICFA funds are no longer recorded as CIAC, and therefore, ICFA-related CIAC amortization will no longer be recorded as a reduction to depreciation expense.

Other Income (Expense) – Other income (expense) totaled $6.9 million of net expense for the year ended December 31, 2014 compared to $8.0 million of net expense for the year ended December 31, 2013. Other income (expense) primarily consists of interest expense, which increased $577,000 to $9.5 million for the year ended December 31, 2014 compared to $8.9 million of net expense for the year ended December 31, 2013. The increase in interest expense reflects certain cancellation fees and the write-off of certain deferred loan and bond fees associated with the Regions Bank debt facilities, which were retired in November of 2014, as discussed in Note 1 to GWRI's consolidated financial statements.

In addition to the increase in interest expense, other income (expense) was also impacted by irregular gains (losses) incurred during the years ended December 31, 2013 and 2014, such as a $2.0 million of interest income related to the SNR litigation (as discussed in Note 13 to GWRI's consolidated financial statements) recorded during the year ended December 31, 2014, a $3.3 million of gain related to the 303 Sale recorded during the year ending December 31, 2013, and a loss of $1.9 million on the sale of GWM recorded during the year ending December 31, 2013. Furthermore, during the year ended December 31, 2014, the Company also recorded income of $144,000 on its equity method investment in FATHOM compared to a loss of $707,000 for the year ending December 31, 2013. Equity method income of $144,000 for the year ended December 31, 2014 is inclusive of the $1.0 million gain on the revaluation of our ownership interest in FATHOM. Additionally, the Company recorded earn-out royalties totaling $272,000 and $112,000 for the years ending December 31, 2014 and 2013, respectively.

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

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 income taxes and determined that sufficient evidence now exists that the majority of the Company's net deferred tax assets will be utilized in the future. Accordingly, the Company reversed substantially all of the deferred tax valuation allowance previously recorded, resulting in a $16.1 million income tax benefit. For the year ended December 31, 2014 we recorded a $868,000 income tax benefit related to current year losses.

Net Income (Loss) – The Company's income totaled $64.9 million for the year ended December 31, 2014 compared to a net loss of $6.0 million for the year ended December 31, 2013. This difference was due to several factors as mentioned above, but was primarily attributed to the $50.7 million gain on regulatory order and the $17.0 million income tax benefit recognized in the current year in connection with the release of the deferred income tax valuation allowance.

EBITDA and Adjusted EBITDA – EBITDA totaled $66.6 million for the year ended December 31, 2014 compared to $12.7 million for the year ended December 31, 2013. This increase was due to several factors as mentioned above, but was primarily attributed to the $50.7 million gain on regulatory order recorded in the current year. For additional discussion, refer to the sections *Revenues* and *Operating Expenses* above.

Adjusted EBITDA totaled $13.7 million for the year ended December 31, 2014 compared to $12.0 million for the year ended December 31, 2013. The increase in Adjusted EBITDA was primarily related to the sale of GWM and the transfer of its operating losses recorded in 2013.

A reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA in the years ended December 31, 2014 and 2013 is as follows (in thousands of US$):

	Years Ended December 31,	
	2014	**2013**
Net Income (Loss)	**$ 64,931**	**$ (6,040)**
Income tax expense (benefit)	(16,995)	16
Interest income	(79)	(47)
Interest expense	9,512	8,935
Depreciation	9,205	9,801
EBITDA(1)	**$ 66,574**	**$ 12,665**
EBITDA Adjustments	$ (52,829)	$ (648)
Adjusted EBITDA(2)	**$ 13,745**	**$ 12,017**

(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 (loss). See "Cautionary Statements Regarding Non-GAAP Measures" for further information regarding EBITDA.

(2) Adjusted EBITDA is defined as EBITDA less the gain or loss related to non-recurring events, and includes an adjustment for the regulatory gain related to Rate Decision No. 74364 of $50.7 million, interest income related to the SNR litigation of $2.0 million and income of $144,000 on equity method investment (inclusive of a $1.0 million gain on our ownership interest in FATHOM) for the year ended December 31, 2014. Adjustments for the year ended December 31, 2013 include the $3.3 million gain on the 303 Sale the $1.9 million loss on the sale of GWM and $707,000 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 net income (loss). See "Cautionary Statements Regarding Non-GAAP Measures" for further information regarding EBITDA.

Net Income (Loss) and EBITDA Per Share Information – The common stock of GWRI is not publicly traded and reporting per share information is not a required disclosure. However, management believes that net earnings (loss) per share and EBITDA per share data may be useful to some users of the financial statements as those users make decisions related to GWRC, which holds an approximate 48.1% interest in GWRI. The following table summarizes such information for the years ended December 31, 2014 and 2013 (amounts in thousands of US$, except share and per share data):

	Net Income	**EBITDA**
Amount for the year ended December 31, 2014	$ 64,931	$ 66,574
Weighted average number of GWRI shares outstanding during the year ended December 31, 2014	$ 182,050	$ 182,050
GWRI per share amount (1)	356.67	365.69
GWRI per share, excluding SNR interest income, the gain on regulatory order, income on equity method investment and the release of the income tax valuation allowance (2)	(22.11)	75.50

	Net Loss	**EBITDA**
Amount for the year ended December 31, 2013	$ (6,040)	$ 12,665
Weighted average number of GWRI shares outstanding during the year ended December 31, 2013	$ 182,050	$ 182,050
GWRI per share amount (1)	$ (33.18)	$ 69.57
GWRI per share, excluding loss on sale of GWM, gain on 303 Sale and loss on equity method investment (3)	$ (36.74)	$ 66.01

(1) Each share of GWRI is approximately equivalent to 100 common shares of GWRC. Therefore, GWRI's net income (loss) per share and EBITDA per share amounts in terms of GWRC's common shares is approximately $3.57 and $3.66 for the year ended December 31, 2014,

respectively, and approximately $(0.33) and $0.70 for the year ended December 31, 2013, respectively. EBITDA and EBITDA per share data are not U.S. GAAP measures.

(2) Excluding the gain on regulatory order, interest income related to the SNR litigation, income on equity method investment and the release of the income tax valuation allowance, the Company's net loss and EBITDA would total $4.0 million and $13.7 million, respectively, for the year ended December 31, 2014.

(3) Excluding the loss on sale of GWM, gain on the 303 Sale and loss on equity method investment, GWRI's net loss and EBITDA would total $6.7 million and $12.0 million, respectively, for the year ended December 31, 2013.

Comparison of Results of Operations for the Fourth Quarter of 2014 versus the Fourth Quarter of 2013

Revenues – The following table summarizes GWRI's revenues for the three months ended December 31, 2014 and 2013 (in thousands of US$).

	Three Months Ended December 31,	
	2014	2013
Water services	$ 4,245	$ 4,223
Wastewater and recycled water services	3,551	3,498
Unregulated revenues	117	45
Total revenues	$ 7,913	$ 7,766

Total revenues increased $147,000, or 1.9%, for the three months ended December 31, 2014 compared with the three months ended December 31, 2013. The increase in revenues is primarily due to an increase in active service connections compared to prior year. This increase was partially offset by a decrease in consumption during the fourth quarter of 2014 compared to the fourth quarter of 2013. The decrease in consumption was primarily driven by unusually high levels of precipitation during the quarter.

Water Services – Water services revenues increased $22,000, or 0.5%, to remain relatively constant at $4.2 million for the three months ended December 31, 2014 and December 31, 2013, respectively.

Active water connections increased 1.9% to 26,188 as of December 31, 2014 from 25,688 as of December 31, 2013. Water consumption decreased 2.6% to 621 million gallons for the three months ended December 31, 2014 from 637 million gallons for the three months ended December 31, 2013. Despite decreased consumption, water services revenue based on consumption increased 0.4% to $1.7 million from $1.6 million for the three months ended December 31, 2014 and 2013, respectively. Revenue growth occurred despite a decline in total consumption due to an increase in consumption by customers within our highest billing tiers.

Water services revenue (excluding miscellaneous charges) associated with the basic service charge remained relatively constant at $2.5 million for the three months ended December 31, 2014 and December 31, 2013, with a slight $9,000 increase reflecting growth in total active connections.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenues increased 1.5% to $3.6 million for the three months ended December 31, 2014 from $3.5 million for the three months ended December 31, 2013. The increase was primarily due to the number of active connections, which increased 2.0% to 17,380 as of December 31, 2014 from 17,038 as of December 31, 2013.

Wastewater revenue (excluding miscellaneous charges) which is billed and recognized at a flat rate per connection increased $64,000, or 1.9%, to a total of $3.4 million for the three months ended December 31, 2014 compared to $3.3 million for the three months ended December 31, 2014. This increase is consistent with the increase in active connections.

Recycled water revenue, which is based on the number of gallons delivered, decreased $3,000, or 3.2%, to $76,000 for the three months ended December 31, 2014 compared to $79,000 for the three months ended December 31, 2013. The volume of recycled water delivered decreased to 134 million gallons for the three months ended December 31, 2014 from 139 million gallons for the three months ended December 31, 2013.

Unregulated Revenues – Unregulated revenues totaled $117,000 for the three months ended December 31, 2014 compared to $45,000 for the three months ended December 31, 2013, representing an increase of $72,000. The increase was driven by an increase in revenues imputed from ICFA arrangements.

Operating Expenses – Operating expenses increased $776,000, or 12.4% for the three months ended December 31, 2014 compared to the three months ended December 31, 2013.

The following table summarizes GWRI's operating expenses for the three months ended December 31, 2014 and 2013 (in thousands of US$):

	Three Months Ended December 31,	
	2014	2013
Operations and maintenance	$ 2,563	$ 2,460
General and administrative	2,199	1,671
Depreciation	2,279	2,134
Total operating expenses	$ 7,041	$ 6,265

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, increased $103,000, or 4.2%, for the three months ended December 31, 2014 compared to the three months ended December 31, 2013.

The majority of the increase is attributed to increase in personnel expense of approximately $134,000. Personnel costs increased for the three months ended December 31, 2014 compared to the three months ended December 31, 2013 due to an increase in medical claims, which led to an increase in medical expense.

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 increased $528,000, or 31.6%, during the three months ended December 31, 2014 compared to the three months ended December 31, 2013.

Personnel costs increased $314,000 or 32.6% to $1.3 million for the three months ended December 31, 2014 from $1.0 million for the three months ended December 31, 2013. This increase is primarily driven by an increase of $106,000 in deferred compensation as a result of the ongoing vesting of certain deferred compensation agreements, an increase of $98,000 in medical expense driven by an increase in claims compared to prior year, and an increase of $86,000 in salary and wages related to certain personnel changes.

GWRI's professional fees, which include legal and accounting costs, increased $164,000, or 90.6%, to $345,000 for the three months ended December 31, 2014, compared to $181,000 for the three months ended December 31, 2013. Professional fees increased primarily due to an increase in audit and legal fees, which were driven by a change in timing of certain audit procedures and certain ongoing corporate initiatives.

Depreciation – Depreciation expense increased by $145,000, or 6.8%, to $2.3 million for the three months ended December 31, 2014. The increase primarily reflects increase in depreciation at the regulated utilities due to the Rate Decision No. 74364, whereby ICFA funds are no longer recorded as CIAC, and therefore, ICFA-related CIAC amortization will no longer be recorded as a reduction to depreciation expense.

Other Income (Expense) – Other income (expense) totaled $2.2 million of net expense for the three months ended December 31, 2014 compared to $1.4 million of net expense for the three months ended December 31, 2013. Total other income (expense) primarily consists of interest expense and other miscellaneous gains and losses. Interest expense increased by $674,000 compared to the three months ended December 31, 2013 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, 2014, the Company recorded income of $618,000 on its equity method investment in FATHOM compared to a loss of $308,000 for the three months ending December 31, 2013. 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. Additionally, a gain of $1.1 million was recorded on the 303 Sale during the three months ended December 31, 2013 which did not occur during the same period in fiscal year 2014.

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

In early 2014, we reversed substantially all of the valuation allowance, and for the three months ended December 31, 2014, we recorded a $518,000 income tax benefit related to our current period losses.

Net Income (Loss) – The Company's net loss totaled $839,000 for the three months ended December 31, 2014 compared to net income of $137,000 for the three months ended December 31, 2013. This difference was due to the variety of factors discussed above, but was primarily driven by the $1.1 million gain on the 303 Sale in the fourth quarter of 2013. For additional discussion, refer to the sections *Revenues* and *Operating Expenses* above.

EBITDA and Adjusted EBITDA – EBITDA totaled $3.9 million for the three months ended December 31, 2014 compared to $4.6 million for the three months ended December 31, 2013. This difference was primarily due to the one-time $1.1 million gain related to the 303 Sale in the third quarter of 2013.

Adjusted EBTIDA totaled $3.3 million for the three months ended December 31, 2014 compared to $3.8 million for the three months ended December 31, 2013. The decrease in Adjusted EBITDA was primarily due to higher operating and maintenance and general and administrative expenses in the fourth quarter of 2014 as discussed above.

A reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA in the three months ended December 31, 2014 and 2013 is as follows (in thousands of US$):

	Three Months Ended December 31,	
	2014	2013
Net income (loss)	**$ (839)**	**$ 137**
Income tax expense (benefit)	(518)	11
Interest income	(15)	(20)
Interest expense	3,025	2,351
Depreciation	2,279	2,134
EBITDA(1)	**$ 3,932**	**$ 4,613**
EBITDA Adjustments	(618)	(846)
Adjusted EBITDA(2)	**$ 3,314**	**$ 3,767**

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

(2) Adjusted EBITDA is defined as EBITDA less the gain or loss related to non-recurring events, and includes an adjustment for the income (loss) on equity method investment, the gain on the 303 Sale and for the loss on sale of GWM in the fourth quarter of 2013. Adjusted EBITDA is not a recognized measure under U.S. GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other companies. The table above reconciles EBITDA to net income (loss). See "Cautionary Statements Regarding Non-GAAP Measures" for further information regarding EBITDA.

Net Income (Loss) and EBITDA Per Share Information – The common stock of GWRI is not publicly traded and reporting per share information is not a required disclosure. However, management believes that net earnings (loss) per share and EBITDA per share data may be useful to some users of the financial statements as those users make decisions related to GWRC, which holds an approximate 48.1% interest in GWRI. The following table summarizes such information for the three months ended December 31, 2014 and 2013 (amounts in thousands of US$, except share and per share data):

	Net Loss	EBITDA
Amount for the three months ended December 31, 2014	$ (839)	$ 3,932
Weighted average number of GWRI shares outstanding during the three months ended December 31, 2014	182,050	182,050
GWRI per share amount (1)	$ (4.61)	$ 21.60
GWRI per share, excluding income on equity method investment (2)	$ (8.00)	$ 18.20

	Net Income	EBITDA
Amount for the three months ended December 31, 2013	$ 137	$ 4,613
Weighted average number of GWRI shares outstanding during the three months ended December 31, 2013	182,050	182,050
GWRI per share amount (1)	$ 0.75	$ 25.34
GWRI per share, excluding the loss on sale of GWM, gain on 303 Sale and loss on equity method investment (3)	$ (3.89)	$ 20.69

(1) Each share of GWRI is approximately equivalent to 100 common shares of GWRC. Therefore, GWRI's net loss per share and EBITDA per share amounts in terms of GWRC's common shares is approximately $(0.05) and $0.22 for three months ended December 31, 2014, respectively, and net income per share and EBITDA per share of approximately $0.01 and $0.25 for the three months ended December 31, 2013, respectively. EBITDA and EBITDA per share data are not U.S. GAAP measures.

(2) Excluding income on equity method investment, net loss and EBITDA would total $1.5 million and $3.3 million, respectively, for the three months ending December 31, 2014.

(3) Excluding the loss on sale of GWM and gain on 303 Sale, net loss and EBITDA would total $0.7 million and $3.8 million, respectively, for the three months ending December 31, 2013.

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

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

The following table sets forth audited consolidated financial data for the last eight quarters ended December 31, 2014 (in thousands of US$). This financial information has been derived from the audited interim financial statements prepared by and is the responsibility of the Company's management.

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
REVENUES:								
Water services	$ 4,245	$ 5,087	$ 5,127	$ 3,617	$ 4,223	$ 5,405	$ 4,973	$ 3,599
Wastewater and recycled water services	3,551	3,584	3,612	3,365	3,498	3,536	3,482	3,313
Unregulated revenues	117	124	116	14	45	49	634	677
Total revenues	7,913	8,795	8,855	6,996	7,766	8,990	9,089	7,589
OPERATING EXPENSES:								
Operations and maintenance	2,563	2,677	2,695	2,483	2,460	3,043	3,338	3,154
General and administrative	2,199	1,841	2,280	2,489	1,671	2,608	2,535	2,809
Gain on regulatory order	—	—	—	(50,664)	—	—	—	—
Depreciation	2,279	2,255	2,427	2,244	2,134	2,306	2,664	2,697
Total operating expenses	7,041	6,773	7,402	(43,448)	6,265	7,957	8,537	8,660
OPERATING INCOME (LOSS)	872	2,022	1,453	50,444	1,501	1,033	552	(1,071)
OTHER INCOME (EXPENSE):								
Interest income	15	23	22	19	20	20	6	1
Interest expense	(3,025)	(2,111)	(2,152)	(2,224)	(2,351)	(2,209)	(2,136)	(2,239)
Other	781	23	(147)	1,921	978	1,818	(1,964)	17
Total other income (expense)	(2,229)	(2,065)	(2,277)	(284)	(1,353)	(371)	(4,094)	(2,221)
INCOME (LOSS) BEFORE INCOME TAXES	(1,357)	(43)	(824)	50,160	148	662	(3,542)	(3,292)
INCOME TAX BENEFIT (EXPENSE)	518	17	335	16,125	(11)	(2)	(1)	(2)
NET INCOME (LOSS)	$ (839)	$ (26)	$ (489)	$ 66,285	$ 137	$ 660	$ (3,543)	$ (3,294)
GAIN (LOSS), EXCLUDING GAIN ON REGULATORY ORDER, (INCOME) LOSS ON EQUITY METHOD INVESTMENT, GAIN ON 303 SALE, LOSS ON THE SALE OF GWM AND TAX VALUATION ALLOWANCE	(1,456)	41	(256)	(332)	(709)	(1,151)	(1,534)	(3,294)
EBITDA, ADJUSTED TO EXCLUDE GAIN ON REGULATORY ORDER, GAIN ON 303 SALE, LOSS ON THE SALE OF GWM, (GAIN) LOSS ON EQUITY METHOD INVESTMENT, AND DEFERRED COMPENSATION	3,563	4,575	4,497	4,414	3,909	3,720	3,146	1,750

Business Divisions

The following table summarizes GWRI's operating results by business division for the three months ended and years ended December 31, 2014 and 2013 (in thousands of US$).

	Regulated	Unregulated	Other	Eliminations	Total
Three months ended December 31, 2014					
Revenues	$ 7,811	$ —	$ 102	$ —	$ 7,913
Operations and maintenance	2,563	—	—	—	2,563
General and administrative	1,555	—	644	—	2,199
Gain on regulatory order	—	—	—	—	—
Depreciation	2,279	—	—	—	2,279
Operating income (loss)	1,414	—	(542)	—	872
Other income (expense)	(63)	—	(2,166)	—	(2,229)
Income (loss) before income taxes	1,351	—	(2,708)	—	(1,357)
Income tax (expense) benefit	(1,145)	—	1,663	—	518
Net Income (Loss)	$ 206	$ —	$ (1,045)	$ —	$ (839)
EBITDA[1]	$ 3,782	$ —	$ 150	$ —	$ 3,932
EBITDA, adjusted to exclude deferred compensation and equity loss	$ 3,579	$ —	$ (265)	$ —	$ 3,314

	Regulated	Unregulated	Other	Eliminations	Total
Three months ended December 31, 2013					
Revenues					
Recurring	$ 7,734	$ —	$ —	$ —	$ 7,734
Non recurring	32	—	—	—	32
Operations and maintenance					
Recurring	2,440	—	—	—	2,440
Non recurring	20	—	—	—	20
General and administrative	1,671	—	—	—	1,671
Depreciation	2,134	—	—	—	2,134
Operating income (loss)	1,501	—	—	—	1,501
Other income (expense)	1,111	—	(2,464)	—	(1,353)
Income (loss) before income taxes	2,612	—	(2,464)	—	148
Income tax expense	—	—	(11)	—	(11)
Net Income (Loss)	$ 2,612	$ —	$ (2,475)	$ —	$ 137
EBITDA[1]	$ 4,788	$ —	$ (175)	$ —	$ 4,613
EBITDA, adjusted to exclude deferred compensation, equity loss and gain on 303 sale.	$ 3,658	$ —	$ 109	$ —	$ 3,767

	Regulated	Unregulated	Other	Eliminations	Total
Year ended December 31, 2014					
Revenues	$ 32,246	$ —	$ 313	$ —	$ 32,559
Operations and maintenance	10,418	—	—	—	10,418
General and administrative	6,307	—	2,502	—	8,809
Gain on regulatory order	—	—	(50,664)	—	(50,664)
Depreciation	9,205	—	—	—	9,205
Operating income (loss)	6,316	—	48,475	—	54,791
Other income (expense)	(140)	—	(6,715)	—	(6,855)
Income (loss) before income taxes	6,176	—	41,760	—	47,936
Income tax (expense) benefit	24,349	—	(7,354)	—	16,995
Net Income (Loss)	$ 30,525	$ —	$ 34,406	$ —	$ 64,931
EBITDA(1)	$ 15,670	$ —	$ 50,904	$ —	$ 66,574
EBITDA, adjusted to exclude gain on regulatory order, equity loss and deferred compensation	$ 12,653	$ —	$ 1,092	$ —	$ 13,745

	Regulated	Unregulated	Other	Eliminations	Total
Year ended December 31, 2013					
Revenues					
Recurring	$ 32,084	$ 1,942	$ —	$ (752)	$ 33,274
Non recurring	160	—	—	—	160
Operations and maintenance					
Recurring	9,404	2,486	—	—	11,890
Non recurring	92	13	—	—	105
General and administrative	8,384	1,991	—	(752)	9,623
Depreciation	8,776	1,025	—	—	9,801
Operating income (loss)	5,588	(3,573)	—	—	2,015
Other income (expense)	3,197	(12)	(11,224)	—	(8,039)
Income (loss) before income taxes	8,785	(3,585)	(11,224)	—	(6,024)
Income tax expense	—	(3)	(13)	—	(16)
Net Income (Loss)	$ 8,785	$ (3,588)	$ (11,237)	$ —	$ (6,040)
EBITDA(1)	$ 17,720	$ (2,550)	$ (2,505)	$ —	$ 12,665
EBITDA, adjusted to exclude deferred compensation, equity loss, loss on sale of GWM and gain on 303 sale.	$ 14,455	$ (2,550)	$ 112	$ —	$ 12,017

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

Regulated – Our Regulated division primarily consists of our water, wastewater and recycled water utilities which are regulated by the ACC. Revenues from our Regulated division increased $45,000, or 0.6%, for the three months ended December 31, 2014 compared with the three months ended December 31, 2013. The increase in revenue for the three months ended December 31, 2014 compared to 2013, was primarily driven by an increase in the number of active connections.

Revenues from our Regulated division increased $2,000, or less than 0.1%, for the year ended December 31, 2014 compared with the year ended December 31, 2013. As discussed above, we experienced an exceptionally rainy season in the latter half of 2014. Despite the negative revenue effect driven by the abnormal weather conditions, the decline in consumption revenue was more than offset by the positive effects of our continued growth in active connections, which led to the slight increase in 2014 revenues compared to 2013.

Unregulated – Our Unregulated division, which consisted of the FATHOM business, was sold on June 5, 2013, and therefore there were no Unregulated revenues and or expenses recorded for the three months and year ended December 31, 2014 or for the three months ended December 31, 2013. For the year ended December 31, 2013, before intercompany eliminations, revenues of our Unregulated division totaled $1.9 million.

The Company's Unregulated division historically considered the Regulated division as a FATHOM client. GWM has provided the same or similar services to the Regulated division as it provides to third-party FATHOM clients. For the year ended December 31, 2013, fees charged by FATHOM to the Regulated division totaled $752,000, and were included in revenues of the Unregulated division and in expenses of the Regulated division in the table above, and prior to the sale of GWM, these amounts were eliminated in consolidation.

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

For the three months ended December 31, 2014, this category also includes $102,000 of imputed revenues resulting from ICFA arrangements, $618,000 of income from equity method investment as a result of the remeasurement of the value of our investments in FATHOM related to the qualified refinancing in 2014, net of losses incurred by FATHOM, approximately $14,000 of interest income related to our convertible promissory notes, and approximately $75,000 of earn-out royalties received from FATHOM. For the year ended December 31, 2014, this category also includes the $50.7 million gain on regulatory order resulting from the ACC's Rate Decision No. 74364, $144,000 of income from equity method investment recorded as a result of the remeasurement of our investments net of current year losses incurred by FATHOM, approximately $78,000 of interest income related to our convertible promissory notes, and approximately $272,000 of earn-out royalties received from FATHOM.

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

Outstanding Share Data

As of March 25, 2015, there were 182,050 shares of common stock of GWRI outstanding and options to acquire an additional 431 shares of common stock of GWRI.

Liquidity and Capital Resources

The Company's capital resources are provided by internally generated cash flows from operations, as well as debt and equity financing. Additionally, GWRI's regulated utility subsidiaries receive advances and contributions from customers, home builders and real estate developers to partially fund construction necessary to extend service to new areas. GWRI uses its capital resources to (i) fund operating costs, (ii) fund capital requirements, including construction expenditures, (iii) make debt and interest payments, and (iv) invest in new and existing ventures. GWRI's utility subsidiaries operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as recovery through rate increases is subject to regulatory lag. As a result of these factors, GWRI's working capital, defined as current assets less current liabilities, as of December 31, 2014, is in a net deficit position, which is typical for rate regulated water utilities.

As discussed in Note 9 to GWRI's consolidated financial statements, in November 2014 we refinanced the 2012A Series and 2012B Series bonds along with the Regions term loan. As part of the transaction, we entered into the MidFirst Term Loan, wherein we were able to secure a note of $21.8 million to replace the $21.8 million outstanding balance of the previous three debt facilities. By entering into the MidFirst Term Loan, we were able to consolidate our debt at a more attractive interest rate, as well as reduce the yearly principal amortization, which reduces our interest costs and improves our cash flow.

As of December 31, 2014, GWRI had significant notable near-term cash expenditure obligations. Most significantly, the Company has approximately $10.4 million of debt interest and principal payments due within the next year. While specific facts and circumstances could change, we believe that, together with cash on hand, we will be able to generate sufficient cash flows to meet our required debt service and operating cash flow requirements as well as remain in compliance with our debt covenants for at least the next twelve months.

In March 2014, the Company initiated a dividend program wherein we have declared and paid a monthly dividend since the inception of the program. The initial monthly dividends were approximately $379,000 (or approximately $0.021 per share). In November 2014 the Company increased the monthly dividend to approximately $403,000 (or approximately $0.023 per share). The Company expects that monthly dividends of similar amounts will be declared and paid for the foreseeable future. Declaration of any dividends is at the discretion of the Company's board of directors.

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

The following table provides a summary of the major items affecting GWRI's cash flows from operating activities for the years ended December 31, 2014 and 2013 (in thousands of US$):

	Years Ended December 31,	
	2014	2013
Net income (loss)	$ 65,302	$ (6,040)
Add (subtract):		
Non-cash operating activities(1)	(56,545)	10,305
Changes in working capital(2)	(201)	(2,442)
Changes in noncurrent assets and liabilities	3,090	246
Net cash provided by operating activities	$ 11,646	$ 2,069

(1) Includes deferred compensation, depreciation and amortization, gains and losses, write-off of debt issuance costs, gain (loss) on equity investment, income tax expense (benefit), and provision for losses on accounts receivable, as well as the $50.7 million gain on regulatory order recorded during the year ended December 31, 2014.

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

For the years ended December 31, 2014 and 2013, GWRI's net cash provided by operating activities totaled $11.6 million and $2.1 million, respectively. The $9.6 million increase in cash provided from operating activities was primarily driven by $2.8 million of ICFA funds and approximately $2.0 million of interest received in the first quarter of 2014 in connection with the settlement of the SNR litigation. In addition, the Company has experienced an improvement in earnings and operating cash flows as a result of the sale of GWM as GWRI is no longer financing the losses generated by the FATHOM business.

Cash Flows Used in Investing Activities – Cash flows used in investing activities for the years ended December 31, 2014 and 2013 were as follows (in thousands of US$):

	Years Ended December 31,	
	2014	2013
Capital expenditures	$ (1,655)	$ (5,294)
Other investing activities, net[(1)]	224	4,732
Net cash used in investing activities	$ (1,431)	$ (562)

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

For the years ended December 31, 2014 and 2013, GWRI's net cash used in investing activities totaled $1.4 million and $0.6 million, respectively. The $0.9 million increase in net cash used in investing activities was primarily driven by the $3.1 million in proceeds received from the 303 Sale and $1.8 million in proceeds from the sale of GWM in 2013 that were not received in 2014. These proceeds were partially offset by a $3.6 million decrease in cash used to fund capital expenditures. The decrease in cash used to fund capital expenditures is primarily attributable to the sale of GWM in 2013, wherein $2.7 million of capital expenditures were incurred in 2013 for GWM that did not occur in 2014, in addition to certain GWRI IT infrastructure expenditures at the end of 2013 resulting from the divestiture.

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

Cash Flows from Financing Activities – For the years ended December 31, 2014 and 2013, GWRI's cash used in financing activities totaled $5.6 million and $3.4 million, respectively. The $2.2 million increase in cash used for financing activities was primarily due to the $3.5 million of dividend payments made in 2014 that were not paid in 2013. The increase in cash used for dividends was partially offset by a reduction in principal paid on debt facilities related to the refinancing of our Regions debt facilities, wherein $1.8 million of funds held within the bond reserve fund were utilized to pay down our debt service requirements, thus reducing the amount of cash required to be used in financing activities.

Regulatory Restrictions

The issuance of long-term debt securities by GWRI does not require authorization of the ACC if no guarantee or pledge of the assets of the regulated subsidiaries of GWRI is utilized. However, ACC authorization is required for the issuance of long-term debt by GWRI's regulated subsidiaries. GWRI's regulated subsidiaries normally obtain the required approvals on a periodic basis to cover their anticipated financing needs for a period of time or in connection with a specific financing.

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

Insurance Coverage

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

Contractual Obligations and Commitments

GWRI enters into obligations with third parties in the ordinary course of business. The amounts of these obligations, as of December 31, 2014 are set forth in the table below (in thousands of US$):

Contractual obligations (1)	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	More than 5 Years
Long term debt obligations (2)	$ 130,187	$ 2,563	$ 5,537	$ 6,369	$ 115,718
Interest on long term debt (3)	121,241	8,411	16,253	15,734	80,843
Capital lease obligation	317	91	175	51	—
Interest on capital lease	45	22	22	1	—
Total	$ 251,790	$ 11,087	$ 21,987	$ 22,155	$ 196,561

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

(2) The long-term debt obligations reflected in the table above exclude the debt discount related to the Series 2007 bonds. The debt discount at December 31, 2014 totaled $359,000 and is netted within the bonds payable balance on GWRI's balance sheet. The debt discount is being amortized over the term of the Series 2007 bonds.

(3) Interest on GWRI's Series 2006, 2007 and 2008 bonds is based on the fixed rates. Interest on MidFirst term loan is variable based on the LIBOR.

Quantitative and Qualitative Disclosure about Market Risk

GWRI is exposed to market risk associated with changes in commodity prices, equity prices and interest rates. GWRI uses a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. A hypothetical 10% increase in interest rates associated with variable rate debt would result in a $51,000 reduction in GWRI's pre-tax income for the year ended December 31, 2014 and a $61,000 increase in GWRI's pre-tax loss for the year ended December 31, 2013. To reduce the risk from interest rate fluctuations, we have entered into two five-year interest rate cap transaction agreements for the majority of our variable-rate bond debt. Under the interest rate cap agreements, the Company will be reimbursed for the interest costs that may occur in excess of the interest rate cap levels.

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

Risk Factors

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

Related Party Transactions

See Note 8 to GWRI's audited consolidated financial statements for the year ended December 31, 2014.

Critical Accounting Policies and Estimates

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

The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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.

Evaluation of investments for other-than-temporary decline in value

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. We also consider 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. (See Note 1).

Equity investment in FATHOM - We evaluate our investment in FATHOM Partnership/GWM for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. The evaluation 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. (See Note 6).

For further discussion of the Company's accounting policies and estimates, refer to GWRI's 2014 audited consolidated financial statements.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer 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.

In connection with the preparation of the consolidated financial statements for the three months ended June 30, 2014, we determined that we had incorrectly calculated and classified certain components of our net deferred tax assets and related income tax benefit as of and for the three months ended March 31, 2014. These misstatements resulted in the need to record adjustments that were determined to be immaterial individually and in the aggregate; however, based on our evaluation of our tax resources and processes, management determined that there was a reasonable possibility that a material misstatement to the annual or interim financial statements might not have been prevented or detected in a timely manner. Accordingly, as of March 31, 2014, we determined that the Company had a material weakness in internal control over financial reporting with respect to its accounting for income taxes process.

To remediate the material weakness and improve our control over financial reporting with respect to accounting for income taxes, the Company, with oversight from our Audit Committee, implemented certain measures to increase the level of control in our income tax processes. Specifically, the Company subjected our income tax provision to an increased level of scrutiny and review by Company personnel, as well as increased the involvement of external accounting advisors in the preparation and review of our income tax provision. As a result of these measures, Management evaluated the design and operation of our internal control over financial reporting, using 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 (1992), as of December 31, 2014, and concluded that it has remediated the material weakness over financial reporting for taxes and that internal control over financial reporting is effective as of December 31, 2014.

Changes in Internal Controls over Financial Reporting

Other than the remediation of the previously-identified material weakness discussed above, there were no changes in internal control over financial reporting that occurred 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.

* * * * * *

GLOBAL WATER™

March 25, 2015

To Our Shareholders:

GWR Global Water Resources Corp. ("**GWRC**") is pleased to present our financial statements, along with the financial statements of Global Water Resources, Inc. ("**GWRI**"), for the year ended December 31, 2014. Because GWRI represents the sole asset of GWRC and is not consolidated into the financial statements of GWRC, the financial statements of GWRI for the year ended December 31, 2014 are filed together with the financial statements of GWRC.

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

Warm Regards,

Mike Liebman
Chief Financial Officer and Corporate Secretary

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

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gwresources.com

GWR GLOBAL WATER RESOURCES CORP.

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of GWR Global Water Resources Corp. (the "Company"), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Member of
Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GWR Global Water Resources Corp. as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 25, 2015

GWR GLOBAL WATER RESOURCES CORP.
BALANCE SHEETS
As of December 31, 2014 and December 31, 2013

		December 31, 2014		December 31, 2013
		(in thousands of US$, except share data)		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	189	$	—
Dividend receivable		—		—
Other current assets		18		—
Total current assets		207		—
Equity method investment		59,794		30,962
TOTAL ASSETS	$	60,001	$	30,962
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Dividends Payable, accounts payable and accrued expenses	$	212	$	10
Other noncurrent liabilities		155		72
Deferred tax liability		1,666		—
Total liabilities		2,033		82
COMMITMENTS AND CONTINGENCIES (see Note 9)				
SHAREDHOLDERS' EQUITY:				
Common stock, unlimited shares authorized, 8,754,612 shares issued and outstanding at December 31, 2014 and December 31, 2013		55,807		55,815
Retained earnings (accumulated deficit)		2,161		(24,935)
Total shareholders' equity		57,968		30,880
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	60,001	$	30,962

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2014 and 2013

	2014	2013
	(in thousands of US$, except share and per share data)	
GAIN (LOSS) FROM EQUITY INVESTMENT	$ 31,225	$ (3,628)
OPERATING EXPENSES	666	320
OPERATING INCOME (LOSS)	30,559	(3,948)
INCOME (LOSS) BEFORE INCOME TAXES	30,559	(3,948)
INCOME TAX EXPENSE	(1,666)	—
NET INCOME (LOSS)	$ 28,893	$ (3,948)
WEIGHTED AVERAGE SHARES:		
Basic	8,754,612	8,754,612
Diluted	8,764,494	8,754,612
EARNINGS (LOSS) PER SHARE:		
Basic	$ 3.30	$ (0.45)
Diluted	$ 3.30	$ (0.45)

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2014 and 2013

	Shares	Common Stock	Retained Earnings (Accumulated Deficit)	Total Equity
		(in thousands of US$, except share amounts)		
BALANCE – December 31, 2012	8,754,612	$ 55,767	$ (20,987)	$ 34,780
Stock-based compensation	—	48	—	48
Net loss	—	—	(3,948)	(3,948)
BALANCE – December 31, 2013	8,754,612	55,815	(24,935)	30,880
BALANCE – December 31, 2013	8,754,612	$ 55,815	$ (24,935)	$ 30,880
Stock-based compensation	—	(8)	—	(8)
Declared dividends paid or payable	—	—	(1,797)	(1,797)
Net income	—	—	28,893	28,893
BALANCE – December 31, 2014	8,754,612	$ 55,807	$ 2,161	$ 57,968

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
	(in thousands of US$)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 28,893	$ (3,948)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred compensation	—	25
(Gain) loss from equity investment	(31,225)	3,628
Deferred income tax expense	1,666	—
Deemed distribution from related party	372	—
Cash distributions received from related party	1,796	—
Other changes in assets and liabilities	169	9
Net cash provided by (used in) operating activities	1,671	(286)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deemed distribution from related party	126	286
Net cash provided by investing activities	126	286
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(1,608)	—
Net cash used in financing activities	(1,608)	—
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	189	—
CASH AND CASH EQUIVALENTS – Beginning of period	—	—
CASH AND CASH EQUIVALENTS – End of period	$ 189	$ —
Supplementary disclosure:		
Income taxes paid	$ —	$ —
Interest paid	$ —	$ —

See accompanying notes to the financial statements

GWR GLOBAL WATER RESOURCES CORP.
Notes to the Financial Statements

1. General Business Description

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

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

GWRI historically operated an unregulated business, whose services were marketed by GWRI as FATHOM Utility-to-Utility Solutions ("FATHOM™"). FATHOM™ offered an integrated suite of advanced technology-enabled platforms to provide third party services to municipalities and private utilities. The services offered by FATHOM™ provide automation, cost savings and opportunities for increased revenues. On June 5, 2013, GWRI sold a majority interest in the FATHOM™ business at which time they retained an approximate 12.7% interest, which is recorded as an equity method investment at GWRI. In December 2014, GWRI's ownership percentage was reduced to 8.0% as part of a qualified financing. As a result of the recapitalization, GWRI revalued the carrying value of its interest in the preferred units of FATHOM, recognizing a gain of $1.0 million.

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

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

Subsequent events have been evaluated through March 25, 2015, the date of report.

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Distributions payable to our shareholders are recorded when declared.

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

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

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

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

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

3. ACQUISITION OF INVESTMENTS

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

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

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

GWR GLOBAL WATER RESOURCES CORP.
Notes to the Financial Statements (Continued)

On January 28, 2011, the underwriters of the Offering exercised their over-allotment option and with the related net proceeds of $4,011,000, we purchased an additional 5,696 shares of GWRI's common stock, resulting in the Company owning an approximate 48.1% of GWRI (see Note 6).

The Company completed the process of determining the allocation of the amount invested in GWRI common stock to the underlying fair value of the net assets of GWRI. The allocation of the amount invested in GWRI is set forth as follows (in thousands of US$):

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

The components of the allocation are aggregated in the carrying value of the equity method investment in the Company's balance sheet. The portion of the allocation attributed to the intangible asset would be amortized over the contractual lives of the underlying FATHOM contracts. As indicated above, a deferred tax liability was established as a result of the book versus tax basis difference created by the intangible asset. Prior to the sale of the FATHOM business (See Note 1), amortization of the intangible asset and the reversal of the deferred tax liability was recorded each period as a component of the Company's gain (loss) from equity investment. Approximately $68,000 of the intangible asset was amortized and approximately $16,000 of the deferred tax liability was reversed in 2013 prior to the sale of FATHOM. However, as a result of the sale of the FATHOM business, we determined it appropriate to fully amortize the intangible asset as GWRI no longer owned the FATHOM contracts. Accordingly, during the year ended December 31, 2013, the Company wrote-off the remaining $0.9 million intangible balance and reversed the remaining $0.2 million of the deferred tax liability.

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

The Company recorded a gain on equity investment of approximately $31.2 million and a loss of approximately $3.6 million for the years ended December 31, 2014 and 2013, respectively. The Company's gain on its equity method investment compared to the prior year loss was driven by (i) a nonrecurring gain recognized by GWRI upon receipt of a regulatory order from GWRI's economic regulator, and (ii) by GWRI's release of its deferred income tax valuation allowance during the 2014 period.

GWR GLOBAL WATER RESOURCES CORP.
Notes to the Financial Statements (Continued)

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

	December 31, 2014		December 31, 2013	
ASSETS:				
Net property, plant and equipment	$	240,424	$	249,010
Current assets		12,293		7,010
Other assets		54,884		41,917
TOTAL ASSETS	$	307,601	$	297,937
LIABILITIES:				
Current liabilities	$	13,630	$	12,338
Noncurrent liabilities		266,291		318,441
TOTAL LIABILITIES		279,921		330,779
SHAREHOLDERS' EQUITY (DEFICIT)		27,680		(32,842)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$	307,601	$	297,937

The following contains summarized financial data of GWRI's results of operations for the years ended December 31, 2014 and 2013 (U.S. GAAP in thousands of US$):

	2014		2013	
Revenues	$	32,559	$	33,434
Operating expenses		(22,232)		31,419
Operating income		54,791		2,015
Total other expense, net		(6,855)		(8,039)
Income (loss) before income taxes		47,936		(6,024)
Income tax benefit (expense)		16,995		(16)
Net income (loss)	$	64,931	$	(6,040)

The Company evaluates its investment in GWRI for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. Through December 31, 2013, GWRI's results of operations were below GWRI's previous forecasts, primarily due to slower than expected growth of the FATHOM business. This combined with the lower trading price of our stock relative to the price at the Offering warranted a review of the carrying value of our investment in GWRI for impairment. Accordingly, we performed a valuation assessment during 2013 and concluded that an impairment of the investment in GWRI did not exist as of December 31, 2013.

Since the date of the Offering through December 31, 2013, GWRC recorded significant equity investment losses as a result of losses generated by GWRI. However, in February 2014, GWRI completed the regulatory rate case which was initiated by GWRI's utility companies in 2011. The regulatory rate case provides, among other things, additional revenues to GWRI, which will be phased-in over time. During the year ended December 31, 2014, GWRI evaluated the impact of the rate case decision, including whether sufficient evidence exists that GWRI's net deferred tax assets will be utilized in the future, thus allowing the reversal of the valuation allowance currently recorded at GWRI. With the exception of the phase-in of new rates to be charged to GWRI's utility customers, the impact of the rate decision was effective for GWRI in the first quarter of 2014. The impact of the rate decision, combined with the effect of reversing the valuation allowance, resulted in approximately $66.8 million of additional income in GWRI's financial statements for the year ended December 31, 2014, of which 48.1% flowed through as a gain from GWRC's equity investment , which significantly increased 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. However, this analysis is sensitive to management assumptions including forecasted results of GWRI and as a result, changes in these assumptions could have a material impact on the analysis.

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

4. RELATED PARTY TRANSACTIONS

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

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

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

Notwithstanding the foregoing, the Company is solely responsible for the selection of accountants, lawyers, consultants, investment bankers and other such professional advisors, as well as other service providers from time to time, to provide advice and other administrative services directly to the Company. Further, the Company is responsible for certain costs including the fees paid to members of our board of directors. Since the Company has no cash, other than cash received for dividends, and does not expect to have cash flows from operating activities, the operating costs incurred by the Company are paid by GWRI. Amounts paid by GWRI on the Company's behalf during the year ended December 31, 2014 totaled $498,000, and total approximately $1.4 million since the Company's incorporation in 2010. The Company accounts for the amounts paid by GWRI on its behalf as distributions from GWRI. As such, the amounts paid by GWRI reduce the carrying value of the Company's equity method investment.

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

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

Stock compensation expense recorded as part of the gain (loss) from equity investment in GWRI totaled zero and $25,000 for the years ended December 31, 2014 and 2013, respectively.

Due to attrition and the sale of FATHOM, certain former employees of GWRI forfeited their stock options, resulting in a reversal of approximately $8,000 and of previously recorded stock-based compensation during the year ended December 31, 2014. The total number of stock options forfeited totaled 116,470 as of December 31, 2014 and 107,186 for December 31, 2013, resulting in stock options of 269,227 and 278,511 outstanding as of December 31, 2014 and December 31, 2013, respectively.

5. INCOME TAXES

The Company purchased an equity investment in GWRI on December 30, 2010. Distributions from GWRI and income or loss generated by GWRI will result in outside basis differences between the carrying value of the investment compared to the tax basis of the investment. Outside basis differences between the carrying value and the tax basis of the investment in GWRI were evaluated for the tax consequences of the potential realization of an equity investment (e.g., disposition, dividends, return of capital, etc.) to determine the proper accounting for the reversal of any temporary differences in the tax basis and carrying value of the investment. At December 31, 2013, the book versus tax basis difference in the Company's equity investment totaled approximately $24.7 million and a deferred tax asset was recorded in the amount of $6.2 million based on a combined statutory tax rate of 25%. However, as it is was not more-likely-than-not that the deferred tax asset would be realized, a full valuation allowance was recorded against the deferred tax asset as of December 31, 2013. At December 31, 2014, the difference in the amount the carrying value exceeded the tax basis in the Company's equity investment totaled approximately $6.4 million and a deferred tax liability was recorded in the amount of $1.7 million based on a combined statutory tax rate of 26%, with an accompanying charge to income tax expense.

6. SHAREHOLDERS' EQUITY

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

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

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

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

7. EARNINGS PER SHARE

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

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

	Twelve Months Ended December 31,	
	2014	2013
Net income (loss) available to GWRC common shareholders - basic	$ 28,893	$ (3,948)
Net income (loss) available to GWRC common shareholders - diluted	$ 28,893	$ (3,948)
Weighted-average shares outstanding - basic	8,754,612	8,754,612
Effect of dilutive securities:		
Incremental shares from stock options	9,882	—
Weighted-average shares outstanding - diluted	8,764,494	8,754,612
Earnings (loss) per common share - basic	$ 3.30	$ (0.45)
Earnings (loss) per common share - diluted	$ 3.30	$ (0.45)

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

	Twelve Months Ended December 31,	
	2014	2013
Stock options	209,561	278,511

8. CAPITAL MANAGEMENT AND LIQUIDITY MATTERS

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

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

In March 2014, the Company initiated a dividend program wherein we declare and pay a monthly dividend. The initial monthly dividends were approximately C$0.022 per share. In November 2014, the Company increased the monthly dividend to approximately C$0.024 per share. The Company expects that monthly dividends of similar amounts will be declared and paid for the foreseeable future. Nevertheless, the ability of the Company to maintain its dividend program is dependent upon GWRI making distributions to the Company.

9. COMMITMENTS AND CONTINGENCIES

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

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

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GLOBAL WATER RESOURCES, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Global Water Resources, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Member of
Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Global Water Resources, Inc. and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 25, 2015

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2014 and December 31, 2013

	December 31, 2014	December 31, 2013
ASSETS	(in thousands of US$, except share data)	
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	$ 318,995	$ 317,319
Less accumulated depreciation	(78,571)	(68,309)
Net property, plant and equipment	240,424	249,010
CURRENT ASSETS:		
Cash and cash equivalents	6,577	1,960
Accounts receivable – net	1,365	1,474
Due from related party	457	939
Accrued revenue	1,762	1,809
Restricted cash	—	197
Prepaid expenses and other current assets	541	631
Deferred tax assets - current	1,591	—
Total current assets	12,293	7,010
OTHER ASSETS:		
Goodwill	13,082	13,082
Intangible assets – net	12,772	12,772
Regulatory assets	400	400
Deposits	25	28
Bond service fund and other restricted cash	9,927	11,383
Debt issuance costs - net	2,722	3,361
Convertible note	—	750
Equity method investment	1,150	141
Deferred tax assets	14,806	—
Total other assets	54,884	41,917
TOTAL	$ 307,601	$ 297,937
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 1,531	$ 1,778
Accrued expenses	6,832	3,793
Deferred revenue	13	16
Customer and meter deposits	2,601	2,579
Long-term debt – current portion	2,653	4,172
Total current liabilities	13,630	12,338
NONCURRENT LIABILITIES:		
Long-term debt	127,491	128,738
Deferred regulatory gain	19,730	—
Regulatory liability	7,859	11,227
Advances in aid of construction	89,206	97,253
Contributions in aid of construction – net	17,096	74,774
Deferred income tax liability	—	589
Acquisition liability	4,688	4,688
Other noncurrent liabilities	221	1,172
Total noncurrent liabilities	266,291	318,441
Total liabilities	279,921	330,779
Commitments and contingencies (see Note 13)		
EQUITY (DEFICIT):		
Common stock, $0.01 par value, 1,000,000 shares authorized, 182,050 shares issued and outstanding at December 31, 2014 and December 31, 2013	2	2
Paid in capital	50,639	55,048
Accumulated deficit	(22,961)	(87,892)
Total equity (deficit)	27,680	(32,842)
TOTAL	$ 307,601	$ 297,937

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2014 and 2013

	Year Ended December 31,	
	2014	2013
	(in thousands of US$)	
REVENUES:		
Water services	$ 18,076	$ 18,200
Wastewater and recycled water services	14,112	13,829
Unregulated revenues	371	1,405
Total revenues	32,559	33,434
OPERATING EXPENSES:		
Operations and maintenance	10,418	11,995
General and administrative	8,809	9,623
Gain on regulatory order	(50,664)	—
Depreciation	9,205	9,801
Total operating expenses	(22,232)	31,419
OPERATING INCOME	54,791	2,015
OTHER INCOME (EXPENSE):		
Interest income	79	47
Interest expense	(9,512)	(8,935)
Other	2,578	849
Total other income (expense)	(6,855)	(8,039)
INCOME (LOSS) BEFORE INCOME TAXES	47,936	(6,024)
INCOME TAX BENEFIT (EXPENSE)	16,995	(16)
NET INCOME (LOSS)	$ 64,931	$ (6,040)

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2014 and 2013

	Common Stock	Paid-in Capital	Accumulated Deficit	Total Equity (Deficit)
	(in thousands of US$)			
BALANCE – December 31, 2012	$ 2	$ 55,286	$ (81,852)	$ (26,564)
Stock-based compensation	—	48	—	48
Deemed distribution to related party	—	(286)	—	(286)
Net loss	—	—	(6,040)	(6,040)
BALANCE – December 31, 2013	$ 2	$ 55,048	$ (87,892)	$ (32,842)
BALANCE – December 31, 2013	$ 2	$ 55,048	$ (87,892)	$ (32,842)
Dividend declared	—	(3,904)	—	(3,904)
Stock-based compensation	—	(8)	—	(8)
Deemed distribution to related party	—	(497)	—	(497)
Net income	—	—	64,931	64,931
BALANCE – December 31, 2014	$ 2	$ 50,639	$ (22,961)	$ 27,680

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	Year Ended December 31,	
	2014	2013
	(in thousands of US$)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 64,931	$ (6,040)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred compensation	1,361	576
Depreciation	9,205	9,801
Amortization of deferred debt issuance costs and discounts	334	435
Write-off of debt issuance costs	696	—
Loss on disposal of fixed assets	6	2
Loss on disposal of GWM net assets	—	1,934
Gain on sale of 303 assets	—	(3,265)
(Gain) Loss on equity method investment	(144)	707
Gain on regulatory order	(50,664)	—
Other gains	(56)	—
Provision for doubtful accounts receivable	83	99
Deferred income tax expense (benefit)	(16,995)	16
Changes in assets and liabilities:		
Accounts receivable	26	(302)
Other current assets	—	(2,353)
Accounts payable and other current liabilities	(227)	213
Other noncurrent assets	34	352
Other noncurrent liabilities	3,056	(106)
Net cash provided by operating activities	11,646	2,069
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,655)	(5,294)
Proceeds from the disposal of fixed assets	16	13
Net cash received from the sale of GWM	—	1,771
Initial proceeds received from the sale of 303 contracts	—	3,130
Withdrawals (deposits) of restricted cash	198	(197)
Insurance proceeds from property damage claim	8	—
Deposits received (paid)	2	15
Net cash used in investing activities	(1,431)	(562)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of bond debt	(12,347)	(2,475)
Deposits in bond service fund	(1,000)	—
Proceeds withdrawn from bond service fund	626	—
Loan borrowings	21,800	—
Loan repayments	(10,390)	(605)
Principal payments under capital leases	(105)	(84)
Debt issuance costs paid	(346)	(195)
Advances in aid of construction	365	460
Contributions in aid of construction under ICFA agreements	—	221
Refunds of advances for construction	(747)	(685)
Dividends paid	(3,454)	—
Net cash used in financing activities	(5,598)	(3,363)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,617	(1,856)
CASH AND CASH EQUIVALENTS – Beginning of period	1,960	3,816
CASH AND CASH EQUIVALENTS – End of period	$ 6,577	$ 1,960

See accompanying notes to the consolidated financial statements

GLOBAL WATER RESOURCES, INC.
Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Leveraging its investment in technology that was initially developed to support and optimize its own utilities, GWRI also has operated an Unregulated business, whose services were marketed by GWRI's subsidiary Global Water Management LLC ("GWM") as FATHOM Utility-to-Utility ("U_2U™") Solutions ("FATHOM™"). FATHOM™ offers an integrated suite of cloud-based geo-spatial advanced technology-enabled platforms to provide third party services to municipalities and private utilities of any size. The services offered by FATHOM™ provide automation, cost savings and opportunities for increased revenues to GWM's municipal and private utility clients. On June 5, 2013, GWRI sold GWM and now owns a minority interest in the FATHOM™ business. See further discussion regarding the sale of GWM below.

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

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

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

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

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

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

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

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

In April 2011, GWM, GWRI’s subsidiary which owns and operates the Company’s FATHOM™ business, was reorganized from a limited liability company into Global Water Management, Inc. The reorganization was made to facilitate the growth of FATHOM™ by allowing the entity that owns FATHOM™ to hold contractors’ licenses in certain states that do not allow limited liability companies to be contractors. Subsequently, in April 2013, GWM was reorganized back into limited liability company in anticipation of the sale of GWM, discussed below.

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

GWRC is not part of the consolidated Company. GWRC has no employees and GWRI provides for the ongoing management and general administration of substantially all of GWRC’s business affairs pursuant to a management agreement between GWRC and GWRI to provide such services.

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (‘‘U.S. GAAP’’). The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The U.S. dollar is our reporting currency and the Company’s functional currency. Certain previously reported amounts have been reclassified to conform to the current presentation. (see Note 7).

Corporate Transactions — *Sale of Global Water Management, LLC* — On June 5, 2013, the Company sold Global Water Management, LLC (“GWM”) to an investor group led by a private equity firm that specializes in the water industry. GWM was a wholly-owned subsidiary of GWRI that owned and operated the FATHOM business, which historically served as one of GWRI’s two business divisions.

The transaction was effected through the sale of all of the outstanding membership interests of GWM to a wholly-owned subsidiary of Fathom Water Management Holdings, LLP (the “FATHOM Partnership”). The Company received the following consideration for the sale of GWM: (a) a cash payment of $4.25 million (subject to a post-closing working capital adjustment resulting in a $1.7 million liability for the Company, which the Company has paid as of December 31, 2013); and (b) the issuance to the Company of common and preferred units of the FATHOM Partnership valued at approximately $0.85 million (see Note 6). In addition, the Company is entitled to quarterly royalty payments based on a percentage of certain of GWM's recurring revenues for a 10-year period, up to a maximum of $15 million.

The Company made the election to record these quarterly royalty payments prospectively in income as the amounts are earned. Royalty payments earned totaled approximately $272,000 for the twelve months ended December 31, 2014, and totaled $112,000 for the twelve months ended December 31, 2013.

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

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

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

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

Concurrent with the closing, $750,000 of the cash portion of the purchase price was reinvested by the Company in a convertible promissory note issued by GWM's parent. The promissory note had an original maturity of December 31, 2014 and bore an interest at a rate of 10% per annum. In 2014 the convertible promissory note was converted into equity of the FATHOM Partnership. (See Note 6).

The Company continues to hold an indirect interest in GWM through its ownership of the common and preferred units of the FATHOM Partnership received in consideration for the sale of GWM. At the time of sale, these units represented an approximate 12.7% ownership interest in the FATHOM Partnership (on a fully diluted basis). Subsequent to the recapitalization of FATHOM in November 2014, at which time the convertible note was converted to FATHOM equity, the Company's resulting ownership of common and preferred units represented an approximate 8.0% ownership (on a fully diluted basis). At the time of recapitalization, the Company revalued the carrying value of the preferred units, recognizing a gain of $1.0 million.

GWM continues to provide billing, customer service and other support services for the Company's regulated utilities. The Company entered into a services agreement with GWM, whereby the Company agreed to use the FATHOM platform for all of its regulated utility services for a term of 10 years. The services agreement is automatically renewable for successive 10-year periods, unless notice of termination is given prior to any renewal period. Within the service agreement, we agreed to pay $7.69 per month for each active water connection. Based on current active connections, estimated annual costs of approximately $2.4 million are projected to be paid to GWM for services provided.

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

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

In addition, GWRI had signed separate Offsite Water Management Agreements ("WMA") with the same developers/landowners to provide the coordination, permitting, and engineering work for the related water utility service element of the project (note, whereas the 303 Utilities Company had agreements with the developers/landowners to service wastewater and recycled water, the Company did not have the rights to service water).

In September 2013, the Company sold the MXAs and WMAs along with their related rights and obligations to a third party (the "Transfer of Project Agreement", or "Sale of 303 Contracts"). Pursuant to the Transfer of Project Agreement, GWRI will receive total proceeds of approximately $4.1 million over a multi-year period. As part of the consideration, GWRI agreed to complete certain engineering work required in the WMAs, which work had been completed as of December 31, 2013. Since this engineering work has been completed, the Company effectively has no further obligations under the WMAs, MXAs or the Transfer of Project Agreement. As of December 31, 2013, the Company had received $2.8 million of proceeds and recognized income of approximately $3.3 million within other income (expense) in the statement of operations. Receipt of the remaining $1.3 million of proceeds will occur and be recorded as additional income over time as certain milestones are met between the third party acquirer and the developers/landowners.

Significant Accounting Policies - Significant accounting policies are as follows:

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

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

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

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

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

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

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

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

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

Revenue Recognition - Unregulated Revenues - Unregulated Revenues represent those revenues that are not subject to the ratemaking process of the ACC.

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

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

ICFA revenue is recognized when the following conditions are met:

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

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

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

Restricted Cash - Restricted cash represents cash deposited as a debt service reserve for certain loans and bonds.

Income Taxes - The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company's valuation allowance totaled $8,500 and $35.8 million as of December 31, 2014 and 2013, respectively (see Note 10).

We evaluate uncertain tax positions using a two-step approach. Recognition (step one) occurs when we conclude that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when we subsequently determine that a tax position no longer meets the more-likely-than-not threshold of being sustained. The use of a valuation allowance as a substitute for derecognition of tax positions is prohibited, and to the extent that uncertain tax positions exist, we provide expanded disclosures.

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

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

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

Pursuant to Rate Decision No. 71878 issued by the ACC on September 15, 2010 for the February 2009 filed rate cases for Santa Cruz, Palo Verde, Valencia, Greater Buckeye, Greater Tonopah and Willow Valley (the "2010 Regulatory Rate Decision"), ICFA funds received were accounted for as CIAC. The Company established a regulatory liability against the Company's intangible assets balance to offset the value of the intangible assets related to the expected receipt of ICFA fees in the future. As of December 31, 2013 the Company had a regulatory liability balance of $11.4 million. However, in 2014, in conjunction with Rate Decision No. 74364, the ACC determined that ICFA funds were no longer to be recorded as CIAC, but rather approximately 70% of funds received should be recorded as HUF, with the remaining 30% to be deferred and recognized according to the Company's ICFA revenue recognition policy (see Note 3). Accordingly, in 2014 30%, or $3.4 million, of the regulatory liability was reversed in connection with the recognition of the rate decision.

Debt Issuance Costs - In connection with the issuance of some of our long-term debt, we have incurred legal and other costs that we believe are directly attributable to realizing the proceeds of the debt issued. These costs are capitalized in other assets and amortized as interest expense using the effective interest method over the term of the respective debt. Amortization of debt issuance costs and discounts totaled $1.0 million for the year ended December 31, 2014, of which $696,000 was for the write off of debt issuance costs related to the Series 2012A and 2012B bonds and the Regions Term loan, which were retired in 2014. Amortization of debt issuance costs and discounts totaled $435,000 for the year ended December 31, 2013.

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

Advances and Contributions in Aid of Construction - The Company has various agreements with Developers and builders, whereby funds, water line extensions, or wastewater line extensions are provided to us by the Developers and are considered refundable advances for construction. These advances in aid of construction ("AIAC") are non-interest-bearing and are subject to refund to the Developers through annual payments that are computed as a percentage of the total annual gross revenue earned from customers connected to utility services constructed under the agreement over a specified period. Upon the expiration of the agreements' refunding period, the remaining balance of the advance becomes nonrefundable and at that time is considered contributions in aid of construction ("CIAC"). CIAC are amortized as a reduction of depreciation expense over the estimated remaining life of the related utility plant. For rate-making purposes, utility plant funded by advances and contributions in aid of construction are excluded from rate base. For the years ended December 31, 2014 and December 31, 2013, the Company transferred $7.4. million and $4.2 million of AIAC balances to CIAC for amounts for which the refunding period had expired, respectively.

Fair Value of Financial Instruments - The carrying values of cash equivalents, trade receivables, and accounts payable approximate fair value due to the short-term maturities of these instruments. See Note 9 for information as to the fair value of our long-term debt. Our refundable AIAC have a carrying value of $89.2 million and $97.3 million million at December 31, 2014 and December 31, 2013, respectively. Portions of these non-interest-bearing instruments are payable annually through 2032 and amounts not paid by the contract expiration dates become nonrefundable. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rate increases. However, the fair value of these amounts would be less than their carrying value due to the non-interest-bearing feature.

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

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

2. NEW ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB issued ASU 2014-08, which change the criteria for reporting discontinued operations and changing the disclosures for disposals that meet the definition under the new guidance. Under the new guidance, only disposals representing a strategic shift in a company's strategy would be deemed a discontinued operation. To meet the definition of strategic shift, the disposal should have a major effect on the organization's operations and financial results. Certain examples of the type of disposals that would qualify as a discontinued operation include a disposal of a major geographic area, a major line of business, or a major equity method investment. For those disposals that meet the criteria, expanded disclosures on assets, liabilities, income and expenses would apply. ASU 2014-08 is effective in the first quarter of 2015 for public entities with a calendar year end.

In May 2014, the FASB issued ASU 2014-09, which completes the joint effort between the FASB and IASB to converge the recognition of revenue between the two boards. The new standard affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets not included within other FASB standards. The guiding principal of the new standard is that an entity should recognize revenue in amount that reflects the consideration to which an entity expects to be entitled for the delivery of goods and services. To assess at which time revenue should be recognized, and 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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. 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, 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.

3. REGULATORY DECISION AND RELATED ACCOUNTING AND POLICY CHANGES

Our regulated utilities are subject to regulation by the ACC and meet the requirements for regulatory accounting found within ASC Topic 980.

In accordance with ASC Topic 980, rates charged to utility customers are intended to recover the costs of the provision of service plus a reasonable return in the same period. Initial rates are set by the ACC at the time the CC&N is established for an area. The initial rates are determined based on an application submitted by us that includes anticipated customer counts and required infrastructure with rates set to achieve a rate of return on equity invested in the utility. Changes in rates, if any, are made through further formal rate applications.

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

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

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

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

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

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

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

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

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

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

With the issuance of Rate Decision No. 74364, in February 2014, the ACC changed how ICFA funds would be characterized and accounted for going forward. Most notably, ICFA funds would no longer be CIAC. ICFA funds which were already received or which had become due prior to the date of Rate Decision No. 74364 would be accounted for in accordance with the Company's ICFA revenue recognition policy that had been in place prior to the 2010 Regulatory Rate Decision. For ICFA funds to be received in the future, Rate Decision No. 74364 prescribes that 70% of ICFA funds to be received by the Company will be recorded in the associated utility subsidiary as a HUF liability, with the remaining 30% to be recorded as deferred revenue, to be accounted for in accordance with the Company's ICFA revenue recognition policy.

The Company intends to account for the portion allocated to the HUF as a contribution, similar to CIAC. However, from the regulator's perspective, the HUF is not technically CIAC and does not impact rate base until the related funds are expended. Such funds will be segregated in a separate bank account and used for plant. A HUF liability will be established and will be relieved once the HUF funds are utilized for the construction of plant. For facilities required under a HUF or ICFA, the utilities must first use the HUF moneys received, after which, it may use debt or equity financing for the remainder of construction. The Company will record the 30% as deferred revenue, which is to be recognized as revenue once the obligations specified within the ICFA are met.

Regulatory asset – Under ASC Topic 980, rate regulated entities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company. Certain costs associated with our rate cases have been deferred on our balance sheet as regulatory assets as approved by the ACC. At December 31, 2014 and December 31, 2013, we have deferred $400,000 as a regulatory asset on our balance sheet related to costs incurred in connection with our most recent rate case. This amount will be amortized over a three-year period beginning January 2015, which period is aligned with the phase-in of the new rates provided by Rate Decision No. 74364.

Intangible assets / Regulatory liability – The Company had previously recorded certain intangible assets related to ICFA contracts obtained in connection with our Santa Cruz, Palo Verde and Sonoran Utility Services (''Sonoran'') acquisitions. The intangible assets represented the benefits to be received over time by virtue of having those contracts. Prior to January 1, 2010, the ICFA-related intangibles were amortized when ICFA funds were recognized as revenue. Effective January 1, 2010, in connection with the 2010 Regulatory Rate Decision, these assets became fully offset by a regulatory liability since the imputation of ICFA funds as CIAC effectively resulted in the Company not being able to benefit (through rates) from the acquired ICFA contracts. As of December 31, 2013, the regulatory liability amounted to \$11.2 million and was presented net against the related intangible assets on our balance sheet.

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

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

Notwithstanding the historical balance sheet presentation of the regulatory liability being reflected net against the related intangible assets on our balance sheet, effective March 31, 2014, the Company will present the intangible assets and the regulatory liability on a gross basis, with the regulatory liability being reflected in the liability section of the balance sheet (see Note 7).

The intangible assets will continue to amortize when the corresponding ICFA funds are received in proportion to the amount of total cash expected to be received under the underlying agreements. Nevertheless, whereas 70% of the regulatory liability remains recorded, the recognition of amortization expense will be reduced since the intangible assets amortization expense will be partially offset by a corresponding reduction of the regulatory liability.

Income taxes – As a result of the additional revenues expected to be provided by Rate Decision No. 74364, as well as other factors, the Company performed an evaluation of its deferred income taxes and determined that sufficient evidence now exists that the majority of the Company's net deferred tax assets will be utilized in the future. Accordingly in 2014, the Company reversed substantially all of the deferred tax valuation allowance previously recorded (see Note 9).

4. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2014	December 31, 2013	Average Depreciation Life (in years)
PROPERTY, PLANT AND EQUIPMENT:			
Mains/lines/sewers	$ 138,116	$ 137,944	47
Plant	79,983	79,527	25
Equipment	44,286	42,617	10
Meters	6,336	6,097	12
Furniture, fixture and leasehold improvements	430	400	8
Computer and office equipment	1,006	934	5
Software	163	158	3
Land and land rights	986	986	
Other	139	139	
Construction work-in-process	47,550	48,517	
Total property, plant and equipment	318,995	317,319	
Less accumulated depreciation	(78,571)	(68,309)	
Net property, plant and equipment	$ 240,424	$ 249,010	

5. ACCOUNTS RECEIVABLE

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

	December 31, 2014	December 31, 2013
Billed receivables	$ 1,523	$ 1,576
Less allowance for doubtful accounts	(158)	(102)
Accounts receivable – net	$ 1,365	$ 1,474

6. EQUITY METHOD INVESTMENT AND CONVERTIBLE NOTE

As discussed in Note 1, in connection with the sale of GWM, the Company made an investment in the FATHOM Partnership. This investment is accounted for under the equity method and consisted of a balance of $1.2 million and $141,000 for the years ended December 31, 2014 and 2013, respectively.

The original investment in FATHOM consisted of an investment of $750,000 in the Series A preferred units and $98,000 of common units. Additionally, GWRI invested $750,000 in a 10% convertible promissory note of GWM with an original maturity of December 31, 2014, which, as of December 31, 2013, was classified as available for sale, as we expected it to be converted prior to maturity. In May 2014, the maturity date of the note was extended to June 30, 2015. We accounted for this investment in accordance with relevant accounting guidance for debt and equity securities which requires the fair value measurement of the investment pursuant to ASC Topic 820, *Fair Value Measurement*. The fair value of the investment in the convertible notes at initial recognition was determined using the transaction price, of which the price paid by the Company was consistent with the price paid by third party investors for comparable convertible notes. On an ongoing basis the fair value of the convertible notes was determined using market data for comparable market instruments and transactions.

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

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

At December 31, 2014, the carrying value of our equity investment was $1.2 million. The carrying value of our investment is a reflection of our initial investment, the adjustment related to the qualified financing and our proportionate share of FATHOM's cumulative losses.

We evaluate our investment in FATHOM Partnership/GWM for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. Since the sale of GWM, the losses incurred on the investment were greater than anticipated; however, based upon our evaluation of various relevant factors, including the recent equity event, the ability of FATHOM to achieve and sustain an earnings capacity that would justify the carrying amount of our investment, as of December 31, 2014 we do not believe the investment to be impaired.

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

7. GOODWILL AND INTANGIBLE ASSETS

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

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

	December 31, 2014			December 31, 2013		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
INDEFINITE LIVED INTANGIBLE ASSETS:						
CP Water CC&N service area	$ 1,532	$ —	$ 1,532	$ 1,532	$ —	$ 1,532
Intangible trademark	13	—	13	13	—	13
	1,545	—	1,545	1,545	—	1,545
AMORTIZED INTANGIBLE ASSETS:						
Acquired ICFAs	17,978	(12,154)	5,824	17,978	(12,154)	5,824
Sonoran contract rights	7,406	(2,003)	5,403	7,406	(2,003)	5,403
	25,384	(14,157)	11,227	25,384	(14,157)	11,227
Total intangible assets	$ 26,929	$ (14,157)	$ 12,772	$ 26,929	$ (14,157)	$ 12,772

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

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

8. TRANSACTIONS WITH RELATED PARTIES

We provide medical benefits to our employees through our participation in a pooled plan sponsored by an affiliate of a shareholder and director of the Company. Medical claims paid to the plan were approximately $532,000 and $603,000 for the twelve months ended December 31, 2014 and 2013, respectively. Also, we have historically obtained legal services from a law firm in which one of our shareholders and directors has an interest. Total legal fees paid to this law firm were $11,000 for the twelve months ended December 31, 2013. No fees were paid to this law firm in 2014.

GWR Global Water Resources Corp. ("GWRC") was organized in 2010 and holds an approximate 48.1% interest in the Company. GWRI provides for the ongoing management and general administration of GWRC's business affairs pursuant to a management agreement between GWRC and GWRI to provide such services. Accordingly, GWRC is economically dependent on the Company. Services provided by the Company under the management agreement are provided at no charge to GWRC, and are not monetarily significant. However, GWRC does incur certain costs not covered by the management agreement. These include GWRC's accounting fees, listing fees and other costs directly associated with operating as a publicly traded company. Whereas GWRC does not expect to generate cash flows from operating activities, the operating costs incurred by GWRC are paid by the Company. Amounts paid by GWRI on GWRC's behalf during the twelve months ended December 31, 2014 and 2013 totaled $505,000 and $286,000, respectively. The Company accounts for such payments as equity distributions to GWRC.

As discussed in Note 1, GWM has historically provided billing, customer service and other support services for the Company's regulated utilities. Amounts collected by GWM from the Company's customers that GWM has not yet remitted to the Company are included within the 'due from related party' caption on the Company's consolidated balance sheet. Notwithstanding the sale of GWM on June 5, 2013, FATHOM will continue to provide these services to the Company's regulated utilities under a long-term service agreement. Based on current service connections, we estimate that fees to be paid to GWM for FATHOM services will be $7.69 per water account/month, an annual rate of approximately $2.4 million. Since the sale of GWM, the Company has incurred approximately $3.7 million of fees for FATHOM services, approximately $2.4 million and $1.3 million of which were incurred during the twelve months ended December 31, 2014 and 2013, respectively.

9. DEBT

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

	December 31, 2014		December 31, 2013	
	Short-term	Long-term	Short-term	Long-term
BONDS PAYABLE –				
5.450% Series 2006, maturing December 1, 2017	$ 930	$ 2,025	$ 880	$ 2,955
5.600% Series 2006, maturing December 1, 2022	—	6,215	—	6,215
5.750% Series 2006, maturing December 1, 2032	—	23,370	—	23,370
6.550% Series 2007, maturing December 1, 2037 – net of unamortized discount of $359 and $379 at December 30, 2014 and December 31, 2013, respectively	660	50,856	625	51,496
6.375% Series 2008, maturing December 1, 2018	185	635	175	820
7.500% Series 2008, maturing December 1, 2038	—	23,235	—	23,235
Variable – 65% of LIBOR plus 2.92% Series 2012A, retired November 2014	—	—	654	6,154
Variable - LIBOR plus 3.00% Series 2012B, retired November 2014	—	—	546	5,146
	1,775	106,336	2,880	119,391
TERM LOAN –				
LIBOR plus 3.25% Regions Term Loan, retired November 2014	—	—	1,200	9,100
LIBOR plus 3.00% MidFirst Term Loan, maturing November 10, 2024	788	20,929	—	—
OTHER LOANS –				
8.000% Garcia loan, retired November 2014	—	—	6	1
Capital lease obligations	90	226	86	246
Total debt	$ 2,653	$ 127,491	$ 4,172	$ 128,738

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

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

These loans had semiannual interest payments and annual principal payments, which commenced December 1, 2012. The Series 2012A Bonds accrued interest at a rate of 65% of LIBOR plus 242 or 292 basis points (“bps”) depending on debt service coverage ratios, and the Series 2012B Bonds accrued interest at a rate of LIBOR plus 250 or 300 bps also depending upon debt service coverage ratios. The 2012 Term Loan accrued interest at a rate of LIBOR plus 325 bps. The Series 2012A Bonds, Series 2012B Bonds and 2012 Term Loan were retired in November 2014, with the addition of the MidFirst Term Loan in November 2014.

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

MidFirst Term Loan – In November 2014, we secured a $21,800,000 term loan from MidFirst bank ("MidFirst Term Loan"). Principal and interest are paid monthly with payments calculated using a 20 year amortization schedule. The note matures in November 2024. The MidFirst Term Loan accrues interest at a variable rate of LIBOR plus 300 basis points. The note is collateralized with a security interest from customer payments for the remaining utilities included within WMC.

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

As of December 31, 2014, the Company was in compliance with its financial debt covenants.

At December 31, 2014, the remaining aggregate annual maturities of our debt and minimum lease payments under capital lease obligations for the years ended December 31 are as follows (in thousands of US$):

	Debt	Capital Lease Obligations
2014	$ 2,563	$ 113
2015	2,699	111
2016	2,838	86
2017	2,990	52
2018	3,379	1
Thereafter	115,717	—
Subtotal	$ 130,186	$ 363
Less: amount representing interest	—	(45)
Total	$ 130,186	$ 318

At December 31, 2014, the carrying value of the non-current portion of long-term debt was $127.5 million, with an estimated fair value of $143.1 million. At December 31, 2013, the carrying value of the non-current portion of long-term debt was $128.7 million, with an estimated fair value of $138.6 million. The fair value of our debt was estimated based on interest rates considered available for instruments of similar terms and remaining maturities.

10. INCOME TAXES

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

The income tax expense (benefit) from continuing operations for the years ended December 31, 2014 and 2013 is comprised of (in thousands of US$):

	2014	2013
Current income tax expense	(11)	—
Deferred income tax expense	(16,984)	16
Income tax expense (benefit)	(16,995)	16

The income tax expense (benefit) for the years ended December 31, 2014 and 2013 differs from the amount that would be computed using the federal statutory income tax rate due to the following (in thousands of US$):

	2014	2013
Computed federal tax (benefit) expense at statutory rate	16,298	(2,048)
State income taxes - net of federal tax benefit	2,056	(258)
Valuation allowance	(35,800)	2,140
Taxable meter deposits	18	182
Other temporary differences	437	—
Permanent differences	7	—
Tax credits	(11)	—
Income tax expense (benefit)	(16,995)	16

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

The following table summarizes the Company's temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities, including the valuation allowance, as of December 31, 2014 and December 31, 2013 (in thousands of US$):

	December 31, 2014	December 31, 2013
DEFERRED TAX ASSETS:		
Taxable meter deposits	$ 711	$ 708
Net operating loss carry forwards	4,785	6,147
Balterra intangible asset acquisition	336	345
Deferred gain on Sale of GWM	921	878
Contributions in aid of construction	—	24,187
Deferred gain on ICFA funds received	7,364	-
Regulatory liability related to intangible assets	2,933	3,011
Equity investment loss	210	271
Property, plant and equipment	1,669	767
Other	761	617
Total deferred tax assets	19,690	36,931
DEFERRED TAX LIABILITIES:		
CP Water intangible asset acquisition	(572)	(589)
ICFA intangible asset	(2,712)	(1,123)
Total deferred tax liabilities	(3,284)	(1,712)
Valuation allowance	(9)	(35,808)
Net deferred tax asset (liability)	$ 16,397	$ (589)

As of December 31, 2014, we have approximately $13.1 million in federal net operating loss ("NOL") carry forwards and $9.6 million in state NOLs available to offset future taxable income, with the NOLs expiring in 2029-2032 for the federal return and expiring in 2015-2032 for the state return (effective for the 2012 tax year and thereafter, state NOLs for the state of Arizona expire after 20 years).

During 2013, the Company received correspondence from the Internal Revenue Service ("IRS") regarding the deferred income tax gain related to its previously owned entities, Cave Creek Water Company, Inc. ("Cave Creek") and Pacer Equities, Inc. ("Pacer"), which we had acquired in March 2005. Cave Creek provided water utility operations and water distribution to residential and commercial customers in the vicinity of the Town of Cave Creek in Maricopa County, Arizona, and was regulated by the Commission. Pacer owned the water treatment facility utilized by Cave Creek. In 2007, the assets of Cave Creek and Pacer were sold to the Town of Cave Creek to settle a condemnation. Pursuant to the condemnation proceeding in March 2007, the Company agreed to convey the assets of Cave Creek and Pacer to the Town of Cave Creek (the "Town") as a sale and purchase. The total purchase price was $19.5 million, which along with interest was paid by the Town in two installments in 2007. The condemnation transaction resulted in a pre-tax gain of approximately $13.2 million. Since 2007, the tax gain had been deferred under Internal Revenue Code Section 1033 election as it had been expected that the tax gain would either reduce the tax basis of replacement assets acquired or be recognized in taxable income in a future period.

The correspondence from the IRS indicated that the Company's request for an extension of time to find replacement property has been denied and that the Company must now recognize the income in its tax return. Accordingly, during 2013, we amended our previously filed tax return for the year 2007. There was no significant tax payment required since the Company was able to utilize net operating loss deferred tax assets to offset the tax liability resulting from recognizing the tax gain.

11. DEFERRED COMPENSATION AWARDS

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

At December 31, 2014 and December 31, 2013, there were options to acquire 431 shares of common stock of GWRI outstanding. The options were all vested and exercisable at December 31, 2013. The stock options have a remaining contractual life of approximately 3.50 years and have an exercise price of $870.66 per share.

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

Due to attrition and the sale of GWM, certain former employees of the Company forfeited their stock options. The number of stock options forfeited totaled 116,470 and 107,186, resulting in stock options of 269,227 and 278,511outstanding at December 31, 2014 and December 31, 2013, respectively.

Stock-based compensation expense recorded during the years ended December 31, 2014 and 2013 totaled zero and $48,000.

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

On December 30, 2010, 350,000 PSUs were issued to members of management, with an initial value of approximately $2.6 million. PSUs are accounted for as liability compensatory awards under ASC 710, *Compensation – General*, rather than as equity awards. The PSU awards are remeasured each period based on the present value of the benefits expected to be provided to the employee upon vesting, which benefits are based on GWRC's share price multiplied by the number of units. The present value of the benefits is recorded as expense in the Company's financial statements over the related vesting period. The December 30, 2010 PSUs vested at the end of four years from the date of their issuance. There is no exercise price attached to PSU awards. As of December 31, 2014, 303,333 of these PSUs remain outstanding. The value of the PSUs were paid to the holders in January 2015.

In January 2012, 135,079 additional PSUs were issued to nine members of management as a reward for performance in 2011. The PSUs issued to management vest ratably over 12 consecutive quarters beginning January 1, 2012 and are accounted for as liability compensatory awards similar to the PSUs issued in December 2010. These PSUs will be remeasured each period and a liability will be recorded equal to GWRC's closing share price on the period end date multiplied by the number of units vested. As of December 31, 2014, 8,491 of these PSUs remain outstanding.

During the first quarter of 2013, 76,492 PSUs were issued to nine members of management as a reward for performance in 2012. The PSUs issued to management vest ratably over 12 consecutive quarters beginning January 1, 2013 and are accounted for as liability compensatory awards similar to the PSUs issued in December 2010 and January 2012. These PSUs will be remeasured each period and a liability will be recorded equal to GWRC's closing share price on the period end date multiplied by the number of units vested. As of December 31, 2014, 27,393 of these PSUs remain outstanding.

During the first quarter of 2014, 8,775 PSUs were issued to three members of management as a reward for performance in 2013. These PSUs vest ratably over 12 consecutive quarters beginning January 1, 2014. As of December 31, 2014, 3,341 of these PSUs remain outstanding.

Stock appreciation rights compensation – In January 2012, in an effort to reward employees for their performance in 2011 as well as to recognize performance since 2007, the last year the Company paid bonuses, we adopted a stock appreciation rights plan (the "SAR Plan") authorizing the directors of the Company to issue stock appreciation rights ("SARs") to our employees. The value of the SARs issued under the plan track the performance of GWRC's shares. Each holder of the January 2012 award has the right to receive a cash payment amounting to the difference between C $4.00 per share (the "exercise price") and the closing price of GWRC's common shares on the exercise date, provided that the closing price is in excess of C$4.00 per share. In total, 152,091 SARs were issued to employees below the senior management level, and 31,059 remained outstanding as of December 31, 2014. The SARs vested in equal installments over the four quarters of 2012 and will expire four years after the date of issuance. Holders of SARs may exercise their awards once they have vested. Individuals who voluntarily or involuntarily leave the Company forfeit their rights under the awards.

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

In the third quarter of 2013, the Company granted 100,000 SARs to a key executive of the Company. These SARs vest ratably over sixteen quarters from the grant date and give the employee the right to receive a cash payment amounting to the difference between C$2.00 per share (the "exercise price") and the closing price of GWRC's common shares on the exercise date, provided that the closing price is in excess of C$2.00 per share. The exercise price was determined by taking the weighted average share price of the five days prior to July 1, 2013.

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

The Company recorded approximately $1.3 million and $508,000 of compensation expense related to the PSUs and SARs for the twelve months ended December 31, 2014 and December 31, 2013, respectively. Based on GWRC's closing share price on December 31, 2014 deferred compensation expense to be recognized over future periods is estimated for the years ending December 31 as follows (in thousands of US$):

	PSU	SARs
2015	105	109
2016	6	109
2017	—	64
Total	$ 111	$ 282

12. SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the twelve months ended December 31, 2014 and 2013 (in thousands of US$):

	Twelve Months Ended December 31,	
	2014	2013
Cash paid for interest	$ 8,116	$ 8,113
Capital expenditures included in accounts payable and accrued liabilities	253	204
Convertible note received in the sale of GWM	—	750
Series A Preferred Units in FATHOM Partnership received in the sale of GWM	—	750
Bond reserve funds used to repay bond debt	1,833	—

13. COMMITMENTS AND CONTINGENCIES

Commitments – Prior to the sale of GWM, we leased certain office space in Arizona under operating leases with terms that expire in February 2016. The operating lease agreements are between GWM and the landlord. Accordingly, effective June 5, 2013, the Company is no longer a party under the lease agreements. Nevertheless, GWRI continues to utilize a portion of the office space covered under lease agreements, and GWRI agreed to reimburse GWM up to approximately $25,000 per month through December 31, 2013 for the Company's use of the office space. This rate and office space was renegotiated in January 2014. For the 2014 year, the Company leased office space from GWM for approximately $5,000 per month. Rent expense arising from the operating leases totaled approximately $70,000 and $420,000 for the twelve months ended December 31, 2014 and 2013, respectively.

We also lease the land on which one of our owned regional offices is located on a year-to-year basis. Rent expense associated with this land lease totaled approximately $8,000 for each of the years ended December 31, 2014 and 2013.

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

Contingencies – *Legal Matters – Global Water Resources, Inc v. Sierra Negra Ranch, LLC and New World Properties, Inc (American Arbitration Association Case No. 76 198 Y 0010411 & 76 198 Y 0010511 respectively)*: GWRI filed a claim against Sierra Negra Ranch, LLC ("SNR") and New World Properties, Inc ("NWP") for breach of the Infrastructure Coordination and Financing Agreements ("Agreements") for their respective developments. As the Agreements require binding arbitration for any dispute arising out of or relating in any way to the Agreements, we initiated a Demand for Arbitration and Statement of Claim against SNR and NWP (collectively the "Respondents") in May 2011 in response to the non-payment of certain fees due from Respondents to GWRI for major permitting milestones achieved. SNR and NWP did not dispute that we achieved the permit milestones that trigger payment. The monies we contended GWRI was owed pursuant to the Agreements from the Respondents were in excess of $3,700,000 of principal (not including interest and recovery of litigation costs, which we pursued during arbitration). Including interest and litigation costs, GWRI sought in excess of $6 million. In response, SNR and NWP filed counterclaims for amongst other things, breach of contract and rescission. The arbitration hearing concluded on March 2, 2012 and the interim award was received on March 28, 2012 indicating GWRI as the prevailing party in the arbitration. The final award was received April 20,

2012. According to the award, the arbitration panel found in the Company's favor on almost all claims, and ruled that the Company is entitled to approximately $4.2 million of ICFA fees, 15% per annum interest totaling $2.0 million and recovery of 1/3 of the legal costs incurred in connection with the litigation. In August 2012, we received the monies due from NWP totaling $2,044,000, consisting of $1,219,000 of past due ICFA fees, $719,000 of interest and $106,000 of reimbursed litigation costs.

Subsequent to the award, SNR filed for Chapter 11 bankruptcy. In July 2013, the Bankruptcy court ruled that SNR must cure their default in order to assume the ICFA, which would require full payment of past due ICFA fees, interest and reimbursement of legal costs by no later than March 21, 2014, stating that such value would be determined by the court at a future date. In October 2013, the Company entered into a settlement agreement with SNR wherein payment terms were set to serve as the basis of SNR's bankruptcy plan of reorganization. Under the plan and settlement agreement that was approved by the court, the Company would receive monies due from SNR totaling $5,321,000, consisting of $2,802,000 of past due ICFA fees, $2,021,000 of interest (recorded within *other income (expense)* in our statement of operations for the year ended December 31, 2014) and $498,000 of reimbursed litigation costs, all of which was received during the first quarter of 2014. With respect to the $2,802,000 ICFA fees mentioned above, since such amount was due to the Company prior to December 31, 2013, in accordance with Rate Decision No. 74364, we were not required to allocate any portion of the amount as a HUF.

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

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

14. LIQUIDITY AND CAPITAL RESOURCES

The Company's capital resources are provided by internally generated cash flows from operations as well as debt and equity financing. Additionally, GWRI's regulated utility subsidiaries receive advances and contributions from customers, home builders and real estate developers to partially fund construction necessary to extend service to new areas. GWRI uses its capital resources to (i) fund operating costs, (ii) fund capital requirements, including construction expenditures, (iii) make debt and interest payments, and (iv) invest in new and existing ventures. GWRI's utility subsidiaries operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as recovery through rate increases is subject to regulatory lag. As a result of these factors, GWRI's working capital, defined as current assets less current liabilities, as of December 31, 2014, is in a net deficit position.

As of December 31, 2014, GWRI had significant notable near-term cash expenditure obligations. Most significantly, the Company has approximately $10.4 million of debt interest and principal payments due within the next twelve months. While specific facts and circumstances could change, we believe that, together with cash on hand, we will be able to generate sufficient cash flows to meet our required debt service and operating cash flow requirements as well as remain in compliance with our debt covenants for at least the next twelve months.

In March 2014, the Company initiated a dividend program wherein we declare and pay a monthly dividend. The initial monthly dividends were approximately $379,000 (or approximately $0.021 per share). In November 2014 the Company increased the monthly dividend to approximately $403,000 (or approximately $0.023 per share). The Company expects that monthly dividends of similar amounts will be declared and paid for the foreseeable future. Declaration of any dividends is at the discretion of the Company's board of directors.

15. SUBSEQUENT EVENTS

In February 2015, 299,000 SARs were issued to seven members of management. These awards were part of a plan to align the interest of employees with those of the shareholders of the Company, as well as to attract and retain employees who will contribute to the long-range success of the Company. The SARs issued to management vest ratably over 12 consecutive quarters beginning January 1, 2015 and are accounted for as liability compensatory awards similar to previously issued SARs. The SARs will be remeasured each period based on GWRC's share price relative to the C$5.35 per share exercise price. The exercise price was determined to be the fair market value of one share of stock on the grant date of February 11, 2015.

On March 17, 2015, the Company reached a settlement agreement for a stipulated condemnation to transfer the assets of Valencia Water Company, Inc. ("Valencia") to the City of Buckeye ("Buckeye"), which was subsequently approved by Buckeye's City Council on March 19, 2015. The terms of the settlement are that Buckeye will acquire all the assets of Valencia and assume operations of the utility upon close. Buckeye will pay the Company $55.0 million at close, subject to certain post-closing entries. Buckeye will also pay a growth premium equal to $3,000 for each new water meter installed within Valencia's prior service areas, for a 20-year period ending January 1, 2035, subject to a maximum payout of $45.0 million over the term of the agreement. The settlement agreement is subject to Buckeye receiving sufficient financing and approval by the Maricopa County Superior Court. We anticipate the deal to close within the next 90-120 days.

On March 23, 2015 the Company reached an agreement to sell the assets of Willow Water Valley Co., Inc. ("Willow Valley") to EPCOR Water Arizona Inc. ("EPCOR"). The terms of the agreement are that EPCOR will purchase all the assets and rights used by Willow Valley to operate the utility system for approximately $2.5 million, subject to certain post-closing adjustments. The agreement is subject to final approval from the Arizona Corporate Commission ("ACC"). We anticipate final ACC approval to occur in the second half of 2015.

On March 24, 2015 the Company announced an increase to the monthly dividend on the common shares of the Company to an amount of C$0.026 per share. The annualized dividend amount of C$0.312 per share is an approximate 8% increase over previous declarations.

Subsequent events have been evaluated through March 25, 2015, the date of report.

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Board of Directors

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Phoenix, Arizona, USA

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

David Tedesco
Independent Director
Scottsdale, Arizona, USA

Richard M. Alexander
Independent Director
Calgary, Alberta, Canada

L. Rita Theil
Independent Director
Aurora, Ontario, Canada

Cindy M. Bowers
Director of Global Water
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