GLOBAL WATER™

2011 Second Quarter Report

GLOBAL WATER

August 10, 2011

To Our Shareholders:

GWR Global Water Resources Corp. ("**GWRC**") is pleased to present our management's discussion and analysis, along with management's discussion and analysis of Global Water Resources, Inc. ("**GWRI**"), for the three and six months ended June 30, 2011. 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 six months ended June 30, 2011 is filed together with management's discussion and analysis of GWRC.

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

Warm Regards,

Cindy M. Liles
Executive Vice President and Chief Financial Officer

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

The following management's discussion and analysis of GWR Global Water Resources Corp.'s unaudited financial condition and results of operations dated August 10, 2011 covers the three and six month periods ended June 30, 2011. GWR Global Water Resources Corp. had effectively no activity prior to its initial public offering which occurred on December 30, 2010. Investors should read the following discussion together with the financial statements and the management's discussion and analysis of Global Water Resources, Inc. ("GWRI"), both of which are available on GWR Global Water Resources Corp.'s SEDAR profile at www.sedar.com. Financial information of GWRI is not consolidated with the financial statements of GWR Global Water Resources Corp.

Basis of Presentation

The financial statements of GWR Global Water Resources Corp. have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian 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 Canadian GAAP and is expressed in 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 statements", which reflect the expectations of management regarding GWR Global Water Resources Corp. and GWRI's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates", "objective" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this management's discussion and analysis. Forward-looking statements involve significant risks and uncertainties, 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 GWR Global Water Resources Corp.'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 GWR Global Water Resources Corp. nor GWRI assume any obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities law.

Executive Overview

General – 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 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 has an unregulated business, whose services are now marketed by GWRI as FATHOM Utility-to-Utility ("U_2U™") Solutions ("FATHOM™"). FATHOM™ offers an integrated suite of advanced technology-enabled platforms to provide attractive third party services to municipalities and private utilities. The services offered by FATHOM™ have been proven to provide immediate cost savings and opportunities for increased revenues.

The Company filed a prospectus (the "Prospectus") on December 16, 2010 for an initial public offering (the ''Offering'') of common shares of the Company. 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. The Company used the net proceeds of the Offering to acquire 81,850 shares of GWRI common stock, as contemplated in the Prospectus. 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%.

Our investment in GWRI provided resources for GWRI to significantly improve its liquidity and financial position, an action which we believe will provide value to our shareholders going forward.

Results of operations for the three and six months ended June 30, 2011 and 2010 – Since the Company had no operating activities prior to the Offering, there is no operating information available for the comparable prior year periods. The following table summarizes GWRC's unaudited results of operations for the three and six months ended June 30, 2011 and 2010 (in thousands of US$, except per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Loss from equity investment	$ (367)	$ -	$ (855)	$ -
Operating expenses	71	-	183	-
Operating loss	(438)	-	(1,038)	-
Loss before income taxes	(438)	-	(1,038)	-
Income tax expense (benefit)	-	-	-	-
Net loss	$ (438)	$ -	$ (1,038)	$ -
Loss per share	$ (0.05)	$ -	$ (0.12)	$ -

To date, the Company has not declared any dividends.

Loss from Equity Investment – Loss from equity investment for the three and six months ended June 30, 2011 represents the portion of GWRI's net loss attributed to the equity method investment during the period. The amount is calculated based on GWRI's net loss for the three and six months ended June 30, 2011, adjusted for US GAAP to Canadian GAAP accounting differences, multiplied by GWRC's equity method interest in GWRI during the period; also taking into consideration the fact that GWRC's equity method interest in GWRI increased on January 28, 2011 from approximately 46.4% to approximately 48.1%. 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.

Operating Expenses – Operating expenses for the three and six months ended June 30, 2011 consisted primarily of compensation provided to the independent members of the Company's board of directors, accounting fees, directors' and officers' insurance, listing fees and other costs directly associated with operating as a publicly traded company.

Net Loss – Net loss of $438,000 and $1,038,000 for the three and six months ended June 30, 2011, respectively, was determined by deducting operating expenses from income (loss) from equity investment.

Outstanding Share Data

As of August 10, 2011, there were 8,754,612 common shares of the Company outstanding.

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. Cash flows of the Company during the first six months of 2011 have been minimal, comprised primarily of the receipt of the proceeds from the underwriters' exercise of the over-allotment option in connection with the Offering. The Company immediately used the net over-allotment proceeds to purchase additional shares of GWRI. Additionally, GWRI has funded the Company's operating expenses incurred during the three and six months ended June 30, 2011, for which a related-party liability has been recorded in our balance sheet. See Notes 3 and 6 to GWRC's financial statements for the period ended June 30, 2011.

Insurance Coverage

As we do not carry on any active business operation, the Company does not carry insurance coverage other than a $10,000,000 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 June 30, 2011.

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 the same roles at GWRI and 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.

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.

GWRC has identified the policies below as critical to its business operations and the understanding of its results of operations. A summary of GWRC's significant accounting policies used in the preparation of its financial statements appears in Note 2 of GWRC's interim financial statements for the period ended June 30, 2011. Management has reviewed these critical accounting policies and the associated estimates and assumptions. In addition, management has also reviewed the following disclosures regarding the application of these critical accounting policies.

Cash and cash equivalents – Cash and cash equivalents consist of cash on hand and any highly liquid investments in debt instruments with an original maturity of three months or less.

Equity method investments – Investments in entities in which we exercise significant influence over operating, investing and financial policies but over which we do not have control are accounted for on an equity method basis. Under the equity method of accounting, an investment is initially recorded at cost. Any excess of the cost of the acquisition over our share of the net fair value of identifiable assets and liabilities of an equity accounted investee at the date of the acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

When there is a loss in value of an equity accounted investment that is other than temporary, the carrying amount of the investment is written down to reflect the loss. The amount of the write down is recorded in net income and is not reversed even if there is a subsequent increase in value.

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

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 are recorded when declared. Distributions payable to our shareholders are recorded when declared.

Accounting for 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, 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.

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 historic 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.

New Accounting Pronouncements

See Note 2 to GWRC’s financial statements for the period ended June 30, 2011.

International Financial Reporting Standards (“IFRS”)

Effective January 1, 2011, IFRS replaced Canadian GAAP for publicly accountable enterprises, except those with rate regulated activities, for whom the mandatory date of adoption of IFRS is expected to be January 1, 2012. We previously indicated that the Company and GWRI expected to adopt IFRS on January 1, 2012. However, during the second quarter 2011, we applied for and received an exemption from the Ontario Securities Commission allowing the Company and GWRI to defer the adoption of IFRS until financial years beginning on or after January 1, 2015. Under the exemption, the Company and GWRI must prepare their financial statements in accordance with U.S. generally accepted accounting principles for financial years beginning on or after January 1, 2012 but before January 1, 2015.

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 *financial condition and results of operations dated August 10, 2011 covers in part periods prior to the consummation of the December 30, 2010 reorganization of Global Water Resources, Inc. Investors should read the following discussion together with the financial statements and the accompanying notes of Global Water Resources, Inc. 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 Global Water Resources, Inc. In addition, all references to amounts representing Global Water Resources, Inc.'s financial condition and results of operations within the following discussion represent amounts related to Global Water Resources, Inc. and its predecessors, Global Water Resources, LLC and subsidiaries and Global Water Management, LLC.*

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. See Note 12 of our financial statements for a reconciliation to Canadian GAAP.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this management's discussion and analysis are "forward-looking statements", which reflect the expectations of management regarding Global Water Resources, Inc.'s and GWRC's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates", "objective", "goal", "focus", "aim" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this management's discussion and analysis. Forward-looking statements involve significant risks and uncertainties, 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 Global Water Resources, Inc. nor GWRC assumes any obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities law.

Cautionary Statement Regarding Non-GAAP Measures

This management's discussion and analysis contains references to "EBITDA" and "Adjusted EBITDA". EBITDA is defined for the purposes of this management's discussion and analysis as income or loss from continuing operations before interest, income taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA adjusted for certain non-operating, generally non-recurring, activities which GWRI removes from net income (loss) to facilitate operating performance comparisons. Also excluded are amounts related to infrastructure coordination and financing agreement revenues and stored water credits as these amounts will not be recurring on a go-forward basis. Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures of Global Water Resources, Inc.'s operating performance. Management believes that the use of EBITDA and Adjusted 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 and Adjusted EBITDA provide meaningful measures of overall corporate performance exclusive of Global Water Resources, Inc.'s capital structure and the method and timing of expenditures associated with building and placing Global Water Resources, Inc.'s systems. EBITDA and Adjusted EBITDA are also presented because management believes that they are frequently used by securities analysts, investors and other interested parties as measures of financial performance.

However, EBITDA and Adjusted EBITDA are not recognized earnings measures under U.S. GAAP or Canadian generally accepted accounting principles ("Canadian GAAP") and do not have standardized meanings prescribed by U.S. GAAP or Canadian GAAP. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as alternatives to net income or loss or other income statement data (which are determined in accordance with U.S. GAAP) as indicators of the performance of Global Water Resources, Inc. or as measures of liquidity and cash flows. Management's method of calculating EBITDA and Adjusted EBITDA may differ materially from the methods used by other public companies and accordingly, may not be comparable to similarly titled measures used by other public companies. See "Adjusted EBITDA" for a reconciliation of EBITDA and Adjusted EBITDA to net loss, the nearest comparable U.S. GAAP measure.

Overview

General – Global Water Resources, Inc. ("Global Water", "GWRI", the "Company", "we" or "us") is a leading water resource management company, co-founded in Phoenix in 2003 by President and Chief Executive Officer Trevor T. Hill and investor 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 its unique water management approach could have the potential to achieve local conservation objectives and maximize the economic value of water.

GWRI's business comprises two principal divisions, our Regulated business consisting of the Company's regulated utilities, and our Unregulated business consisting primarily of our 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. 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 has an unregulated business, whose services are now marketed by GWRI as FATHOM™. FATHOM™ offers an integrated suite of advanced technology-enabled platforms to provide attractive third party services to municipalities and private utilities. The services offered by FATHOM™ have been proven to provide immediate cost savings and opportunities for increased revenues.

The Company had 97 employees at June 30, 2011 and our Regulated division provides drinking water, wastewater and other water related services to approximately 60,000 people in Arizona. In addition to the Regulated division, we provide unregulated FATHOM™ services to approximately 170,000 people in Arizona and California of which 110,000 are customers of third party clients. 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 utility regulation; (ii) economic environment; (iii) the need for infrastructure investment; (iv) an overall trend of declining water usage per customer; (iv) weather and seasonality; and (vi) access to and quality of water supply.

GWRI's financial condition and results of operations for FATHOM™, of which operations are not directly subject to economic regulation by any governmental regulatory agencies, are primarily influenced by the effectiveness of project implementations and the success of our recurring services, including customer satisfaction.

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. When the Company filed for its last regulatory rate case, the Company purposely omitted specific overhead from the operating utilities to minimize the impact on rate payers due to the economic conditions occurring at that time. Effective January 1, 2011, the Company updated its allocation of overhead costs to more appropriately assign such costs to each business division. This step ensures that the opportunity to recover appropriate overheads from rate payers in the future is preserved.

Through June 30, 2011, we continued to execute on our strategy of providing value to our customers and shareholders by aiming to deliver solid financial results, making capital investments in our infrastructure and focusing on efforts to earn an appropriate rate of return on prudent investments. Most notably, effective January 1, 2011, pursuant to the 2010 Regulatory Rate Decision of the ACC, as defined below, our Regulated division experienced the second of a three part phase-in of higher rates for certain customers. Additionally, we had positive activity with respect to our Unregulated division which not only yielded significant revenue growth through the second quarter of 2011, but has also strengthened the foundation for sustainable growth going forward.

UNREGULATED DIVISION

Market Adoption and Implementation of FATHOM™ Services

During the three months ended June 30, 2011, we completed the Customer Information System ("CIS") implementation for the City of Grass Valley and made substantial progress toward completing the Automated Meter Infrastructure ("AMI") and Asset Management implementations for the City of Grass Valley and the City of Covina.

To date, GWRI has signed 10 long-term contracts with 6 utilities in two states for the provision of FATHOM™ services. GWRI expects to realize aggregate implementation fees under these contracts of $7.3 million and aggregate ongoing fees following implementation of approximately $1.8 million per year. A summary of significant terms of these contracts is provided below.

	Contract Date	Term in Years	Implementation Fees	Average # of Bills / Accounts (1)	Average Annual Fees(1)	Indexed on CPI(2)
FATHOM™ CIS						
Town of Buckeye (Arizona).............	Jan-1989(3)	Indefinite	$ -	4,750	$ 198,000	-
Red Rock Utilities (Arizona)	May-09	10	-	500	24,360	Yes
City of Menlo Park (California)........	Jan-10	5	50,000	4,350	247,950	Yes
City of Covina (California) (4)	Apr-10	10	-	8,600	400,000	Yes
City of Torrance (California)	Sep-10	4	197,500	17,500	457,632	Yes
City of Grass Valley (California) (5) ..	Feb-11	15	157,888	4,224	181,280	Yes
			405,388	**39,924**	**1,509,222**	
FATHOM™ AMI						
City of Covina (California) (6)	Aug-10	15	4,540,498	8,600	77,400	Yes
City of Grass Valley (California) (5) ..	Feb-11	15	1,657,510	2,340	27,739	Yes
			6,198,008	**10,940**	**105,139**	
FATHOM™ Asset Management						
City of Covina (California)...............	Aug-10	15	417,912	8,600	142,416	Yes
City of Grass Valley (California)......	Feb-11	15	239,756	4,224	68,130	Yes
			657,668	12,824	210,546	
Total			**$ 7,261,064**	**63,688**	**$ 1,824,907**	

(1) The average number of bills/accounts and average annual fees included in this table are approximate, based on current and historical data. The actual number of bills/accounts and fees fluctuate monthly and, as such, may vary from the figures presented in this table.

(2) Consumer Price Index.

(3) This contract was assumed by GWRI in connection with the West Maricopa Combine, Inc. ("WMC") acquisition.

(4) This contract was amended in January 2011 whereby the City of Covina outsourced all customer service and billing to GWRI. Under the original contract, GWRI provided only hosting services with an annual contract value of $201,240.

(5) This contract is for 2,340 water accounts and 4,224 wastewater accounts. Some of the wastewater customers are served water by someone other than the City of Grass Valley.

(6) During the six months ended June 30, 2011, a change order was received for an additional $241,000 of implementation services.

Management's focus for 2011 continues to be primarily directed toward the scaling and ramping of the FATHOM™ business unit. During the second quarter we made significant gains in FATHOM™ and we are extremely optimistic about the product, the platform and our market penetration to date. As discussed last quarter, we expected the second quarter to be challenging from an announcements perspective because most cities were engaged in their internal budgeting process; and this year, it would have been difficult to predict these activities were going to be compounded by an unprecedented level of complexity in that process - mirroring what is being seen on the national level. The budgeting process in most cities has been very difficult, and in many cases with the added scrutiny that municipal budgets are getting, municipal decision makers are being extremely cautious with their internal processes, resources and decisions. Notwithstanding this, the cities that we have been in advanced stages with in every case have now had their budgets approved and have recommenced the acquisitions process. Interestingly, due to heightened budget scrutiny on municipalities, we are seeing a higher number of RFPs being issued, which in most cases are closely aligned with our offering. As a result, we expect to respond to more than a dozen RFPs in the next few months representing approximately 145,000 meters, with contracts expected to be signed within this calendar year.

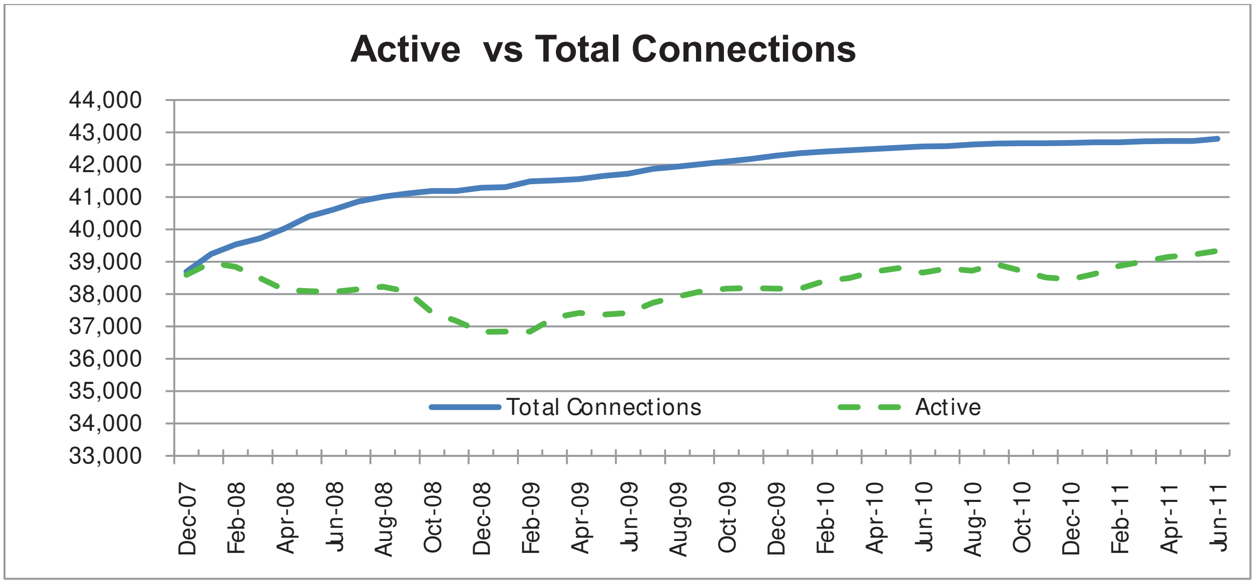
We are seeing some very positive signs in the market. The two critical drivers – budget constraint and water scarcity - have never been stronger. The federal budget issues are being magnified at the municipal level and as such, many cities are contemplating outsourcing to save money. Also, the unprecedented heat wave this summer which has broken records across the nation highlights the issues around costs and sustainability of water resources everywhere. It is the combination of these drivers, plus a desire to provide better customer service, that is driving cities to make choices on service provisions that revolutionize the sector. Whereas in years past, there was virtually no talk of the "smart grid" for water, now this topic seems to be making every conference agenda; and though it's not defined nearly to the state that FATHOM™ has been, the discussion helps move the market towards us.

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 its revenues. An increase or decrease in GWRI's active service connections will affect its revenues and expenses in a corresponding manner.

As illustrated in the graph below, GWRI's total service connections, which includes active service connections and connections to vacant homes, increased to 42,803 as at June 30, 2011 as compared to 42,565 as at June 30, 2010 and 42,678 as at December 31, 2010. GWRI's active service connections increased to 39,342 as at June 30, 2011 as compared to 38,665 as at June 30, 2010, representing a year-over-year increase of 1.8%, and compared to 38,459 as at December 31, 2010, representing an annualized increase of approximately 4.6%. Management is encouraged by the 2011 growth rate increase but there can be no assurance that this strong growth rate will continue at this level consistently throughout 2011.



During the economic downturn, GWRI's utilities experienced an increase in the number of vacant homes, reaching a peak of 4,647 vacant connections as at February 28, 2009; however, the negative trend began to reverse thereafter. Total vacant connections were 3,461, or 8.1% of GWRI's total service connections, as of June 30, 2011, compared with 4,219, or 9.9% of total service connections, as of December 31, 2010, and 3,900, or 9.2% of total service connections, as of June 30, 2010.

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 continues to be driven by low-cost housing, excellent weather, large and growing universities, a diverse employment base and low taxes. While Arizona's net in-migration for 2010 was less than previous years, the economy still provided for 66,000 new residents in 2010. Recent projections from Elliott D. Pollack & Company's "Reality Revised" dated May 3, 2011, forecasts 1.5% annual population growth in metropolitan Phoenix in 2011 and 2% in 2012, compared to an average historical growth rate for Arizona of 3.0% per year and for the United States of approximately 1.0% per year. In this same report, Mr. Pollack reports an increase in employment gain of 8,400 over the last 12 months ending March 31, 2011 compared to a loss of 66,900 over the 12 months before that.

While it is estimated that the number of new single-family dwelling permits issued in metropolitan Phoenix decreased to a low of approximately 6,800 in 2010, this continued reduction in new permits allowed for housing demand to continue to consume the surplus supply of home inventory created during the boom years of 2004 to 2006. According to the Arizona State University's W.P. Carey School of Business' "Blue Chip Economic Forecast for Phoenix – Second Quarter 2011", industry and academic leaders expect that new single-family permits will grow to 7,792 in 2011 and 12,658 in 2012.

GWRI acquired utilities and grew its monopolistic service territories that are directly in the path of growth primarily in the metropolitan Phoenix area. GWRI estimates that its service areas currently incorporate approximately 25% of the final platted lots, partially finished lots and finished lots in metropolitan Phoenix. In addition, GWRI has the ability to service up to 88,000 service connections with minimal incremental capital expenditures. As a result, management believes that GWRI is well-positioned to benefit from the near-term growth in metropolitan Phoenix due to the availability of lots and existing infrastructure in place within GWRI's services areas.

Economic Utility Regulation

The ACC is charged with establishing rates based on the provision of reliable service at reasonable cost while also providing an opportunity to earn a fair rate of return on rate base for investors of utilities. The ACC uses an 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 at the end of the test year, depreciation and any applicable pro forma adjustments.

Management believes allowed return on equity may soon be affected by whether water utilities employ state-mandated "best management practices" to reduce water consumption, and whether operational efficiency investments reduce operating costs. As part of the Arizona Department of Water Resources ("ADWR") Third Management Plan, a "Modified Non-Per Capita Conservation Program" has been established in which large municipal providers must demonstrate compliance with a specified number of best management practices. The ACC has increased the number of best management practices required for investor-owned utilities to double the amount required currently by the ADWR.

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 40% 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. At GWRI's wastewater utilities, service is based solely on a fixed fee, determined by the size of the meter. Recycled water is sold on a volumetric basis with no fixed fee component.

To obtain approval for a change in rates, GWRI must file rate cases with the ACC. Rate cases and other rate-related proceedings can take a year or more to complete. There is therefore 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 maintains a rate model that dynamically reviews changes in current connection growth and expense structure combined with capital invested to determine the precise 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. The normal cycle to prosecute a rate case is 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. Based on the current conditions, the Company may decide to file for a rate case upon completion of the workshop process currently underway at the ACC.

Recent Rate Case Applications

On September 15, 2010, the ACC issued its rate decision (the "2010 Regulatory Rate Decision") for the February 2009 filed rate cases 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 the rate decision, refer to Note 3 to GWRI's audited consolidated financial statements for the year ended December 31, 2010.

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. Capital expenditures have exceeded GWRI's operating cash flows due to growth in its service areas. 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 five years, and currently has capacity to serve approximately 88,000 service connections. Because the infrastructure is new and because growth capital will not be required for some time, GWRI estimates that capital expenditures of the Regulated business will total approximately $3 million for 2011 and $1 million per year until the 88,000 service connections are consumed. Although GWRI uses modern materials and expects the useful life of its infrastructure could be as long as 100 years, GWRI will repair and replace existing infrastructure as needed. These capital investments are needed on an ongoing basis to comply with existing and new regulations, renew treatment and network assets as they age, provide capacity for growth and enhance system reliability, 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 inputs and 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 production costs include labour and chemicals used to treat water and wastewater, and power, which is used to operate pumps and other equipment. Power and chemical costs can be volatile and all of GWRI's production costs have increased in recent years. However, GWRI employs a variety of technologies and methodologies to reduce costs and maximize operational efficiencies. GWRI deploys its integrated TWM approach both to conserve water and to maximize its total economic and social value. For power alone, GWRI has been successful in minimizing the rise in power costs by vigilantly focusing on timing and duration of power requirements. Additionally, with TWM and the use 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 arsenic removal or perchlorate, or for any future human 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 succeeding quarters or a full year.

Selected Financial Information

The following contains selected financial information of GWRI's unaudited financial position as of June 30, 2011 and December 31, 2010 (in thousands of US$):

	June 30, 2011	December 31, 2010
ASSETS:		
Net property, plant and equipment	$ 268,438	$ 272,493
Current assets	8,671	14,602
Other assets	55,483	54,367
Total Assets	$ 332,592	$ 341,462
LIABILITIES:		
Current liabilities	$ 27,936	$ 28,077
Noncurrent liabilities	290,806	301,767
Total Liabilities	318,742	329,844
SHAREHOLDERS' EQUITY	13,850	11,618
Total Liabilities and Shareholders' Equity	$ 332,592	$ 341,462

The following contains selected financial information of GWRI's unaudited results of operations for the three and six months ended June 30, 2011 and 2010 (in thousands of US$):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	$ 9,726	$ 5,383	$ 19,274	$ 12,166
Operating expenses	8,781	5,639	17,742	65,838
Operating income (loss)	945	(256)	1,532	(53,672)
Total other income (loss)	(2,179)	(3,166)	(4,453)	(6,414)
Loss before income taxes	(1,234)	(3,422)	(2,921)	(60,086)
Income tax benefit	471	843	1,121	917
Net loss	$ (763)	$ (2,579)	$ (1,800)	$ (59,169)

Comparison of Results of Operations for the Three Months Ended June 30, 2011 and 2010

Revenues – The following table summarizes GWRI's unaudited revenues for the three months ended June 30, 2011 and 2010 (in thousands of US$).

	Three Months Ended June 30,	
	2011	2010
Water services	$ 4,497	$ 3,550
Wastewater and recycled water services	2,866	1,708
Unregulated revenues	2,363	125
Total revenues	$ 9,726	$ 5,383

Total revenues increased $4.3 million, or 81%, for the three months ended June 30, 2011 compared with the same period in 2010. The increase of $4.3 million reflected $2.1 million of growth in our Regulated business which was driven by the increased utility services rates provided by the 2010 Regulatory Rate Decision, combined with the effects of a larger number of active service connections. Also, unregulated revenues increased $2.2 million as discussed below.

Water Services – Water services revenues increased $1.0 million, or 27%, to $4.5 million for the three months ended June 30, 2011, reflecting the generally higher rates that GWRI is able to charge customers effective August 1, 2010.

Active water connections increased from 23,281 at June 30, 2010 to 23,683 at June 30, 2011. Water consumption increased over the periods, totaling 799 million gallons for the three months ended June 30, 2011 and approximately 744 million gallons for the three months ended June 30, 2010. The Company believes the increase in water consumption was due to the higher number service connections as well as the effect of slightly warmer temperatures during the second quarter of 2011 compared with 2010.

Water services revenue, excluding miscellaneous charges, associated with the basic service charge totaled $2.3 million for the three months ended June 30, 2011 compared to $1.7 million for the three months ended June 30, 2010. Water services revenue based on consumption totaled $2.0 million for the three months ended June 30, 2011 compared to $1.7 million for the three months ended June 30, 2010. The increase in revenue reflects the higher rates and the higher number of active connections mentioned above.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenues increased $1.2 million, or 68%, for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 due primarily to the generally higher rates that GWRI is able to charge customers effective August 1, 2010 combined with the additional phase-in of higher rates effective January 1, 2011.

Further, the increase in wastewater and recycled water revenues reflects additional fees arising from increased active service connections. Active wastewater and recycled water connections increased from 15,384 at June 30, 2010 to 15,659 at June 30, 2011.

Wastewater revenue, excluding miscellaneous charges, which is billed and recognized at a flat rate per connection, totaled $2.7 million for the three months ended June 30, 2011 compared to $1.6 million for the three months ended June 30, 2010. The increase in revenue reflects the higher rates and the higher number of active connections mentioned above.

Recycled water revenue, which is based on gallons delivered, totaled $95,000 for the three months ended June 30, 2011 compared to $51,000 for the three months ended June 30, 2010, which increase is attributed to higher rates effective August 1, 2010 and January 1, 2011. The volume of recycled water delivered remained relatively consistent over the periods, totaling approximately 166 million gallons for the three months ended June 30, 2011 compared to approximately 167 million gallons for the three months ended June 30, 2010.

Unregulated Revenues – Unregulated revenues totaled $2.4 million in the three months ended June 30, 2011 compared to $125,000 in the three months ended June 30, 2010. Unregulated revenues primarily consist of revenues generated from customers of GWRI's FATHOM™ business. Approximately $1.4 million of the increase in unregulated revenues is attributable to the fees received for FATHOM™ product implementations. No revenue from product implementations was recognized during the three months ended June 30, 2010. Recurring FATHOM™ revenues increased $296,000, or 271%, to $405,000 for the three months ended June 30, 2011 from $109,000 for the three months ended June 30, 2010.

Additionally as part of unregulated revenues, GWRI recognized $530,000 of revenue in the three months ended June 30, 2011 related to the sale of certain contractual rights to receive future refunds associated with line extension agreements of GWRI's regulated utilities compared to $0 in the three months ended June 30, 2010. We had purchased these contractual rights from certain developers immediately before we completed the sales of those rights. The Company intends to pursue more opportunities of similar transactions.

Operating Expenses – Operating expenses increased $3.1 million, or 56%, from $5.6 million for the three months ended June 30, 2010 to $9.0 million for the three months ended June 30, 2011.

The following table summarizes GWRI's unaudited operating expenses for the three months ended June 30, 2011 and 2010 (in thousands of US$):

	Three Months Ended June 30,	
	2011	**2010**
Operations and maintenance	$ 3,523	$ 1,683
General and administrative	2,678	1,668
Depreciation and amortization	2,580	2,288
Total operating expenses	$ 8,781	$ 5,639

Operations and Maintenance **–** Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased power), maintenance costs, costs associated with FATHOM™ revenues, property tax, and costs associated with the sale of certain contractual rights, increased $1.8 million, or 109%, for the three months ended June 30, 2011 compared to the three months ended June 30, 2010. The increase is due mainly to costs incurred related to GWRI's FATHOM™ line of business, whereby GWRI recognized approximately $969,000 of non-recurring material, labor and other costs associated with project implementations during the three months ended June 30, 2011 compared to $57,000 in the same period of 2010. Additionally, costs related to the sale of certain contractual rights associated with line extension agreements increased from zero to $372,000; and property taxes, which are largely determined based on the Company's revenues, increased $88,000, or 29%, as a result of the increase in revenues discussed above.

General and Administrative **–** General and administrative costs include the day-to-day expenses of office operation for the Regulated and Unregulated businesses, salaries and wages, legal and other professional fees, insurance and regulatory fees. These costs increased $1.0 million, or 61%, during the three months ended June 30, 2011 compared to the three months ended June 30, 2010, primarily due to a $542,000, or 53% increase in personnel costs. The increase in personnel costs includes higher executive salaries which grew $100,000 associated with going public, approximately $123,000 of expense recognized from deferred compensation awards granted at the time of the Offering, and approximately $156,000 of expense recognized for accrued bonuses that the Company expects to pay if it meets certain objectives. Annual bonuses had not been paid by the Company for the prior three years. Finally, personnel costs increased to facilitate the growth of the Company's FATHOM™ business, as well as growth in the accounting department as a function of operating as a public company. Non executive salaries increased $126,000 over the period.

GWRI's professional fees, which primarily relate to legal and accounting costs increased $105,000 during the three months ended June 30, 2011 compared to the three months ended June 30, 2010.

Promotional costs related to GWRI's FATHOM™ business increased $62,000 during the three months ended June 30, 2011 compared to the three months ended June 30, 2010.

Depreciation and Amortization **–** Depreciation and amortization expense increased by $292,000, or 13%, to $2.6 million for the three months ended June 30, 2011 compared to the three months ended June 30, 2010. The estimated useful lives used to depreciate GWRI's property, plant and equipment were changed for some of GWRI's assets as a result of the 2010 Regulatory Rate Decision, some being shorter than the estimated useful lives historically used. GWRI implemented the new estimated useful lives effective August 1, 2010.

Other Income (Expense) – Other income (expense) decreased $1.0 million to $2.2 million for the three months ended June 30, 2011 compared to $3.2 million for the three months ended June 30, 2010. The reduction in net expense is due primarily to a decrease in interest expense of $1.0 million, which is due to the lower balances outstanding on GWRI's line of credit and related party debt during the three months ended June 30, 2011 compared to the three months ended June 30, 2010. Our line of credit balance was $50.2 million as of June 30, 2010 compared to $3.7 million as of June 30, 2011. Likewise, related party debt, which had a balance of $16.4 million as of June 30, 2010 was settled at the time of the Offering and was not outstanding during the second quarter of 2011.

Income Tax Benefit – Income tax benefit decreased 44% from $843,000 in the three months ended June 30, 2010 to $471,000 for the three months ended June 30, 2011. The decrease in the income tax benefit was attributable to the smaller losses generated by GWRI during the three months ended June 30, 2011 compared to the losses generated during the three months ended June 30, 2010 by our taxable entities.

Net Loss – Net loss was $763,000 for the three months ended June 30, 2011 compared to net loss of $2.6 million for the three months ended June 30, 2010. This difference was due to several factors, but was primarily driven by the increased revenues from GWRI's Regulated and FATHOM™ businesses and reduced interest costs, partially offset by increases in expenses as discussed above.

Adjusted EBITDA – Adjusted EBITDA of $3.5 million for the three months ended June 30, 2011 increased by $1.4 million from $2.1 million for the three months ended June 30, 2010. The increase in Adjusted EBITDA was primarily attributable to the higher water and wastewater rates GWRI is able to obtain as a result of the 2010 Regulatory Rate Decision, effective August 1, 2010 and January 1, 2011, and higher revenues from our Unregulated business. The impact of increased revenues on Adjusted EBITDA were partially offset by the costs for FATHOM™, including implementation costs, higher contract labor and personnel costs as well as the effects of higher property taxes in the Regulated business. For additional discussion, refer to the sections ''Operating Expenses'' and ''Other Income (Expense)'' above.

A reconciliation of Adjusted EBITDA to net loss in the three months ended June 30, 2011 and 2010 is as follows (in thousands of US$):

	Three Months Ended June 30,	
	2011	**2010**
Net loss	**$ (763)**	**$ (2,579)**
Income tax benefit	(471)	(843)
Interest expense	2,202	3,200
Depreciation and amortization	2,580	2,288
EBITDA[(1)]	**$ 3,548**	**$ 2,066**
Other regulatory and governmental fees [(2)]	-	91
Other, net [(3)]	-	(34)
Adjusted EBITDA [(4)]	**$ 3,548**	**$ 2,123**

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

(2) Other regulatory and governmental fees totaling $91,000 consist of (i) fees on property tax payments in arrears for past due property tax payments, and (ii) costs for professional services incurred in connection with the 2010 Regulatory Rate Decision which are in excess of the amount of rate case costs that the ACC determined GWRI would be permitted to recover through rates. Such amounts have been added back to arrive at Adjusted EBITDA as such charges are not expected to be recurring in the future.

(3) Other, net consists of all other non operating expenses or income reflected in the caption entitled ''Other'' under ''Other Income (Expense)'' in GWRI's consolidated statement of operations for the three months ended June 30, 2010.

(4) Adjusted EBITDA consists of EBITDA adjusted for certain non-operating and generally non-recurring activities which GWRI removes. Adjusted EBITDA is not a recognized measure under U.S GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other companies. The table above reconciles Adjusted EBITDA to net income (loss). See "Cautionary Statements Regarding Non-GAAP Measures" for further information regarding Adjusted EBITDA. Effective January 1, 2011, we do not adjust EBITDA to determine Adjusted EBITDA.

Net Loss and EBITDA Per Share Information – The common stock of GWRI is not publically traded. 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 follow table summarizes such information (amounts in thousands of US$, except share and per share data):

	Net Loss	EBITDA
Amount for the three months ended June 30, 2011	$ (763)	$ 3,548
Weighted average number of GWRI shares outstanding during the three months ended June 30, 2011	182,050	182,050
GWRI per share amount [(1)]	$ (4.19)	$ 19.49

(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 $(0.04) and $0.19, respectively.

Comparison of Results of Operations for the Six Months Ended June 30, 2011 and 2010

Revenues – The following table summarizes GWRI's unaudited revenues for the six months ended June 30, 2011 and 2010 (in thousands of US$).

	Six Months Ended June 30,	
	2011	2010
Water services	$ 7,921	$ 6,354
Wastewater and recycled water services	5,637	3,368
Sale of stored water credits...	-	2,151
Unregulated revenues	5,716	293
Total revenues	$ 19,274	$ 12,166

Total revenues increased $7.1 million, or 58%, for the six months ended June 30, 2011 compared with the same period in 2010. The increase of $7.1 million reflected $3.8 million of growth in our Regulated business which was driven by the increased utility services rates provided by the 2010 Regulatory Rate Decision, combined with the effects of a larger number of active service connections. Also, unregulated revenues increased $5.4 million as discussed below. These increases were partially offset by the effect on the Company from no longer generating revenues from the sale of stored water credits during 2011.

Water Services – Water services revenues increased $1.6 million, or 25%, to $7.9 million for the six months ended June 30, 2011, reflecting the generally higher rates that GWRI is able to charge customers effective August 1, 2010.

Active water connections increased from 23,281 at June 30, 2010 to 23,683 at June 30, 2011. Water consumption increased over the periods, totaling 1.24 billion gallons for the six months ended June 30, 2011 and approximately 1.19 billion gallons for the six months ended June 30, 2010. The Company believes the increase in water consumption was primarily a result of the higher number service connections and lower precipitation during the first half of 2011 compared with the first half of 2010, as our services areas experienced unusually high rainfall during the first quarter of 2010.

Water services revenue, excluding miscellaneous charges, associated with the basic service charge totaled $4.7 million for the six months ended June 30, 2011 compared to $3.4 million for the six months ended June 30, 2010. Water services revenue based on consumption totaled $2.9 million for the six months ended June 30, 2011 compared to $2.6 million for the six months ended June 30, 2010. The increase in revenue reflects the higher rates and the higher number of active connections mentioned above.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenues increased $2.3 million, or 67%, for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 due primarily to the generally higher rates that GWRI is able to charge customers effective August 1, 2010 combined with the additional phase-in of higher rates effective January 1, 2011.

Further, the increase in wastewater and recycled water revenues reflects additional fees arising from increased active service connections. Active wastewater and recycled water connections increased from 15,384 at June 30, 2010 to 15,659 at June 30, 2011.

Wastewater revenue, excluding miscellaneous charges, which is billed and recognized at a flat rate per connection, totaled $5.3 million for the six months ended June 30, 2011 compared to $3.2 million for the six months ended June 30, 2010. The increase in revenue reflects the higher rates and the higher number of active connections mentioned above.

Recycled water revenue, which is based on gallons delivered, totaled $133,000 for the six months ended June 30, 2011 compared to $62,000 for the six months ended June 30, 2010, which increase is attributed to higher rates effective August 1, 2010 and January 1, 2011. The volume of recycled water delivered increased over the periods, totaling approximately 227 million gallons for the six months ended June 30, 2011 compared to approximately 201 million gallons for the six months ended June 30, 2010. The increase in gallons delivered primarily reflects lower precipitation experienced in the first half of 2011 compared with the first half of 2010.

Sales of Stored Water Credits – During the period between 2007 and 2009, GWRI owned and operated a surface water recharge facility and generated stored water credits which were sold in the year following the year when the stored water credits were generated. For the six months ended June 30, 2011, there were no sales of stored water credits, as compared to $2.2 million for the six months ended June 30, 2010 as GWRI's recharge facility had been sold.

Unregulated Revenues – Unregulated revenues totaled $5.7 million in the six months ended June 30, 2011 compared to $293,000 in the six months ended June 30, 2010. Unregulated revenues primarily consist of revenue generated from customers of GWRI's FATHOM™ business. Approximately $3.2 million of the increase in unregulated revenues is attributable to the fees received for FATHOM™ product implementations. Revenue from product implementations totaled $3.3 million in the six months ended June 30, 2011 compared to $50,000 in the six months ended June 30, 2010. Recurring FATHOM™ revenues increased $552,000, or 327%, to $720,000 for the six months ended June 30, 2011 from $168,000 for the six months ended June 30, 2010.

Additionally as part of unregulated revenues, GWRI recognized $1.7 million of revenue in the six months ended June 30, 2011 related to the sale of certain contractual rights to receive future refunds associated with line extension agreements of its regulated utilities compared to $0 in the six months ended June 30, 2010. The Company intends to pursue more opportunities of similar transactions.

Operating Expenses – Operating expenses decreased $48.1 million, or 73%, from $65.8 million for the six months ended June 30, 2010 to $17.7 million for the six months ended June 30, 2011, primarily driven by a $55.2 million nonrecurring charge recorded in the prior year resulting from the 2010 Regulatory Rate Decision.

The following table summarizes GWRI's unaudited operating expenses for the six months ended June 30, 2011 and 2010 (in thousands of US$):

	Six Months Ended June 30,			
	2011		2010	
Operations and maintenance	$	6,980	$	2,981
Cost of stored water credits sold		-		2,008
General and administrative		5,570		3,467
Regulatory provision		-		55,169
Depreciation and amortization		5,192		2,213
Total operating expenses	$	17,742	$	65,838

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased power), maintenance costs, costs associated with FATHOM™ revenues, property tax, and costs associated with the sale of certain contractual rights, increased $4.0 million, or 134%, for the six months ended June 30, 2011 compared to the six months ended June 30, 2010. GWRI recognized approximately $2.2 million of non-recurring material and labor costs associated with FATHOM™ project implementations. Additionally, costs related to the sale of certain contractual rights associated with line extension agreements increased from $0 to $754,000; property taxes, which are largely determined based on the Company's revenues, increased $197,000, or 38%, as a result of the increase in revenues discussed above; costs related to chemicals and supplies increased $103,000, or 61%; and purchased power increased $87,000, or 12%. The Company was able to partially offset increases in power costs by continuing to implement efficiency measures.

Cost of Stored Water Credits Sold – The cost of stored water credits sold decreased to zero for the six months ended June 30, 2011 compared to $2.0 million in the six months ended June 30, 2010 as this business was sold in 2009.

General and Administrative – General and administrative costs include the day-to-day expenses of office operation for the Regulated and Unregulated divisions, salaries and wages, legal and other professional fees, insurance and regulatory fees. These costs increased $2.1 million, or 61%, during the six months ended June 30, 2011 compared to the six months ended June 30, 2010, primarily due to a $1.0 million increase in personnel costs. The increase in personnel costs includes higher executive salaries which grew $182,000 associated with going public, approximately $268,000 of expense recognized from deferred compensation awards granted at the time of the Offering, and $312,000 of expense recognized for accrued bonuses that the Company expects to pay if it meets certain objectives. Annual bonuses had not been paid by the Company for the prior three years. Finally, personnel costs increased to facilitate the growth of the Company's FATHOM™ business, as well as growth in the accounting department as a function of operating as a public company. Non executive salaries increased $191,000 over the period.

GWRI's professional fees, which primarily relate to legal and accounting costs increased $418,000 during the six months ended June 30, 2011 compared to the six months ended June 30, 2010.

Promotional costs related to GWRI's FATHOM™ business increased $121,000 during the six months ended June 30, 2011 compared to the six months ended June 30, 2010.

Depreciation and Amortization – Depreciation and amortization expense increased by $3.0 million, to $5.2 million for the six months ended June 30, 2011 compared to the six months ended June 30, 2010. The increase was primarily due to the amortization of the CIAC liability established on January 1, 2010 in connection with the 2010 Regulatory Rate Decision of which approximately $2.3 million of CIAC amortization was recorded as an offset to depreciation expense during the first quarter of 2010 as a one time non-recurring adjustment. Partially offsetting the effect of the CIAC amortization discussed above, in connection with the 2010 Regulatory Rate Decision, the estimated useful lives used to depreciate GWRI's property, plant and equipment were changed for some of GWRI's assets. In some instances, the estimated useful lives set forth in the 2010 Regulatory Rate Decision were shorter than the estimated useful lives historically used. GWRI implemented the new estimated useful lives effective August 1, 2010.

Other Income (Expense) – Other income (expense) decreased $2.0 million, or 31%, to $4.5 million for the six months ended June 30, 2011 compared to $6.4 million for the six months ended June 30, 2010. The reduction in net expense is due primarily to a decrease in interest expense of $2.0 million, which is due to the lower balances outstanding on GWRI's line of credit and related party debt during the six months ended June 30, 2011 compared to the six months ended June 30, 2010. The line of credit balance was $50.2 million as of June 30, 2010 compared to $3.7 million as of June 30, 2011. Likewise, related party debt, which had a balance of $16.4 million as of June 30, 2010 was settled at the time of the Offering and was not outstanding during the first half of 2011.

Income Tax Benefit – Income tax benefit increased from $917,000 in the six months ended June 30, 2010 to $1.1 million for the six months ended June 30, 2011. The increase was primarily due to the change in taxable losses attributable to GWRI's taxable entities. During the first half of 2011, the Company's subsidiary, Global Water Management LLC, was not subject to corporate taxation, but rather was taxed at the member/investor level. By contrast, effective December 30, 2010 in connection with the Offering and the reorganization of the Company, Global Water Management LLC's income (loss) is subject to corporate taxation at the parent company level, along with our other entities.

Net Loss – Net loss was $1.8 million for the six months ended June 30, 2011 compared to net loss of $59.2 million for the six months ended June 30, 2010. This difference was due to several factors, but was primarily driven by the $55.2 million regulatory provision recorded in the first quarter of 2010 as GWRI changed its policy for accounting for Infrastructure Coordination and Financing Agreement fees as a result of the 2010 Regulatory Rate Decision and the other factors discussed above.

Adjusted EBITDA – Adjusted EBITDA of $6.8 million for the six months ended June 30, 2011 increased by $3.1 million from $3.7 million for the six months ended June 30, 2010. The increase in Adjusted EBITDA was primarily attributable to the higher water and wastewater rates GWRI is able to obtain as a result of the 2010 Regulatory Rate Decision, effective August 1, 2010 and January 1, 2011, higher revenues from GWRI's unregulated business, FATHOM™ and revenue related to the sale of certain contractual rights associated with line extension agreements. The impact of increased revenues on Adjusted EBITDA was partially offset by the costs for FATHOM™ including implementation costs, higher contract labor and personnel costs as well as higher property taxes in the Regulated division. For additional discussion, refer to the sections ''Operating Expenses'' and ''Other Income (Expense)'' above.

A reconciliation of Adjusted EBITDA to net loss in the six months ended June 30, 2011 and 2010 is as follows (in thousands of US$):

	Six Months Ended June 30,	
	2011	2010
Net loss	**$ (1,800)**	**$ (59,169)**
Income tax benefit	(1,121)	(917)
Interest income	(2)	-
Interest expense	4,518	6,474
Depreciation and amortization	5,192	2,213
EBITDA(1)	**$ 6,787**	**$ (51,399)**
Sale of stored water credits (2)	-	(2,151)
Cost of stored water credits (3)	-	2,008
Regulatory provision (4)	-	55,169
Other regulatory and governmental fees (5)	-	114
Other, net (6)	-	(60)
Adjusted EBITDA (7)	**$ 6,787**	**$ 3,681**

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

(2) Sale of stored water credits represents the amounts recorded as revenue during the period related to the sale of stored water credits. Such amounts are not expected to be recognized in the future due to GWRI's sale of its WMC recharge facility, and are not indicative of GWRI's on-going results of operations.

(3) Cost of stored water credits sold represents the costs recorded in operating expenses during the period related to the sale of stored water credits. Such costs are not expected to be incurred in the future due to GWRI's sale of its WMC recharge facility, and are not indicative of GWRI's on-going results of operations.

(4) Regulatory provision represents the nonrecurring charge recorded by GWRI during the six months ended June 30, 2010 in connection with the 2010 Regulatory Rate Decision by which fees received pursuant to ICFAs would be recorded as CIAC rather than as revenue or deferred revenue. See Note 3 to GWRI's 2010 Consolidated Financial Statements.

(5) Other regulatory and governmental fees totaling $114,000 consist of (i) fees on property tax payments in arrears for past due property tax payments, and (ii) costs for professional services incurred in connection with the 2010 Regulatory Rate Decision which are in excess of the amount of rate case costs that the ACC determined GWRI would be permitted to recover through rates. Such amounts have been added back to arrive at Adjusted EBITDA as such charges are not expected to be recurring in the future.

(6) Other, net consists of all other non operating expenses or income reflected in the caption entitled ''Other'' under ''Other Income (Expense)'' in GWRI's consolidated statement of operations for the six months ended June 30, 2010.

(7) Adjusted EBITDA consists of EBITDA adjusted for certain non-operating and generally non-recurring activities which GWRI removes. Adjusted EBITDA is not a recognized measure under U.S GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other companies. The table above reconciles Adjusted EBITDA to net income (loss). See "Cautionary Statements Regarding Non-GAAP Measures" for further information regarding Adjusted EBITDA. Effective January 1, 2011, we do not adjust EBITDA to determine Adjusted EBITDA.

Net Loss and EBITDA Per Share Information – The common stock of GWRI is not publically traded. 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 follow table summarizes such information (amounts in thousands of US$, except share and per share data):

	Net Loss		EBITDA	
Amount for the six months ended June 30, 2011	$	(1,800)	$	6,787
Weighted average number of GWRI shares outstanding during the six months ended June 30, 2011		181,200		181,200
GWRI per share amount (1)	$	(9.93)	$	37.46

(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 $(0.10) and $0.37, respectively.

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. The 2010 Regulatory Rate Decision had a significant impact on our business, including causing us to change our policy for accounting for fees received under ICFAs. Additionally, the 2010 Regulatory Rate Decision resulted in GWRI charging generally higher rates to customers of the Regulated division, effective August 1, 2010 and January 1, 2011, which rates will further increase effective January 1, 2012.

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 wastewater service revenue are highest. Nevertheless, cooler or wetter weather can have a downward effect on our operating results. On average, temperatures were higher and rainfall was lower in the first half of 2011 compared with the first half of 2010. Our quarterly results for the first six months of 2011 compared to the first six months of 2010 were also impacted by the FATHOM™ business as new contracts were signed and we began performing under those arrangements.

The following table sets forth unaudited consolidated financial data for the last eight quarters ended June 30, 2011 (in thousands of US$):

	2011		2010				2009	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
REVENUES:								
Water services.	$ 4,497	$ 3,424	$ 3,836	$ 4,810	$ 3,550	$ 2,804	$ 3,239	$ 3,846
Wastewater and recycled water services	2,866	2,771	2,219	2,076	1,708	1,660	1,663	1,713
Infrastructure coordination and financing fees	-	-	-	-	-	-	12,858	-
Sale of stored water credits	-	-	-	-	-	2,151	-	-
Unregulated revenues	2,363	3,353	3,160	259	125	168	157	67
Total revenues	9,726	9,548	9,215	7,145	5,383	6,783	17,917	5,626
OPERATING EXPENSES:								
Operations and maintenance	3,523	3,457	3,681	1,980	1,683	1,298	1,383	1,509
Cost of stored water credits sold	-	-	-	-	-	2,008	-	-
General and administrative	2,678	2,892	1,778	1,817	1,668	1,799	1,597	1,623
Goodwill impairment	-	-	-	23,985	-	-	-	-
Regulatory provision	-	-	-	-	-	55,169	-	-
Depreciation and amortization	2,580	2,612	2,619	2,640	2,288	(75)	5,595	2,348
Total operating expenses	8,781	8,961	8,078	30,422	5,639	60,199	8,575	5,480
OPERATING INCOME (LOSS)	945	587	1,137	(23,277)	(256)	(53,416)	9,342	146
OTHER INCOME (EXPENSE):								
Interest income	-	2	-	-	-	-	-	-
Interest expense, net of capitalized interest	(2,202)	(2,316)	(3,428)	(3,293)	(3,200)	(3,274)	(3,371)	(3,356)
Other	23	40	51	8	34	26	(4,137)	28
Total other income (expense)	(2,179)	(2,274)	(3,377)	(3,285)	(3,166)	(3,248)	(7,508)	(3,328)
INCOME (LOSS) BEFORE INCOME TAXES	(1,234)	(1,687)	(2,240)	(26,562)	(3,422)	(56,664)	1,834	(3,182)
INCOME TAX BENEFIT	471	650	2,607	323	843	74	2,260	459
NET INCOME (LOSS)	$ (763)	$ (1,037)	$ 367	$ (26,239)	$ (2,579)	$ (56,590)	$ 4,094	$ (2,723)

Business Divisions

The following table summarizes GWRI's operating results by business division for the three and six months ended June 30, 2011 and 2010 (in thousands of US$):

	Regulated	Unregulated	Other	Eliminations	Total
Three months ended June 30, 2011					
Revenues	$ 7,363	$ 2,710	$ -	$ (347)	$ 9,726
Depreciation	2,355	225	-	-	2,580
Operating income (loss)	1,687	(457)	(285)	-	945
Three months ended June 30, 2010					
Revenues	5,258	318	-	(193)	5,383
Depreciation	2,106	182	-	-	2,288
Operating income (loss)	536	(761)	(31)	-	(256)
Six months ended June 30, 2011					
Revenues	13,558	6,407	-	(691)	19,274
Depreciation	4,749	443	-	-	5,192
Operating income (loss)	2,105	(27)	(546)	-	1,532
Six months ended June 30, 2010					
Revenues	9,722	677	2,151	(384)	12,166
Depreciation	4,153	360	(2,300)	-	2,213
Operating income (loss)	651	(1,550)	(52,773)	-	(53,672)

Regulated
Our regulated division consists of our water, wastewater and recycled water utilities which are regulated by the ACC. Revenues from our regulated division increased $2.1 million, or 40%, for the three months ended June 30, 2011, and $3.8 million, or 39%, for the six months ended June 30, 2011 compared with the same periods in 2010. The increase is primarily attributable to rate increases pursuant to the 2010 Regulatory Rate Decision effective August 1, 2010 and January 1, 2011. The improvement in operating income over the periods is also attributed primarily to the 2010 Regulatory Rate Decision, the benefit from which is partially offset by additional overhead allocations as discussed above.

Unregulated
Revenues of our unregulated division totaled $2.7 million and $318,000 in the three months ended June 30, 2011 and 2010, respectively, and $6.4 million and $677,000 in the six months ended June 30, 2011 and 2010 respectively. The unregulated division primarily relates to GWRI's FATHOM™ business. Approximately $1.8 million and $3.2 million of the increases during the three and six month periods ended June 30, 2011 is attributable to the fees received for FATHOM™ product implementations. Recurring FATHOM™ revenues increased $295,000, or 271%, to $405,000 for the three months ended June 30, 2011, and $552,000, or 327%, to approximately $720,000 for the six months ended June 30, 2011, respectively.

In addition to revenues from our FATHOM™ business, we recognized revenue of $530,000 in the three months ended June 30, 2011, and $1.7 million in the six months ended June 30, 2011, respectively, related to the sale of certain contractual rights associated line extension agreements of our Regulated business.

Fees charged by the unregulated division to the Company's regulated division totaled $347,000 and $193,000 for the three months ended and $691,000 and $384,000 for the six months ended June 30, 2011 and 2010, respectively.

Whereas such amounts are included in revenues of the unregulated division in the table above, these amounts have been eliminated in consolidation.

The improvement in operating income (loss) is primarily attributed to the growth in our FATHOM™ business with third parties, the income related to the sale of certain contractual rights, and changes in overhead allocations made at the beginning of 2011.

Other

The Company's "Other" category consists of all activities not classified under the regulated and unregulated divisions. Activities of this division primarily include certain parent and public company costs which have not been allocated to the other divisions, the largest item of which is the deferred compensation awards granted at the time of the Offering. For the six months ended June 30, 2010, the "Other" category also included revenues associated with the sale of stored water credits and the related costs of stored water credits sold as well as non-recurring charges recorded in the first quarter of 2010 when GWRI changed its policy for accounting for ICFA fees as a result of the 2010 Regulatory Rate Decision.

Outstanding Share Data

As of August 10, 2011, there were 182,050 common shares of GWRI outstanding and options to acquire an additional 431 common shares of GWRI.

Liquidity and Capital Resources

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. Advances for construction are refundable for limited periods, which vary in accordance with line extension agreements (which for water utilities are subject to ACC approval), as new customers begin to receive service or other contractual obligations are fulfilled. Amounts that are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions are excluded from rate base. Generally, GWRI depreciates contributed property and amortizes contributions in aid of construction at the composite rate of the related property.

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, and as is typical for regulated water utilities, GWRI's working capital, defined as current assets less current liabilities, as of June 30, 2011, is in a net deficit position.

During the year ended December 31, 2010, GWRI took notable actions which significantly improved the Company's liquidity. This included completing a significant rate case which provided generally higher Regulated Division revenues, and coordinating the successful initial public offering of GWRC and January 28, 2011 over-allotment, through which GWRI received approximately $55.7 million of net proceeds. Through the Company's December 30, 2010 reorganization and infusion of equity from GWRC, the Company has reduced debt and related accrued liabilities by $72.9 million thus allowing GWRI to avoid approximately $4 million in future annual interest costs, assuming the same debt balance and interest rate existed.

On March 24, 2011, we entered into a new revolving line of credit arrangement with a bank, providing the Company a working capital borrowing facility of up to $5,000,000, with a $250,000 stand-by letter of credit sublimit. The line of credit matures in March 2012 and contains an interest option of Prime plus 0.50% or LIBOR plus 3.00%. The line of credit is collateralized by the stock of the Company's subsidiaries and assets of Global Water Management, Inc. ("GWM"). The line of credit has financial covenants requiring the Company to maintain minimum quarterly EBITDA results based on seasonality of between $2.0 million and $4.5 million. Borrowings under the new revolving line of credit totaled $3,709,000 as of June 30, 2011.

Cash Flows from Operating Activities – To date, cash flows from operating activities have been a reliable source of cash flow, sufficient to meet operating requirements and a portion of GWRI's 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, weather and seasonality, and the Company's ability to successfully grow its Unregulated business.

The following table provides a summary of the major items affecting GWRI's cash flows from operating activities for the three and six months ended June 30, 2011 and 2010 (in thousands of US$):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Net loss	$ (763)	$ (2,579)	$ (1,800)	$ (59,169)
Add (subtract):				
Non-cash operating activities(1)	2,517	1,773	4,019	56,010
Changes in working capital(2)	(3,077)	(754)	(3,859)	3,623
Changes in noncurrent assets and liabilities	(109)	(39)	325	(2,209)
Net cash used in operating activities	$ (1,432)	$ (1,599)	$ (1,315)	$ (1,745)

(1) Includes deferred compensation, depreciation, amortization, gains and losses, interest accretion, provision for deferred income taxes, nonrecurring regulatory provision, and provision for losses on accounts receivable.

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

For the three months ended June 30, 2011, GWRI's net cash flows used in operating activities decreased $0.2 million, or 10% compared with net cash used in operating activities of $1.6 million in the three months ended June 30, 2010. The improvement was primarily attributable to the net cash inflows generated under new FATHOM™ agreements, and the increased rates collected from customers of our Regulated division pursuant to the 2010 Regulatory Rate Decision. For similar reasons, the Company's net cash flows used in operating activities decreased $0.4 million for the six months ended June 30, 2011 compare to the six months ended June 30, 2010.

Cash Flows Used in Investing Activities – Cash flows used in investing activities for the three and six months ended June 30, 2011 and 2010 were as follows (in thousands of US$):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Capital expenditures – Growth	$ (1,359)	$ (1,338)	$ (2,826)	$ (2,385)
Capital expenditures – Maintenance	(116)	(134)	(255)	(240)
Acquisition related	-	(234)	(4,381)	(2,277)
Other investing activities, net[1]	(14)	(23)	(5)	(34)
Net cash used in investing activities	$ (1,489)	$ (1,729)	$ (7,467)	$ (4,936)

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

For the three months ended June 30, 2011, GWRI's net cash used in investing activities decreased $0.2 million, or 14%, compared to three months ended June 30, 2010, primarily attributable to a decrease in payments made on prior acquisitions based on the timing of scheduled payments. For the six months ended June 30, 2011, GWRI's net cash used in investing activities increased $2.5 million, or 51%, compared to the six months ended June 30, 2010, primarily attributable to an increase in payments made on prior acquisitions, also based on the timing of scheduled payments.

GWRI intends to invest capital strategically in service areas where GWRI is able to deploy its TWM model, increase its service connection base and grow FATHOM™. This may include strategic acquisitions and the construction of new water and wastewater treatment and delivery facilities. GWRI's projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Cash Flows from Financing Activities – GWRI's financing activities during the six months ended June 30, 2011 include $4,011,000 of proceeds from the sale of stock to GWRC in connection with the over-allotment option of the Offering. Financing activities during 2011 also reflects the borrowings and repayments under the Company's long-term and short-term debt arrangements, particularly related to our revolving line of credit. Significant terms of our debt are summarized below. See Note 6 to GWRI's consolidated financial statements for period ended June 30, 2011 for additional information on outstanding debt instruments.

Series 2006, 2007 and 2008 Tax-Exempt Bonds – GWRI is obligated with respect to $35,790,000, $54,135,000, and $24,550,000 of tax-exempt revenue bonds, issued in 2006, 2007, and 2008, respectively, by the Industrial Development Authority of the County of Pima (Arizona). The bonds were issued to finance the costs of acquiring, constructing and equipping water and wastewater conveyance and treatment facilities owned and utilized by Palo Verde and Santa Cruz. GWRI also used bond proceeds to establish separate debt service reserve funds for each series of bonds and to pay certain costs of issuing the bonds.

Line of Credit – At December 31, 2010, GWRI had a non-revolving line of credit agreement (the ''Line of Credit Agreement'') maturing on June 30, 2011. Under this facility, GWRI had an outstanding principal balance of $10,200,000 as of December 31, 2010 and undisbursed letters of credit in the amount of $3,339,000. For further discussion of the Line of Credit Agreement, refer to Note 6 of GWRI's consolidated financial statements for the period ended June 30, 2011.

On January 3, 2011, we made an additional principal payment on the line of credit, reducing the balance by $7,000,000.

On March 4, 2011, the $3,200,000 letter of credit related to the Francisco Grande Utility Company acquisition was cancelled. Refer to Note 1 of GWRI's consolidated financial statements for the period ended June 30, 2011 for a discussion of this acquisition.

On March 24, 2011, we entered into a new revolving line of credit arrangement, providing the Company a working capital borrowing facility of up to $5,000,000, with a $250,000 stand-by letter of credit sublimit. The line of credit matures in March 2012 and contains an interest option of Prime plus 0.50% or LIBOR plus 3.00%. The line of credit is secured by the stock of the Company's subsidiaries and the assets of GWM. The line of credit financial covenants require the Company to maintain minimum quarterly EBITDA results based on seasonality between $2.0 million and $4.5 million. The outstanding balance of the line of credit was $3.7 million at June 30, 2011. Contemporaneously with obtaining the new revolving line of credit agreement, we paid the outstanding $3,200,000 balance on the line of credit and formally terminated the Line of Credit Agreement. With the termination of the Line of Credit Agreement, the guarantee provided by a related-party shareholder related to borrowings under the line of credit was also terminated.

Water Infrastructure and Finance Authority of Arizona (''WIFA'') Loans – GWRI has received various loans with WIFA, an independent agency of the state of Arizona authorized to finance the construction, rehabilitation and/or improvement of drinking water, wastewater, wastewater reclamation, and other water quality facilities/projects. Generally, WIFA offers borrowers below market interest on loans for 100% of eligible project costs. The loans are secured by the underlying assets of the borrowing entities. WIFA loans outstanding were $4.3 million and $4.8 million at June 30, 2011 and December 31, 2010, respectively. The interest rates on these loans range from 4.2% to 6.75% per annum. GWRI was in compliance with all WIFA loan covenants at June 30, 2011. Additional information regarding GWRI's debt is available in Note 6 to GWRI's consolidated financial statements for the period ended June 30, 2011.

Regulatory Restrictions

The issuance of long-term debt securities by GWRI does not require authorization of the ACC if no guarantee by 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 specific financing.

Under applicable law, GWRI's subsidiaries can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at a subsidiary may limit the dividends that these companies can distribute to GWRI.

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 June 30, 2011 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]	$ 122,498	$ 5,228	$ 3,631	$ 4,082	$ 109,557
Interest on long term debt [3]	139,142	7,708	14,900	14,454	102,080
Acquisitions [4]	11,910	11,910	-	-	-
Operating lease obligation	1,914	396	832	686	-
Total	$ 275,464	$ 25,242	$ 19,363	$ 19,222	$ 211,637

(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 several 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 June 30, 2011 totaled $433,000 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. The payment schedule also assumes that GWRI's remaining line of credit will be paid in March 2012.

(3) Interest on GWRI's bonds is based on the fixed rate for the term; interest on GWRI's line of credit is based on the variable rate in effect at June 30, 2011.

(4) In addition to the amounts shown in the table, as of June 30, 2011, GWRI was obligated to pay $1.25 million for GWRI's purchase of CP Water Company through a reduction of future ICFA fees. The timing of the amounts cannot be determined with accuracy at this time. GWRI is also obligated to pay up to $4.25 million in connection with GWRI's 2005 purchase of Sonoran Utility Services, LLC. Timing of the payment amount is contingent upon the development of the related area and cannot be determined with accuracy at this time.

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 $1,000 and $4,000 increase in GWRI's pre-tax loss for the three and six months ended June 30, 2011 respectively. The risks associated with price increases for chemicals, electricity and other commodities are mitigated by GWRI's ability 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

GWRI also provides medical benefits to its employees through participation in a pooled plan sponsored by an affiliate of Mr. Levine. Medical claims paid to the plan were approximately $105,000 and $98,000 during the three months ended June 30, 2011 and 2010, respectively, and $169,000 and $212,000 during the six months ended June 30, 2011 and 2010, respectively.

GWRI also obtains legal services from a law firm in which Daniel F. Cracchiolo, a director of GWRI, has an interest. Total legal fees paid to this law firm were approximately $234,000 and $19,000 for the three months ended June 30, 2011 and 2010, respectively, and $476,000 and $61,000 during the six months ended June 30, 2011 and 2010, respectively.

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. There have been no changes to GWRI's accounting policies 2011. See GWRI's Management's Discussion and Analysis for the year ended December 31, 2010 for a discussion of GWRI's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 2 to GWRI's Consolidated Financial Statements for the year ended December 31, 2010.

International Financial Reporting Standards ("IFRS") - Effective January 1, 2011, IFRS replaced Canadian GAAP for publicly accountable enterprises, except those with rate regulated activities, for whom the mandatory date of adoption of IFRS is expected to be January 1, 2012. We previously indicated that GWRC and GWRI expected to adopt IFRS on January 1, 2012. However, during the second quarter 2011, GWRC applied for and received an exemption from the Ontario Securities Commission allowing GWRC and GWRI to defer the adoption of IFRS until financial years beginning on or after January 1, 2015. Under the exemption, GWRC and GWRI must prepare their financial statements in accordance with U.S. GAAP for financial years beginning on or after January 1, 2012 but before January 1, 2015.

Other Required Disclosures

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

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GLOBAL WATER

August 10, 2011

To Our Shareholders:

GWR Global Water Resources Corp. ("**GWRC**") is pleased to present our financial statements, along with the financial statements of Global Water Resources, Inc. ("**GWRI**"), for the three and six months ended June 30, 2011. Because GWRI represents the sole asset of GWRC and is not consolidated into the financial statements of GWRC, the financial statements of GWRI for the three and six months ended June 30, 2011 are filed together with the financial statements of GWRC.

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

Warm Regards,

Cindy M. Liles

Cindy M. Liles
Executive Vice President and Chief Financial Officer

21410 North 19th Avenue, Suite 201, Phoenix, Arizona 85027
Phn 623.580.9600
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gwresources.com

GWR GLOBAL WATER RESOURCES CORP.

UNAUDITED FINANCIAL STATEMENTS AS OF AND FOR
THE THREE AND SIX MONTHS ENDED
JUNE 30, 2011

GWR GLOBAL WATER RESOURCES CORP.
UNAUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

GWR GLOBAL WATER RESOURCES CORP.
BALANCE SHEETS
As of June 30, 2011 and December 31, 2010
(Unaudited)

	Notes	June 30, 2011	December 31, 2010
		(in thousands of US$, except share data)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ -	$ -
Other current assets		25	-
Total current assets		25	-
Equity method investment	3	54,788	51,632
TOTAL ASSETS		$ 54,813	$ 51,632
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Accounts payable and accrued expenses		$ 16	$ 17
Due to related party		202	-
Other noncurrent liabilities		24	17
Total liabilities		242	34
SHAREDHOLDERS' EQUITY:			
Common stock, unlimited shares authorized, 8,754,612 and 8,185,001 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	6	55,670	51,659
Accumulated deficit		(1,099)	(61)
Total shareholders' equity		54,571	51,598
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 54,813	$ 51,632

See accompanying notes to the financial statements.

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2011
(Unaudited)

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	(in thousands of US$, except share and per share data)			
LOSS FROM EQUITY INVESTMENT	$	(367)	$	(855)
OPERATING EXPENSES		71		183
OPERATING LOSS		(438)		(1,038)
LOSS BEFORE INCOME TAXES		(438)		(1,038)
INCOME TAX EXPENSE (BENEFIT)		-		-
NET LOSS	$	(438)	$	(1,038)
WEIGHTED AVERAGE SHARES:				
Basic		8,754,612		8,669,642
Diluted		8,754,612		8,669,642
LOSS PER SHARE:				
Basic	$	(0.05)	$	(0.12)
Diluted	$	(0.05)	$	(0.12)

See accompanying notes to the financial statements.

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2011
(Unaudited)

	Shares	Common Stock	Accumulated Deficit	Total Equity
		(in thousands of US$, except share amounts)		
BALANCE – December 31, 2010	8,185,001	$ 51,659	$ (61)	$ 51,598
Receipt of gross proceeds from stock issuance	569,611	4,273	-	4,273
Issuance costs – underwriters' commissions	-	(256)	-	(256)
Issuance costs – legal, professional and other costs	-	(6)	-	(6)
Net loss	-	-	(1,038)	(1,038)
BALANCE – June 30, 2011	8,754,612	$ 55,670	$ (1,099)	$ 54,571

See accompanying notes to the financial statements.

GWR GLOBAL WATER RESOURCES CORP.
STATEMENTS OF CASH FLOWS
For the Three and Six Months Ended June 30, 2011
(Unaudited)

	Notes	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
		(in thousands of US$)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss		$ (438)	$ (1,038)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Loss from equity investment		367	855
Changes in operating assets and liabilities		71	183
Net cash provided by operating activities		-	-
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the sale of stock	6	-	4,273
Issuance costs paid	6	-	(262)
Net cash provided by financing activities		-	4,011
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of equity investment		-	(4,011)
Net cash used in investing activities		-	(4,011)
INCREASE IN CASH AND CASH EQUIVALENTS		-	-
CASH AND CASH EQUIVALENTS – Beginning of period		-	-
CASH AND CASH EQUIVALENTS – End of period		$ -	$ -
Supplementary disclosure:			
Income taxes paid		$ -	$ -
Interest paid		$ -	$ -

See accompanying notes to the financial statements.

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

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 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 has an unregulated business, whose services are now marketed by GWRI as FATHOM Utility-to-Utility (“U_2U™”) Solutions (“FATHOM™”). FATHOM™ offers an integrated suite of advanced technology-enabled platforms to provide attractive third party services to municipalities and private utilities. The services offered by FATHOM™ have been proven to provide immediate cost savings and opportunities for increased revenues.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – These unaudited financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Amounts are stated in U.S. dollars unless otherwise noted.

As there were no operating activities in the business during the three and six months ended June 30, 2010, comparative statements of operations and statements of cash flows are not presented.

Subsequent events have been evaluated through to August 9, 2011, the date on which the financial statements were approved by the Board of Directors.

Use of accounting estimates – Canadian 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.

Cash and cash equivalents – Cash and cash equivalents consist of cash on hand and any highly liquid investments in debt instruments with an original maturity of three months or less.

Equity method investments – Investments in entities in which we exercise significant influence over operating, investing and financial policies but over which we do not have control are accounted for on an equity method basis. Under the equity method of accounting, an investment is initially recorded at cost. Any excess of the cost of the acquisition over our share of the net fair value of identifiable assets and liabilities of an equity accounted investee at the date of the acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

When there is a loss in value of an equity accounted investment that is other than temporary, the carrying amount of the investment is written down to reflect the loss. The amount of the write down is recorded in net income and is not reversed even if there is a subsequent increase in value.

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

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 are recorded when declared. 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, 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.

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.

Changes in accounting policies – The Accounting Standards Board of the Canadian Institute of Chartered Accountants (the “CICA”) continually amends certain standards or guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary.

International Financial Reporting Standards (“IFRS”)

Effective January 1, 2011, IFRS replaced Canadian GAAP for publicly accountable enterprises, except those with rate regulated activities, for whom the mandatory date of adoption of IFRS is expected to be January 1, 2012. We previously indicated that the Company and GWRI expected to adopt IFRS on January 1, 2012. However, during the second quarter 2011, we applied for and received an exemption from the Ontario Securities Commission allowing the Company and GWRI to defer the adoption of IFRS until financial years beginning on or after January 1, 2015. Under the exemption, the Company and GWRI must prepare their financial statements in accordance with U.S. generally accepted accounting principles for financial years beginning on or after January 1, 2012 but before January 1, 2015.

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. The Company is in 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. A portion of the difference between the amount invested and the fair value of the net assets may be amortized in the future, if appropriate, as part of income (loss) from equity investment.

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).

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 Company's loss on its equity investment totaled approximately $367,000 and $855,000 for the three and six months ended June 30, 2011, respectively. To date, no distributions have been declared or received from investments.

The following contains summarized unaudited financial data of GWRI's financial position as of June 30, 2011 and December 31, 2010 (U.S. GAAP in thousands of US$):

	June 30, 2011	December 31, 2010
ASSETS:		
Net property, plant and equipment	$ 268,438	$ 272,493
Current assets	8,671	14,602
Other assets	55,483	54,367
TOTAL ASSETS	$ 332,592	$ 341,462
LIABILITIES:		
Current liabilities	$ 27,936	$ 28,077
Noncurrent liabilities	290,806	301,767
TOTAL LIABILITIES	318,742	329,844
SHAREHOLDERS' EQUITY	13,850	11,618
TOTAL LIABILITIES AND SHAREHOLDERS'EQUITY	$ 332,592	$ 341,462

The following contains summarized unaudited financial data of GWRI's results of operations for the three and six months ended June 30, 2011 and 2010 (U.S. GAAP in thousands of US$):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	$ 9,726	$ 5,383	$ 19,274	$ 12,166
Operating expenses	8,781	5,639	17,742	65,838
Operating income (loss)	945	(256)	1,532	(53,672)
Total other expense, net	(2,179)	(3,166)	(4,453)	(6,414)
Loss before income taxes	(1,234)	(3,422)	(2,921)	(60,086)
Income tax benefit	471	843	1,121	917
Net loss	$ (763)	$ (2,579)	$ (1,800)	$ (59,169)

4. RELATED PARTY TRANSACTIONS

Except for the Chief Executive Officer and Chief Financial Officer (who serve the same roles at GWRI and 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 shall be solely responsible for the selection of accountants, lawyers, consultants, investment bankers and other such professional advisors, that advise the Company, as well as other service providers from time to time, to provide advice and other administrative services directly to the Company and on the Company's behalf to GWRI. Further, the Company is responsible for certain costs including the fees paid to members of our board of directors. Whereas the Company has no cash and does not expect to have cash flows from operating activities, the operating costs incurred by the Company are paid by GWRI. Amounts paid by GWRI on the Company's behalf totaled $202,000; which amount corresponds with the due to related party balance on the Company's balance sheet as of June 30, 2011.

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.

A copy of the management agreement is available on the Company's SEDAR profile at www.sedar.com.

5. INCOME TAXES

The Company purchased an equity investment in GWRI on December 30, 2010. 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 require consideration of Emerging Issues Committee ("EIC") 106. EIC 106 requires companies to evaluate 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. No deferred taxes were recorded at June 30, 2011 or December 31, 2010.

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. CAPITAL MANAGEMENT AND LIQUIDITY MATTERS

As discussed in Note 2, 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.

8. 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.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2011

GLOBAL WATER RESOURCES, INC.
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
As of June 30, 2011 and December 31, 2010
(Unaudited)

	June 30, 2011	December 31, 2010
	(in thousands of US$)	
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	$ 314,468	$ 312,841
Less accumulated depreciation	(46,030)	(40,348)
Net property, plant and equipment	268,438	272,493
CURRENT ASSETS:		
Cash and cash equivalents	132	10,163
Accounts receivable – net	4,418	1,746
Other receivables	462	270
Accrued revenue	1,542	528
Prepaid expenses and other current assets	860	651
Deferred tax asset – current	1,257	1,244
Total current assets	8,671	14,602
OTHER ASSETS:		
Goodwill	13,082	13,082
Intangible assets – net	1,545	1,545
Regulatory assets	463	406
Deposits	64	69
Bond service fund and other restricted cash	9,270	9,225
Debt issuance costs – net	3,104	3,192
Deferred tax assets	27,955	26,848
Total other assets	55,483	54,367
TOTAL	$ 332,592	$ 341,462
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 3,913	$ 3,325
Accrued expenses	5,324	5,371
Deferred revenue	43	596
Accrued acquisition payments	11,314	5,114
Customer and meter deposits	2,114	1,969
Long-term debt – current portion	5,228	11,702
Total current liabilities	27,936	28,077
NONCURRENT LIABILITIES:		
Long-term debt	116,837	117,361
Advances in aid of construction	105,841	104,043
Contributions in aid of construction – net	62,875	63,360
Acquisition liability	4,688	15,799
Other noncurrent liabilities	565	1,204
Total noncurrent liabilities	290,806	301,767
Total liabilities	318,742	329,844
EQUITY:		
Common stock, $0.01 par value, 1,000,000 shares authorized, 182,050 and 176,354 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	2	2
Paid in capital	55,711	51,679
Accumulated deficit	(41,863)	(40,063)
Total equity	13,850	11,618
TOTAL	$ 332,592	$ 341,462

See accompanying notes to the consolidated financial statements.

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands of US$)			
REVENUES:				
Water services	$ 4,497	$ 3,550	$ 7,921	$ 6,354
Wastewater and recycled water services	2,866	1,708	5,637	3,368
Sale of stored water credits	-	-	-	2,151
Unregulated revenues	2,363	125	5,716	293
Total revenues	9,726	5,383	19,274	12,166
OPERATING EXPENSES:				
Operations and maintenance	3,523	1,683	6,980	2,981
Cost or stored water credits sold	-	-	-	2,008
General and administrative	2,678	1,668	5,570	3,467
Regulatory provision	-	-	-	55,169
Depreciation	2,580	2,288	5,192	2,213
Total operating expenses	8,781	5,639	17,742	65,838
OPERATING INCOME (LOSS)	945	(256)	1,532	(53,672)
OTHER INCOME (EXPENSE):				
Interest income	-	-	2	-
Interest expense, net of capitalized interest	(2,202)	(3,200)	(4,518)	(6,474)
Other	23	34	63	60
Total other income (expense)	(2,179)	(3,166)	(4,453)	(6,414)
LOSS BEFORE INCOME TAXES	(1,234)	(3,422)	(2,921)	(60,086)
INCOME TAX BENEFIT	471	843	1,121	917
NET LOSS	$ (763)	$ (2,579)	$ (1,800)	$ (59,169)

See accompanying notes to the consolidated financial statements.

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Contributed Capital	Undistributed Preferred Return	Common Unit Deficit	Members' Receivable	Common Stock	Paid-in Capital	Accumulated Deficit	Total Equity
				(in thousands of US$)				
BALANCE – December 31, 2009	$ 26,426	$ -	$ (22,683)	$ (3,204)	$ -	$ -	$ -	$ 539
Contributions or reimbursement of members' receivable	-	-	-	2,833	-	-	-	2,833
Contributions – tax benefits	24,849	-	-	-	-	-	-	24,849
Distributions – preferred return	-	(1,041)	-	-	-	-	-	(1,041)
Stock based compensation	17	-	-	-	-	-	-	17
Net loss	-	1,046	(60,215)	-	-	-	-	(59,169)
BALANCE – June 30, 2010	$ 51,292	$ 5	$ (82,898)	$ (371)	$ -	$ -	$ -	(31,972)
BALANCE – December 31, 2010	$ -	$ -	$ -	$ -	$ 2	$ 51,679	$ (40,063)	$ 11,618
Stock based compensation	-	-	-	-	-	21	-	21
Receipt of proceeds from stock issuance (5,696 shares issued)	-	-	-	-	-	4,011	-	4,011
Net loss	-	-	-	-	-	-	(1,800)	(1,800)
BALANCE – June 30, 2011	$ -	$ -	$ -	$ -	$ 2	$ 55,711	$ (41,863)	$ 13,850

See accompanying notes to the consolidated financial statements.

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three and Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands of US$)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$ (763)	$ (2,579)	$ (1,800)	$ (59,169)
Adjustments to reconcile net loss to net cash used in operating activities:				
Deferred compensation	134	9	296	17
Depreciation	2,580	2,288	5,192	2,213
Amortization of deferred debt issuance costs and discounts	55	106	133	199
Regulatory provision	-	-	-	55,169
Loss on disposal of fixed and intangible assets	9	4	33	4
Gain on advance in aid of construction purchase	-	(24)	(22)	(48)
Gain on settlement of acquisition liability	-	-	(80)	-
Imputed interest expense on deferred payments for acquisitions – net of cash paid	151	213	(503)	(632)
Provision for doubtful accounts receivable	59	20	91	5
Deferred income tax benefit	(471)	(843)	(1,121)	(917)
Changes in assets and liabilities – excluding effects of acquisitions:				
Accounts receivable	(2,871)	(182)	(2,762)	(13)
Other current assets	(122)	(160)	(1,415)	(220)
Stored water credits	-	-	-	2,005
Accounts payable and other current liabilities	(84)	(412)	318	1,851
Other noncurrent assets	(51)	-	(57)	(49)
Other noncurrent liabilities	(58)	(39)	382	(9)
Deferred stored water credits revenue	-	-	-	(2,151)
Net cash used in operating activities	(1,432)	(1,599)	(1,315)	(1,745)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(1,475)	(1,472)	(3,081)	(2,625)
Proceeds from disposal of fixed and intangible assets	8	-	34	-
Deposits of restricted cash	(22)	(22)	(44)	(38)
Deposits received	-	(1)	5	4
Acquisition of utilities – deferred acquisition payments	-	(234)	(4,381)	(2,277)
Net cash used in investing activities	(1,489)	(1,729)	(7,467)	(4,936)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Loan borrowings	6,904	2,283	9,268	5,580
Loan repayments	(4,809)	(67)	(15,076)	(2,347)
Related-party loan proceeds	-	-	-	2,300
Related-party loan repayments	-	(50)	-	(50)
Debt issuance costs paid	-	(266)	(34)	(266)
Contributions from members	-	2,313	-	2,833
Distributions to members	-	(521)	-	(1,041)
Proceeds from the sale of stock / Financing costs paid	-	(62)	4,011	(251)
Advances in aid of construction, net of refunds paid	44	250	483	511
Contributions in aid of construction under ICFA and other agreements	99	52	99	123
Net cash provided by (used in) financing activities	2,238	3,932	(1,249)	7,392
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(683)	604	(10,031)	711
CASH AND CASH EQUIVALENTS – Beginning of period	815	113	10,163	6
CASH AND CASH EQUIVALENTS – End of period	$ 132	$ 717	$ 132	$ 717

See accompanying notes to the consolidated financial statements.

1. INTERIM FINANCIAL STATEMENTS

Basis of Presentation and Principles of Consolidation – The consolidated financial statements of Global Water Resources, Inc. (the "Company", "GWRI", "we", "us", or "our") and related disclosures as of June 30, 2011 and for the three and six months ended June 30, 2011 and 2010 are unaudited. The December 31, 2010 consolidated balance sheet data was derived from the Company's audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These financial statements follow the same accounting policies and methods of their application as the Company's most recent annual consolidated financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010. In our opinion, these financial statements include all adjustments necessary for the fair statement of the results for the interim period. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year. Further, due to the seasonality of our business, the results for the three and six months ended June 30, 2011 may not be consistent with results of operations for the full year.

In early 2010, the members of Global Water Resources, LLC and its subsidiaries ("GWR") and Global Water Management, LLC ("GWM") made the decision to raise money through the Canadian 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"), with 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 refer to GWRI's predecessor entities.

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. Prior to the Reorganization, the financial statements of GWRI's predecessor entities were prepared on a combined consolidated basis. All intercompany account balances and transactions between GWRI's predecessor entities have been eliminated.

GWRC is not a 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.

In April 2011, GWM, GWRI's subsidiary which owns and operates the Company's FATHOM Utility-to-Utility ("U$_2$U™") Solutions ("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.

We prepare our financial statements in accordance with U.S. GAAP. The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The U.S. dollar is our reporting currency and the Company's functional currency. Certain previously reported amounts have been reclassified to conform to the current presentation. A reconciliation to Canadian generally accepted accounting principles ("Canadian GAAP") is provided in Note 12.

International Financial Reporting Standards ("IFRS") - Effective January 1, 2011, IFRS replaced Canadian GAAP for publicly accountable enterprises, except those with rate regulated activities, for whom the mandatory date of adoption of IFRS is expected to be January 1, 2012. We previously indicated that GWRC and GWRI expected to adopt IFRS on January 1, 2012. However, during the second quarter 2011, GWRC applied for and received an exemption from the Ontario Securities Commission allowing GWRC and GWRI to defer the adoption of IFRS until financial years beginning on or after January 1, 2015. Under the exemption, GWRC and GWRI must prepare their financial statements in accordance with U.S. GAAP for financial years beginning on or after January 1, 2012 but before January 1, 2015.

Corporate Transactions – *Francisco Grande* – On December 30, 2006, we purchased the net assets of Francisco Grande Utility Company ("Francisco Grande"), an Arizona corporation owning the right to provide water and wastewater services near the cities of Maricopa and Casa Grande, Arizona. We applied to have Francisco Grande's Certificate of Convenience and Necessity ("CC&N") transferred to us in 2007. The stock purchase agreement (as amended) included a contingency that the agreement would be terminated if the Arizona Corporation Commission (the "Commission" or "ACC") approval for the transfer of Francisco Grande's CC&N to us was not received within 36 months after the transfer application was filed at the ACC. During the 36 month period and thereafter, the ACC did not rule on the transfer application. GWRI asserted that since the transfer application was filed on August 20, 2007, the agreement terminated on August 20, 2010. The seller initiated an arbitration proceeding to determine if the stock purchase agreement was cancelled. In the arbitration proceeding, GWRI sought to have the escrowed funds released to GWRI and the stock of Francisco Grande returned to the seller. The seller sought to have the escrowed funds released and to have the Francisco Grande's stock remain with GWRI. At December 31, 2010, the shares of Francisco Grande were held in escrow pending settlement of the arbitration relating to the ownership of Francisco Grande and ACC approval for the transfer of Francisco Grande's CC&N to GWRI.

In February 2011, the arbitration tribunal decided in favor of the Company; and as a result, the escrowed funds have been released and the stock of Francisco Grande returned to the seller. The Company's portion of the escrowed funds, amounting to a $3.2 million letter of credit, was cancelled on March 4, 2011. In addition, as a prevailing party, we were entitled to and received reimbursement of approximately $197,000 of costs incurred in connection with the arbitration proceedings. As the decision provided additional evidence about conditions that existed as of December 31, 2010, the divestiture of Francisco Grande is reflected in our financial statements as of December 31, 2010.

Francisco Grande had no customers or revenue, although it held some CC&N rights.

2. NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Standards – *Revenue Recognition for Arrangements with Multiple Deliverables* **–** In September 2009, the Financial Accounting Standards Board ("FASB") approved the issuance of new authoritative guidance for arrangements with multiple deliverables and for certain revenue arrangements. Under the new guidance for arrangements with multiple deliverables, the arrangement value is allocated to each element based on (i) vendor specific objective evidence of fair value, (ii) third party evidence of fair value, or (iii) management's best estimate of the selling price.

By providing a hierarchy for determining the selling price of deliverables, the newly issued accounting guidance will allow companies to allocate arrangement consideration in multiple deliverable arrangements in a manner that better reflects the transaction's economics, and this may often result in earlier revenue recognition. In addition, the residual method of allocating arrangement consideration is not permitted under the new guidance related to multiple element arrangements. The new authoritative guidance is effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted.

We adopted the new authoritative guidance effective July 1, 2010, and we began applying the guidance prospectively to applicable arrangements. Revenue recognized under the multiple deliverables revenue recognition guidance totaled approximately $1.5 million and $0 during the three months ended June 30, 2011 and 2010, respectively, and $3.2 million and $0 during the six months ended June 30, 2011 and 2010, respectively.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2011 and December 31, 2010 consist of the following (in thousands of US$):

	June 30, 2011	December 31, 2010	Depreciation Rate
PROPERTY, PLANT AND EQUIPMENT:			
Mains/lines/sewers	$ 134,567	$ 134,490	2% - 3%
Plant	77,156	77,113	2% - 10%
Equipment	41,660	41,502	5% - 33%
Meters	5,671	5,634	8%
Land	894	578	
Construction work-in-process	49,415	49,137	
Total utility plant and equipment	309,363	308,454	
Office equipment/software/furniture	5,105	4,387	7% - 33%
Total property, plant and equipment	314,468	312,841	
Less accumulated depreciation	(46,030)	(40,348)	
Net property, plant and equipment	$ 268,438	$ 272,493	

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011 and December 31, 2010 consist of the following (in thousands of US$):

	June 30, 2011	December 31, 2010
Billed receivables	$ 4,717	$ 1,952
Less allowance for doubtful accounts	(299)	(206)
Accounts receivable – net	$ 4,418	$ 1,746

The increase in accounts receivable from December 31, 2010 to June 30, 2011 was primarily a result of increased billings associated with our FATHOM™ business.

5. 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 GWRI. Medical claims paid to the plan were approximately $105,000 and $98,000 during the three months ended June 30, 2011 and 2010, respectively, and $169,000 and $212,000 during the six months ended June 30, 2011 and 2010, respectively. We also obtain 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 $234,000 and $19,000 for the three months ended, and $476,000 and $61,000 for the six months ended June 30, 2011 and 2010, respectively.

The Company's previous line of credit (as of December 31, 2010) was guaranteed by Levine Investments Limited Partnership and a shareholder and director of the Company. As part of such guarantee, we entered into a financial consulting agreement with the shareholder. Fees under the agreement were calculated as a percentage of the outstanding borrowings under the line of credit. In March 2011, the line of credit was paid off in full and terminated. The associated guarantee and the financial consulting agreement with the shareholder were also terminated (see Note 6). Approximately $0 and $154,000 was incurred during the three months ended June 30, 2011 and 2010, respectively, and $10,000 and $302,000 during the six months ended June 30, 2011 and 2010, respectively in connection with the financial consulting agreement and recorded as interest expense in the financial statements.

6. DEBT

The outstanding balances and maturity dates for short-term and long-term debt as of June 30, 2011 and December 31, 2010 are as follows (in thousands of US$):

	June 30, 2011		December 31, 2010	
	Short-term	Long-term	Short-term	Long-term
BONDS PAYABLE –				
5.450% Series 2006, maturing December 1, 2017	$ 745	$ 5,460	$ 745	$ 5,460
5.600% Series 2006, maturing December 1, 2022	-	6,215	-	6,215
5.750% Series 2006, maturing December 1, 2032	-	23,370	-	23,370
5.500% Series 2007, maturing December 1, 2013	515	1,120	515	1,120
6.550% Series 2007, maturing December 1, 2037 – net of unamortized discount of $433 and $443 at June 30, 2011 and December 31, 2010, respectively	-	52,067	-	52,057
6.375% Series 2008, maturing December 1, 2018	-	1,315	-	1,315
7.500% Series 2008, maturing December 1, 2038	-	23,235	-	23,235
	1,260	112,782	1,260	112,772
LINE OF CREDIT –				
3.750% and 4.750% at June 30, 2011 and December 31, 2010, respectively	3,709	-	10,200	-
WIFA LOANS –				
6.125% WIFA 920010-98, maturing September 2018	14	98	14	105
5.810% WIFA 920024-99, maturing June 2019	4	31	4	33
4.688% WIFA 920072-03, maturing November 2022	2	35	3	36
4.375% WIFA 920071-03, maturing November 2022	5	62	5	64
4.375% WIFA 920078-03, maturing December 2022	5	67	5	69
6.750% WIFA 920102-06, maturing June 2026	123	1,943	118	2,006
6.650% WIFA 920103-06, maturing October 2026	5	79	5	81
6.650% WIFA 920104-06, maturing November 2026	20	367	19	377
4.200% WIFA 92A170-10, maturing September 2029	67	1,122	56	1,384
4.200% WIFA 92A179-10, maturing November 2029	9	237	8	417
	254	4,041	237	4,572
OTHER LOANS –				
8.000% Garcia loan, maturing January 2015	5	14	5	17
Total debt	$ 5,228	$ 116,837	$ 11,702	$ 117,361

Long-Term

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 Industrial Development Authority of the County of Pima Water and Wastewater Revenue Bonds (Global Water Resources, LLC Project), Series 2006, 2007 and 2008 (''Bonds'') have interest payable semiannually on the first of June and December, with the Series 2008 bonds commencing on June 1, 2009. Recurring annual payments of principal commence December 1, 2010, December 1, 2011 and December 1, 2012 for the series 2006, 2007 and 2008 Bonds, respectively. Proceeds from these bonds could be used only for qualifying costs of constructing and equipping the water and wastewater treatment facilities of our subsidiaries, Palo Verde Utilities Company ("Palo Verde") and Santa Cruz Water Company ("Santa Cruz"). The Company has not granted any deed of trust, mortgage, or other lien on property of Santa Cruz or Palo Verde.

The 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.

We are required to maintain a debt service reserve fund equal to the least of (1) 10% of the stated principal amount of the Bonds, (2) maximum annual debt service of the Bonds, and (3) 125% of the average annual debt service on the Bonds, as determined separately for each Series. The balance in the bond reserve fund was $8,776,000 at both June 30, 2011 and December 31, 2010.

WIFA Loans – We have received various loans from the Water Infrastructure Finance Authority of Arizona ("WIFA"), an independent agency of the state of Arizona authorized to finance the construction, rehabilitation and/or improvement of drinking water, wastewater, wastewater reclamation, and other water quality facilities and projects. Generally, WIFA offers borrowers below market interest rates on loans for 100% of eligible project costs. The loans are secured by the underlying assets of the borrowing entities.

On September 22, 2009, the ACC approved a 20-year term loan for our subsidiary, Valencia Water Company ("Valencia Water") to borrow from WIFA $2,563,000 at an interest rate of 4.2% per annum to install supervisory control and data acquisition equipment and to complete a well that is more efficient to run. The loan contained certain provisions whereby $1,025,000 of the principal is forgivable upon meeting certain requirements of the American Recovery and Reinvestment Act of 2009. As of June 30, 2011, we met all requirements of the American Recovery and Reinvestment Act of 2009, and $1,025,000 of the principal became forgivable. Accordingly, we recorded a reduction of $1,025,000 in the loan balance with a corresponding deduction to fixed assets.

On November 6, 2009, the Commission approved a 20-year term loan for our subsidiary, Willow Valley Water Company to borrow from WIFA $435,000 at an interest rate of 4.2% per annum to install automatic meter infrastructure. The loan contained certain provisions whereby $174,000 of the principal is forgivable upon meeting certain requirements of the American Recovery and Reinvestment Act of 2009. As of June 30, 2011, we met all requirements of the American Recovery and Reinvestment Act of 2009, and $174,000 of the principal became forgivable. Accordingly, we recorded a reduction of $174,000 in the loan balance with a corresponding deduction to fixed assets.

Other Loans – We have other loans outstanding of $14,000 at June 30, 2011 bearing interest at 8% per annum and maturing January 2015.

Short Term

Short-term debt at June 30, 2011 consists of $1,260,000 of principal due December 1, 2011 for the Series 2006 and 2007 Bonds, the $3,709,000 outstanding balance under our line of credit, the current portion of the WIFA loans totaling $254,000, and the current portion of our other loans totaling $5,000. Short-term debt at December 31, 2010 consisted of $1,260,000 of principal due December 1, 2011 for the Series 2006 and 2007 Bonds, the $10,200,000 outstanding balance under our line of credit, the current portion of the WIFA loans totaling $237,000, and the current portion of our other loans totaling $5,000.

Line of Credit – The Company had previously entered into a line of credit agreement (the "Line of Credit Agreement") which had been modified several times prior to 2011. The Line of Credit Agreement was guaranteed by one of our shareholders and was collateralized by the Company's equity interest in its subsidiaries as well as certain other of our assets. At December 31, 2010, the outstanding balance of the line of credit was $10,200,000. Available borrowing capacity was $0 at December 31, 2010. As of December 31, 2010, $3,339,000 in letters of credit had been issued, $3,200,000 of which related to the Francisco Grande acquisition (see Note 1).

On January 3, 2011, we made an additional principal payment on the line of credit, reducing the balance by $7,000,000. On March 24, 2011, we paid the remaining $3,200,000 balance on the line of credit and formally terminated the Line of Credit Agreement. With this termination, the guarantee provided by a related-party shareholder (see Note 5) related to borrowings under the line of credit was also terminated. Additionally, in March 2011, the $3,200,000 letter of credit related to the Francisco Grande acquisition (see Note 1) was cancelled.

On March 24, 2011, we entered into a new revolving line of credit arrangement, providing the Company a working capital borrowing facility of up to $5,000,000, with a $250,000 stand-by letter of credit sublimit. The line of credit matures in March 2012 and contains an interest option of Prime plus 0.50% or LIBOR plus 3.00%. The line of credit is collateralized by the stock of the Company's subsidiaries and assets of GWM. The line of credit has financial covenants requiring the Company to maintain minimum quarterly EBITDA results based on seasonality of between $2.0 million and $4.5 million. Borrowings under the new revolving line of credit totaled $3,709,000 as of June 30, 2011, and $139,000 in letters of credit had been issued.

At June 30, 2011, the remaining aggregate annual maturities of our debt for the years ended December 31 are as follows (in thousands of US$):

2011 (Remaining)	$	1,388
2012		5,466
2013		1,858
2014		1,980
2015		2,087
Thereafter		109,719
Total	$	122,498

At June 30, 2011, the carrying value of the non-current portion of long-term debt was $116.8 million, with an estimated fair value of $122.3 million. The carrying value of the non-current portion of long-term debt was $117.4 million on December 31, 2010, with an estimated fair value of $122.2 million. The fair value of our debt was estimated based on interest rates considered available for instruments of similar terms and remaining maturities.

In addition to interest on our long-term debt, we record interest related to the accretion of the purchase liability associated with one of our acquisitions. Such interest expense totaled $151,000 and $213,000 during the three months ended June 30, 2011 and 2010, respectively, and $372,000 and $499,000 during the six months ended June 30, 2011 and 2010, respectively.

The Company capitalizes interest costs on qualifying fixed assets. Interest expense is reported net of $12,000 and $60,000 capitalized in the three months ended June 30, 2011 and 2010, respectively, and $22,000 and $128,000 in the six months ended June 30, 2011 and 2010, respectively.

7. SHAREHOLDERS' EQUITY

As discussed in Note 1, during 2010 the members of the GWR and GWM made the decision to raise money through the Canadian capital markets. The members established a new entity, GWRC, which would raise funding in the public market, and then use the funding to acquire shares of the Company. On December 30, 2010, GWRC completed its initial public offering, with gross offering proceeds totaling C$61,387,500. On December 30, 2010, the Company completed its Reorganization and after withholding amounts for underwriters' commissions and certain other Offering costs, GWRC contributed the $55,363,000 in net proceeds of the Offering to the Company representing (i) the payment of approximately $51,659,000 for 81,850 shares of the Company's common stock (a 46.4% interest in the Company), and (ii) reimbursement of approximately $3,704,000 of Offering expenses incurred by the Company on GWRC's behalf. All underwriters' commissions and legal, professional and other costs incurred in connection with the Offering are netted against equity at the GWRC level.

On January 28, 2011, the underwriters of the Offering exercised their over-allotment option and GWRC used the $4,011,000 of net proceeds of the over-allotment to purchase an additional 5,696 shares of the Company's common stock, increasing GWRC's interest in the Company to approximately 48.1%.

8. DEFERRED COMPENSATION AWARDS

Stock-based compensation – Stock-based compensation related to options is measured based on the fair value of the award on the date of grant. We recognize compensation expense associated with the options over the vesting period on a straight-line basis. We recorded $10,000 and $8,000 for the three months ended June 30, 2011 and 2010, respectively, and $21,000 and $17,000 for the six months ended June 30, 2011 and 2010, respectively, in stock-based compensation expense, which is reflected in general and administrative expenses.

At June 30, 2011 and December 31, 2011, there were 431 stock options outstanding. Approximately 323 of the options were vested and exercisable at June 30, 2011. The stock options have a remaining contractual life of approximately 7.0 years and an exercise price of $870.66 per share.

Total unrecognized compensation expense from the stock options, excluding any forfeiture estimate, was approximately $41,000 as of June 30, 2011 and is expected to be recognized over the remaining vesting period of 1.0 year.

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 track the performance of GWRC's shares and give 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 officer and employee compensation is intended to strengthen the alignment of interests between the officers and 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. The Company's PSU awards typically vest at the end of four years from the date of their issuance. Accordingly, the value of the PSU will be paid to the holder on the fourth anniversary of the award grant date. There is no exercise price attached to the awards.

In connection with the Reorganization, 350,000 PSUs were issued to members of management on December 30, 2010, with an initial face 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. The present value of the benefits is recorded as expense in the Company's financial statements over the related vesting period. The Company recorded approximately $123,000 and $268,000 of compensation expense related to the PSUs during the three and six months ended June 30, 2011 respectively. Based on GWRC's closing stock price on June 30, 2011, deferred compensation expenses to be recognized in 2011 and future periods are estimated for the years ending December 31 as follows (in thousands of US$):

2011 (Remaining)	$	252
2012		522
2013		561
2014		662
Total	$	1,997

9. SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the three and six months ended June 30, 2011 and 2010 (in thousands of US$):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Cash paid for interest	$ 3,800	$ 4,604	$ 5,105	$ 6,443
Capital expenditures included in accounts payable and accrued liabilities	1,396	1,525	1,396	1,525
Imputed contributions from members resulting in deferred income tax asset	-	19	-	24,849

10. COMMITMENTS AND CONTINGENCIES

Commitments – We lease certain office space in Arizona under an operating lease. We amended our corporate office lease in March 2011, reducing the Company's rental costs and extending the lease term to February 2016. Rent expense arising from the operating lease totaled approximately $97,000 and $106,000 for the three months ended June 30, 2011 and 2010, respectively, and $210,000 and $214,000 for the six months ended June 30, 2011 and 2010, 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 $2,000 and $4,000 for each of the three month and six month periods ended June 30, 2011 and 2010, respectively.

At June 30, 2011, future minimum rental payments for our corporate office lease for the years ending December 31 are as follows (in thousands of US$):

2011 (Remaining)	$	196
2012		403
2013		416
2014		429
2015		403
Thereafter		67
Total	$	1,914

On July 14, 2011, we entered into a lease agreement for an additional office suite contiguous to our current corporate office. The term of this additional lease agreement is from August 15, 2011 through February 29, 2016, with an escalating payment schedule commencing at approximately $7,000 per month and ending at approximately $15,000 per month.

GWRI entered into regional infrastructure partnership agreements with the cities of Maricopa, Casa Grande, Eloy and the Town of Buckeye. These memoranda of understandings represent public-private-partnerships (''P3'') where GWRI provides regional water, wastewater and water reclamation master planning which will reduce groundwater usage through the widespread use of reclaimed water, reduce the area's reliance on groundwater through the introduction of surface water treatment, and provide for long-term aquifer recharge in the basin. In areas where the Company's opportunity is to master plan and serve in the city's planning areas, the agreements provide the cities with long-term revenue streams to help manage growth and the provision of essential services to thousands of new residents.

On March 9, 2010, GWRI entered into a regional infrastructure partnership agreement with the City of Glendale. This memorandum of understanding is similar to the other P3s and covers 6,000 acres within Glendale's planning area.

The fees paid to the cities are based on the number of new connections and revenue. Expenses incurred under these agreements were $116,000 and $79,000 for the three months ended June 30, 2011 and 2010, respectively, and $217,000, and $153,000 for the six months ended June 30, 2011 and 2010, respectively. A regulatory rate decision by the ACC on September 15, 2010 approved the expenses paid pursuant to the Maricopa P3 to be recoverable through rates effective August 1, 2010. All expenses to date and amounts paid are related to the Maricopa P3. No payments were made during either of the three month periods or six month periods ended June 30, 2011 or 2010. Amounts due under the agreements totaled approximately $774,000 and $515,000 at June 30, 2011 and December 31, 2010, respectively.

On June 24, 2011, we entered into an amended and restated memorandum of understanding ("MOU") with the City of Maricopa (the "City") to renew the public-private-partnership first approved by the City Council in December 2005. Additionally, the City passed a resolution that supports GWRI's infrastructure coordination and financing agreements and provides a regulatory pathway to fund the costs for new growth and economic development including the City's access to the FATHOM™ GIS and Asset Management technology services. In addition, the MOU also calls for a process to minimize large, one-time rate increases and mitigate the financial impact on customers.

Contingencies – *ICFAs* – Infrastructure Coordination and Financing Agreements ("ICFAs") are voluntary, alternative financing mechanisms the Company periodically employs, which allow developers and homebuilders to defer financial participation in the up-front investment in infrastructure and relegates their involvement to certain future payment obligations. The Company generally takes a security interest in the developer's real property when the ICFAs are recorded against the land. Under the ICFA, payment is made upon the occurrence of certain regulatory or development milestones, or at the conclusion of the entitlement process. The largest of these fees are collectable from the developers typically as their land is sold to homebuilders, which is typically concurrent with the receipt of final plat approval and the time the land is converted from agriculture to residential use. The ICFA allows us, through our regulated subsidiaries, to plan and construct regional infrastructure for water, wastewater, and recycled water that ensures the maximum conservation and reuse. Further, the ICFA offers the opportunity for us to capture the maximum economies of scale through regional infrastructure planning and construction with a wide range of timing needs among various land developers. Prior to 2010, these ICFA fees were accounted for as revenue or deferred revenue. The Company is currently participating in formal workshops with the ACC, which we expect will ultimately result in a definitive accounting policy acceptable to the Commission for ICFAs and similar arrangements. We anticipate the workshop proceedings will be completed during 2011.

Contingencies – *Legal Matters* **–** On December 28, 2005, Santa Cruz and Palo Verde filed CC&N applications based on requests for service for land within Maricopa and Casa Grande planning areas. On March 29, 2006, Arizona Water Company ("Arizona Water") filed an application for virtually the same areas and filed a complaint against the Company. Arizona Water's allegations in the complaint include, among other things, that: (1) the Company is illegally and improperly acting as a public service company; and (2) that the ICFAs and P3s are in violation of ACC practice and policy and Arizona law. Monetary damages have not been specified and are typically not awarded by the ACC.

GWRI and Arizona Water subsequently entered into a settlement agreement, which was docketed with the ACC on May 16, 2008. The settlement agreement, which provides for the dismissal of the complaint, remains subject to various approvals and actions by the ACC. The ACC conducted a hearing regarding the settlement agreement in June 2009, and briefs were submitted in August 2009. The staff Recommended Opinion and Order for this case was issued by the ACC on December 22, 2010 and management believes that it supported many elements of the settlement agreement and will bring this matter to its final conclusion within the next two quarters. The ACC has not yet issued a final decision regarding the settlement agreement, the CC&N expansion requests of either party or the complaint. In 2010, the ACC: (i) found P3 fees to be recoverable in rates, (ii) that ICFAs were not unlawful, and (iii) established a workshop process to review the use of ICFAs.

Agua Reciente Ventures LLC v. Valencia Water (Maricopa County Arizona Superior Court Case No. CV2009-024245):

Valencia Water was a defendant in a case brought by Agua Reciente Ventures ("ARV"). ARV claimed that at some time prior to February 2007, it entered into an agreement with Valencia Water under which ARV would develop a well on an easement granted to Valencia Water for construction and operation of a well on property owned by a major retailer. ARV also alleged that Valencia Water intentionally interfered with ARV's contracts with third parties and with ARV's prospective business relationships. ARV claimed direct damages in excess of $600,000 and lost profits of $3.9 million. We denied that there was any agreement and contended that other factors unrelated to Valencia Water adversely impacted ARV's ability to sell capacity in the well. We also denied all intentional interference allegations and argued that none of the actions taken by Valencia Water with respect to ARV or impacting the development of a well on the retailer's property was improper. In June 2011, we settled this case, along with a separate claim of a party (Fluid Solutions) related to ARV, for $300,000. In conjunction with the settlement, Valencia Water obtained ownership of the well that was the subject of this case.

We are 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.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated up to and including August 9, 2011, which is the date these financial statements were approved by GWRI's board of directors.

12. RECONCILIATION TO CANADIAN GAAP

These financial statements have been prepared in accordance with U.S. GAAP. However, under Canadian securities law, we are required to include a reconciliation of our U.S. GAAP statements to Canadian GAAP. The following tables summarize the impact of differences between U.S. GAAP and Canadian GAAP on the Company's financial statements by the major financial-statement line item affected (in thousands of US$).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss under U.S. GAAP	$ (763)	$ (2,579)	$ (1,800)	$ (59,169)
Effect of accounting differences:				
Reclassification of debt issuance costs against long-term debt[(1)]	(34)	10	(25)	19
Amended operating lease agreement[(2)]	(28)	(11)	(45)	(21)
Net loss under Canadian GAAP	$ (825)	$ (2,580)	$ (1,870)	$ (59,171)

	June 30, 2011		December 31, 2010	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
ASSETS:				
Debt issuance costs – net [(1)]	$ 3,104	$ -	$ 3,192	$ -
Total assets [(1)]	332,592	329,488	341,462	338,270
LIABILITIES:				
Accrued expenses [(2)]	5,324	5,292	5,371	5,340
Long-term debt – current portion [(1)]	5,228	5,228	11,702	11,671
Total current liabilities [(1)(2)]	27,936	27,904	28,077	28,015
Long-term debt [(1)]	116,837	113,635	117,361	114,077
Other noncurrent liabilities [(2)]	565	731	1,204	1,324
Total liabilities [(1)(2)]	318,742	315,674	329,844	326,618
EQUITY:				
Accumulated deficit [(1)(2)]	(41,863)	(41,899)	(40,063)	(40,029)
Total equity [(1)(2)]	13,850	13,814	11,618	11,652

(1) **Reclassification of debt issuance costs against long-term debt** – Under U.S. GAAP, debt issuance costs are recognized as Other Assets. Under Canadian GAAP (HB 3855), debt issuance costs are recorded against the debt on initial

recognition, and amortized over the term of the related debt. This required a reclassification of $3.1 million and $3.2 million of debt issuance costs from Other Assets to long-term debt at June 30, 2011 and December 31, 2010, respectively. Additionally, as a result of including debt issuance costs in the carrying value of our debt, our effective interest rates on the applicable debt changed slightly, resulting in an increase of interest expense of $34,000 and a reduction of $9,000 for the three months ended June 30, 2011 and 2010, respectively, and an increase of $25,000 and a reduction of $19,000 for the six months ended June 30, 2011 and 2010, respectively.

(2) **Amended operating lease agreement** – In 2005, we entered into an operating lease for our corporate office. We have amended the lease from time to time, extending the lease term and changing the payment schedule. Under U.S. GAAP, the modified lease would be accounted for as a new lease from the date of modifications (i.e., blend and extend over the term of the new lease). Under Canadian GAAP (EIC 52), accounting for a renegotiation of the terms of an operating lease prior to the expiry of the original lease term when the ''new'' lease is also classified as an operating lease requires the accounting for the old lease to continue for the duration of its original term, forcing recognition of the effects of any renegotiated lease terms over the term of the revised period only. As payments required under the renegotiated lease arrangement differ from those otherwise due under the original lease, the differences have been considered to relate to the term of the lease extension; therefore, the differences are accounted for as an adjustment of rental expense over the extension period. This resulted in additional rental expense under Canadian GAAP of $28,000 and $10,000 for the three months ended June 30, 2011 and 2010, respectively, and $45,000 and $21,000 for the six months ended June 30, 2011 and 2010, respectively. Deferred rent payable under U.S. GAAP totaled $335,000 and $372,000 at June 30, 2011 and December 31, 2010, respectively. Deferred rent payable under Canadian GAAP totaled $468,000 and $460,000 at June 30, 2011 and December 31, 2010, respectively.

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