Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following management's discussion and analysis of Global Water Resources, Inc.'s (the "Company", "GWRI", "we", or "us") financial condition and results of operations relates to the three and six months ended June 30, 2017 and should be read together with the condensed consolidated financial statements and accompanying notes included herein, as well as our audited annual financial statements and associated management's discussion, which are available within our Annual Report on Form 10-K for the year ended December 31, 2016 available on our Company's profile on the Securities and Exchange Commission ("SEC") website, www.sec.gov.

Basis of Presentation

The financial statements of Global Water Resources, Inc. have been prepared in accordance with U.S. generally accepted accounting principles and, except where otherwise indicated, are presented in U.S. dollars and references to "$", "US$", and "dollars" are to U.S. dollars.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this management's discussion and analysis are forward-looking in nature and may constitute "forward-looking information" within the meaning of applicable securities laws. Often, but not always, forward-looking statements can be identified by the words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates", "objective", "goal", "focus", "aim", "should", "could", "may", and similar expressions. These forward-looking statements include future estimates described in "Business Outlook", "Factors Affecting our Results of Operations," and "Liquidity and Capital Resources". These forward-looking statements reflect management's current expectations regarding GWRI's future growth, results of operations, performance and business prospects and opportunities and other future events and speak only as of the date of this management's discussion and analysis. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. Investors are cautioned not to place undue reliance on forward-looking information. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC, as updated from time to time in our subsequent filings with the SEC. 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 GWRI assumes no obligation to update or revise them to reflect new events or circumstances, except as required by applicable law.

Overview

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

Business Outlook

2016 and the first two quarters of 2017 continued the trend of positive growth in new connections and re-establishing service on existing previously vacant homes. According to the 2010 U.S. Census Data, the Phoenix metropolitan statistical area ("MSA") had a population of 4.2 million in 2010 and is the 14th largest MSA in the U.S., an increase of 29% over the 3.3 million people reported in the 2000 Census. Metropolitan Phoenix's growth data continues to improve due to its low-cost housing, excellent weather, large and growing universities, a diverse employment base, and low taxes. The Employment and Population Statistics Department of the State of Arizona predicts that Phoenix Metro will have a population of 4.9 million by 2020 and 6.8 million by 2040. During the twelve months ended June 30, 2017, Arizona's employment rate improved by 2.3%, ranking the state in the top eight nationally for job growth.

Also, according to the W.P. Carey School of Business Greater Phoenix Blue Chip Real Estate Consensus panel, most sectors of real estate are expected to experience improved occupancy and growth. For Maricopa County and Pinal County combined, the W.P. Carey School of Business, using U.S. Census data, reported that single family housing permits were approximately 16,786 units for 2015.

For 2016, permits were up approximately 10% to 18,456 units in Maricopa and Pinal Counties combined, and the forecasts for 2017 and 2018 remain positive at approximately 21,000 units and 24,000 units, respectively. From there, we believe growth in the region could steadily return towards its normal historical rate of greater than 30,000 single family dwelling permits. Additionally, multifamily, office, retail, and industrial market occupancy rates continued to increase in 2016 compared to 2015, with the office market occupancy rates expected to continue to increase through 2017.

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

Factors Affecting our Results of Operations

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

- population and community growth;
- economic and environmental utility regulation;
- economic environment;
- the need for infrastructure investment;
- production and treatment costs;
- weather and seasonality; and
- access to and quality of water supply.

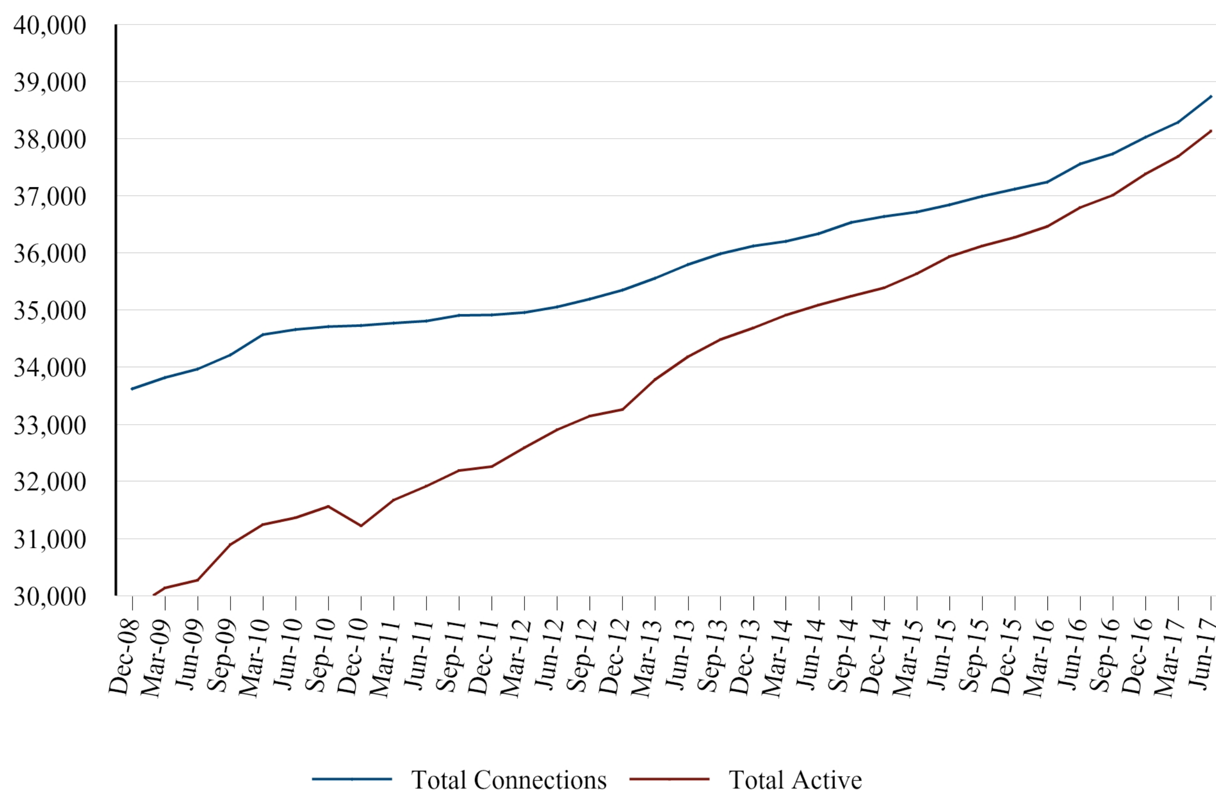
We are subject to economic regulation by the state regulator, the Arizona Corporation Commission (“ACC”). The U.S. federal and state governments also regulate environmental, health and safety and water quality matters. We continue to execute on our strategy to optimize and focus the Company in order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

Population and Community Growth

Population and community growth in the metropolitan Phoenix area served by our utilities have a direct impact on our earnings. An increase or decrease in our active service connections will affect our revenues and variable expenses in a corresponding manner. Our total service connections, including both active service connections and connections to vacant homes, increased 1,179 connections, or 3.1%, from a total of 37,560 as of June 30, 2016 to 38,739 as of June 30, 2017, an annualized increase of approximately 3.8%. This increase is due primarily to the positive growth in new connections.

As of June 30, 2017, we have 38,135 active service connections compared to 36,795 active service connections as of June 30, 2016, an increase of 1,340, or 3.6%. As with the increase in total service connections, the increase is due primarily to the growth in new connections as well as re-establishing connections on existing homes. Approximately 98.8% of the 38,135 active service connections are serviced by our Global Water - Santa Cruz Water Company, LLC (“Santa Cruz”) and Global Water - Palo Verde Utilities Company, LLC (“Palo Verde”) utilities as of June 30, 2017.

The graph below presents the historical change in active and total connections for our ongoing operations, adjusting for the July 2015 condemnation of the assets and operations of Valencia Water Company and the May 2016 sale of Willow Valley.



During the economic downturn beginning in 2008, our utilities experienced an increase in the number of vacant homes, reaching a peak of 4,020 vacant connections as of February 28, 2009, approximately 11.2% of our total connections at the time; however, the negative trend began to reverse thereafter with the number of vacant homes decreasing to 604 or 1.6% of total connections as of June 30, 2017.

Economic and Environmental Utility Regulation

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

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

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

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

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

Economic Environment

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

Infrastructure Investment

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

We have made significant capital investments in our territories within the last thirteen years, and because the infrastructure is new, we do not expect comparable capital investments to be required in the near term, either for growth or to maintain the existing infrastructure. Nevertheless, we have an established capital improvement plan to make targeted capital investments to repair and replace existing infrastructure as needed, address operating redundancy requirements, and improve our overall financial performance, by lowering expenses and increasing revenue. Additionally, to reduce our deferred tax liability of approximately $19.4 million resulting from the gain on the condemnation of the operations and assets of Valencia Water Company, we have identified certain currently planned investments within our capital improvement plan that we determined will qualify under the Internal Revenue Code §1033 re-investment criteria pursuant to a favorable Private Letter Ruling with the Internal Revenue Service. See "—Recent Events—Private Letter Ruling" for additional information.

Production and Treatment Costs

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

Weather and Seasonality

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

Access to and Quality of Water Supply

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

Recent Rate Case Activity

On July 9, 2012, we filed rate applications with the ACC to adjust the revenue requirements for seven utilities. In August 2013, we entered into a settlement agreement with the ACC staff, the Residential Utility Consumers Office, the City of Maricopa, and other parties to the rate case. The settlement required approval by the ACC's commissioners before it could take effect. In February 2014, the rate case proceedings were completed and the ACC issued Rate Decision No. 74364, approving the settlement agreement. The collective rate increase included a 9.5% return on common equity which contributed to a 15% increase over revenue in 2011.

For our utilities, adjusting for the condemnation of the operations and assets of Valencia Water Company and the sale of Willow Valley, the settlement provided for a collective aggregate revenue requirement increase of $3.6 million based on 2011 test year service connections, phased-in over time, with the first increase in January 2015 as follows (in thousands):

	Incremental	Cumulative
2015	$ 1,083	$ 1,083
2016	887	1,970
2017	335	2,305
2018	335	2,640
2019	335	2,975
2020	335	3,310
2021	335	3,645

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

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

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

The 2010 Regulatory Rate Decision No. 71878 established new rates for the recovery of reasonable costs incurred by the utilities and a return on invested capital. In determining the new annual revenue requirement, the ACC imputed a reduction to rate base for all amounts related to ICFA funds collected by us that the ACC deemed to be CIAC for rate making purposes. As a result of the decision by the ACC, we changed our accounting policy for the accounting of ICFA funds. Effective January 1, 2010, we recorded ICFA funds received as CIAC. Thereafter, the ICFA-related CIAC was amortized as a reduction of depreciation expense over the estimated depreciable life of the utility plant at the related utilities.

With the issuance of Rate Decision No. 74364, in February 2014, the ACC again changed how ICFA funds would be characterized and accounted for going forward. Most notably, the ACC changed the rate treatment of ICFA funds, and ICFA funds already received would no longer be deemed CIAC for rate making purposes. In conjunction with Rate Decision No. 74364, we eliminated the CIAC liability and reversed the associated regulatory liability brought about by the 2010 ruling. ICFA funds already received or which had become due prior to the date of Rate Decision No. 74364 were accounted for in accordance with our ICFA revenue recognition policy that had been in place prior to the 2010 Regulatory Rate Decision, wherein the funds received are recognized as revenue once the obligations specified in the ICFA were met. Rate Decision No. 74364 prescribes that of the ICFA funds which come due and are paid subsequent to December 31, 2013, 70% of the ICFA funds will be recorded in the associated utility subsidiary as a hook-up fee ("HUF") liability, with the remaining 30% to be recorded as deferred revenue, until such time that the HUF tariff is fully funded, after which the remaining funds will be recorded as deferred revenue in accordance with our ICFA revenue recognition policy. A HUF tariff, specifying the dollar value of a HUF for each utility, was approved by the ACC as part of Rate Decision No. 74364. We are responsible for assuring the full HUF value is paid from ICFA proceeds, and recorded in its full amount by predetermined milestones in Rate Decision No. 74364, even if it results in recording more or less than 30% of the ICFA fee as deferred revenue.

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

We have agreed not to enter into any new ICFAs, and instead will utilize HUF tariffs, which have become an acceptable industry practice in Arizona. As part of the settlement, a HUF tariff was established for each utility. Existing ICFAs will remain in place, with 70% of future ICFA payments to be recorded as HUFs until the HUF liability is fully funded. The HUF liability is relieved as funds are expended to construct plant, at which time a corresponding amount is recorded to CIAC. The portion of ICFA proceeds not recorded as HUF will be recorded as revenue or deferred revenue, in accordance with our ICFA revenue recognition policy.

In addition to ICFAs, we have various line extension agreements with developers and builders, whereby funds, water line extensions or wastewater line extensions are provided to us by the developers and are considered refundable advances for construction. These AIACs are subject to refund by us to the developers through annual payments that are computed as a percentage of the total annual

gross revenue earned from customers connected to utility services constructed under the agreement over a specified period. Upon the expiration of the agreements' refunding period, the remaining balance of the AIAC becomes nonrefundable and at that time is considered CIAC. CIAC are amortized as a reduction of depreciation expense over the estimated remaining life of the related utility plant. For rate-making purposes, a utility plant funded by AIAC and CIAC is excluded from rate base.

Recent Events

Reorganization Transaction

On January 19, 2016, GWR Global Water Resources Corp. ("GWRC") announced that it agreed to pursue a reorganization transaction with the Company that resulted in GWRC merging with and into the Company (the "Reorganization Transaction"). The Reorganization Transaction closed on May 3, 2016. GWRC was organized in 2010 to acquire shares of the Company, and held an approximate 47.8% interest prior to the merger. The Reorganization Transaction was part of the Company's overall plan to simplify its corporate structure by eliminating one level of holding company ownership, refinance its outstanding tax-exempt bonds on more favorable terms (as described below), improve liquidity for shareholders over the medium to long-term and have a single governing jurisdiction in the U.S., where all of the assets, operations, and employees of the business are located. As a result of the merger, GWRC ceased to exist as a British Columbia corporation and the Company, governed by the corporate laws of the State of Delaware, is the surviving entity.

Debt Refinancing

With the completion of the initial public offering of shares of common stock of the Company in the United States ("U.S. IPO"), the Company had the right to redeem all of its outstanding tax-exempt bonds at a price of 103% of the principal amount, plus interest accrued at the redemption date. Following completion of the U.S. IPO, the Company entered into a note purchase agreement (the "Note Purchase Agreement") to issue two series of senior secured notes with total principal balance of $115.0 million. On June 24, 2016, the Company closed the Note Purchase Agreement transaction, which proceeds were primarily used to pay down the outstanding $106.7 million in tax-exempt bonds at 103%. For additional information, see "—Liquidity and Capital Resources —Senior Secured Notes."

Stipulated Condemnation of the Operations and Assets of Valencia Water Company

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

Sale of Willow Valley

On March 23, 2015, the Company reached an agreement to sell the operations and assets of Willow Valley to EPCOR Water Arizona Inc. ("EPCOR"). Pursuant to the terms of the agreement, EPCOR purchased all the operations, assets, and rights used by Willow Valley to operate the utility system for $2.3 million. The transaction was approved by the ACC on March 10, 2016, and closed on May 9, 2016.

Sale of Loop 303 Contracts

In September 2013, we entered into an agreement to sell certain wastewater facilities main extension agreements and offsite water management agreements for the contemplated Loop 303 service area, along with their related rights and obligations (which we refer to collectively as the "Loop 303 Contracts"), relating to the 7,000-acre territory within a portion of the western planning area of the City of Glendale, Arizona known as the "Loop 303 Corridor." Pursuant to the agreement, we sold the Loop 303 Contracts to EPCOR for total proceeds of approximately $4.1 million ($3.1 million of which has been received as of December 31, 2016), which will be paid to us over a multi-year period. Receipt of the remaining proceeds will occur and be recorded as additional income over time as certain milestones are met between EPCOR and the developers/landowners of the Loop 303 Corridor. As part of the consideration, we agreed to complete certain engineering work required in the offsite water management agreements, which we completed in 2013, thereby satisfying our remaining obligations relating to the Loop 303 Contracts. In April 2015, we received proceeds of approximately $296,000 related to the sale of the Loop 303 Contracts. As of June 30, 2017, proceeds of $1.0

million remain outstanding, and when received will be recorded as additional income over time as certain milestones are met between EPCOR and the developers/landowners.

Sonoran Acquisition Liability

On March 17, 2016, the Company entered into an agreement with Sonoran Utility Services, LLC ("Sonoran") to amend certain provisions of the purchase and sale agreement related to the acquisition of Sonoran's assets on June 15, 2005. The amended agreement allowed the Company to reduce its original $3.8 million acquisition liability due to Sonoran in 2018 to $2.8 million, through a settlement agreement executed subsequent to the Note Purchase Agreement. Upon settlement of the Sonoran acquisition liability in June 2016, the Company recorded a gain of $954,000 in other income.

Private Letter Ruling

On June 2, 2016, the Company received a Private Letter Ruling from the Internal Revenue Service that, for purposes of deferring the approximately $19.4 million gain realized from the condemnation of the operations and assets of Valencia Water Company, determined that the assets converted upon the condemnation of such assets could be replaced through certain reclamation facility improvements contemplated by the Company under Internal Revenue Code §1033 as property similar or related in service or use. In June 2016, the Company converted all operating subsidiaries from corporations to limited liability companies to take full advantage of the benefits of such ruling.

Pursuant to Internal Revenue Code §1033, the Company may defer the gain on condemnation through the end of the year 2017. On April 18, 2017, the Company filed a request for a one-year extension to defer the gain to the end of 2018. As the extension has not been approved, the Company has identified certain currently planned investments within our capital improvement plan, which we have accelerated with a 2017 timeframe in mind. As a result, we increased capital expenditures in 2017 as compared to recent years, and expect corresponding reductions to occur in 2018, 2019, and beyond. As of June 30, 2017, our deferred tax liability relating to the condemnation was approximately $10.6 million.

Acquisition of Eagletail Water Company

On May 15, 2017, the Company acquired Eagletail Water Company ("Eagletail") for approximately $80,000. Eagletail, a small water utility located west of metropolitan Phoenix, adds approximately 55 active water connections and six square miles of approved service area to Global Water's existing regional service footprint.

Segment Reporting

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

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

Comparison of Results of Operations for the Three Months Ended June 30, 2017 and 2016

The following table summarizes our results of operations for the three months ended June 30, 2017 and 2016 (in thousands):

	For the Three Months Ended June 30,	
	2017	2016
Revenues	$ 8,145	$ 7,589
Operating expenses	6,433	6,664
Operating income	1,712	925
Total other expense	(996)	(6,388)
Income (loss) before income taxes	716	(5,463)
Income tax benefit (expense)	(291)	1,931
Net income (loss)	$ 425	$ (3,532)
Basic earnings (losses) per common share	$ 0.02	$ (0.18)
Diluted earnings (losses) per common share	$ 0.02	$ (0.18)

Revenues – The following table summarizes our revenues for the three months ended June 30, 2017 and 2016 (in thousands).

	For the Three Months Ended June 30,	
	2017	2016
Water services	$ 3,897	$ 3,647
Wastewater and recycled water services	4,230	3,922
Unregulated revenues	18	20
Total revenues	$ 8,145	$ 7,589

Total revenues increased $556,000, or 7.3%, for the three months ended June 30, 2017 compared with the three months ended June 30, 2016. The operations of Willow Valley contributed revenue of $80,000 for the three months ended June 30, 2016 compared to no revenue for the three months ended June 30, 2017. The revenue for the remaining operating utilities increased $636,000, or 8.5%, to $8.1 million for the three months ended June 30, 2017 compared to $7.5 million for the three months ended June 30, 2016. The increase in revenue for the remaining operating utilities reflects the increase in rates related to Rate Decision No. 74364 in February 2014 combined with a 3.6% increase in active service connections, coupled with an increase in consumption during the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Water Services – Water services revenue increased $250,000, or 6.9%, to $3.9 million for the three months ended June 30, 2017 compared to $3.6 million for the three months ended June 30, 2016. The operations of Willow Valley contributed $81,000 for the three months ended June 30, 2016 compared to no revenue for the three months ended June 30, 2017. The water services revenue for the remaining operating utilities increased $331,000, or 9.3%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Water services revenue based on consumption increased $223,000, or 13.2%, to $1.9 million for the three months ended June 30, 2017 from $1.7 million for the three months ended June 30, 2016. The operations of Willow Valley contributed $6,000 for the three months ended June 30, 2016 compared to no revenue for the three months ended June 30, 2017. Consumption revenue for the remaining operating utilities increased $229,000, or 13.5%. The increase in consumption revenue for the remaining utilities is primarily driven by an increase in irrigation and residential consumption combined with an increase in rates for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Active water connections increased 3.7% to 19,417 as of June 30, 2017 from 18,716 as of June 30, 2016, primarily due to the positive growth in new connections.

Water consumption increased 15.7% to 700 million gallons for the three months ended June 30, 2017 from 605 million gallons for the three months ended June 30, 2016. However, adjusting for the sale of Willow Valley, which operations accounted for 6 million gallons of consumption for the three months ended June 30, 2016, water consumption for the remaining operating utilities increased 16.8% from 599 million gallons to 700 million gallons. The increase in consumption at the remaining operating utilities is primarily related to the increase in irrigation and residential consumption.

Water services revenue, excluding miscellaneous charges associated with the basic service charge, increased $5,000, or 0.3%, to remain consistent at $1.9 million for the three months ended June 30, 2017 and June 30, 2016. The operations of Willow Valley contributed revenue of $74,000 for the three months ended June 30, 2016 compared to no revenue for the three months ended June 30, 2017. The remaining utilities' basic water service revenue increased $79,000, or 4.4%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, which resulted from an increase in active service connections for the remaining operating utilities, combined with an increase in rates related to Rate Decision No. 74364.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenue increased $308,000, or 7.9%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The increase in wastewater and recycled water services revenue is primarily driven by a $260,000 increase in wastewater services revenue combined with a $48,000 increase in recycled water services revenue for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The increase in wastewater services revenue reflects the increase in rates related to Rate Decision No. 74364, as well as the increase in active wastewater connections, which increased 3.5% to 18,718 as of June 30, 2017 from 18,079 as of June 30, 2016.

Recycled water services revenue, which is based on the number of gallons delivered, increased $48,000, or 22.2%, to $262,000 for the three months ended June 30, 2017 compared to $214,000 for the three months ended June 30, 2016. The increase in recycled water services revenue is primarily related to the increase in recycled water consumption, coupled with an increase in recycled water rates. The volume of recycled water delivered increased 26 million gallons, or 12.9%, to 226 million gallons for the three months ended June 30, 2017 compared to 200 million gallons for the three months ended June 30, 2016. Recycled water rates increased 11.5% per Rate Decision No. 74364 compared to 2016.

Operating Expenses – The following table summarizes our operating expenses for the three months ended June 30, 2017 and 2016 (in thousands):

	For the Three Months Ended June 30,	
	2017	2016
Operations and maintenance	$ 1,451	$ 1,596
Operations and maintenance - related party	365	465
General and administrative	2,809	2,993
Depreciation	1,808	1,610
Total operating expenses	$ 6,433	$ 6,664

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased power), maintenance costs, and property tax, decreased $145,000, or 9.1%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Chemical and supply expenses decreased $52,000, or 35.6%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. This decrease is driven by a reduction in chemical utilization for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, as additional chemicals were required in 2016 to ensure optimal operation of the wastewater facility in readiness for the inception of the Palo Verde wastewater recycling facility expansion project, which is underway.

Total personnel expenses decreased $34,000, or 8.1%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, primarily due to a decrease in personnel related to the sale of Willow Valley, which operations represented $20,000 of personnel expense for the three months ended June 30, 2016, compared to zero expense for the three months ended June 30, 2017. Total personnel costs for the remaining operating utilities decreased $14,000, or 3.4%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The decrease in personnel expenses for the remaining utilities was primarily due to a decrease in medical insurance expense which was driven by a reduction in medical claims for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Operations and Maintenance – Related Party – Operations and maintenance related party expenses are for service fees paid to FATHOM™ with respect to billing, customer service and other support provided to our regulated utilities. Service fees paid to FATHOM™ decreased $100,000, or 21.5%, to $365,000 for the three months ended June 30, 2017 compared to $465,000 for the three months ended June 30, 2016. FATHOM™ service fees partially decreased as a result of the sale of Willow Valley, which operations represented $26,000 of such expenses for the three months ended June 30, 2016 compared to zero expense for the three months ended June 30, 2017. FATHOM™ service fees for the remaining operating utilities decreased $74,000, or 16.9%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The decrease in service fees for the remaining

operating utilities was driven by the renegotiation of the FATHOM™ service contract in November 2016, wherein the monthly rate per water connection decreased $1.55, or 19.9%, from $7.79 per month to $6.24 per month beginning in January 2017.

General and Administrative – General and administrative costs include the day-to-day expenses of office operation, personnel costs, legal and other professional fees, insurance, rent and regulatory fees. These costs decreased $184,000, or 6.1%, during the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Deferred compensation expense decreased $296,000, or 30.1%, to $689,000 for the three months ended June 30, 2017, compared to $985,000 for the three months ended June 30, 2016. The decrease was primarily related to the lower increase of our stock price, which increased $1.20 for the three months ended June 30, 2017 compared to an increase of $2.90 for the three months ended June 30, 2016.

Professional fees increased $74,000, or 24.3%, to $378,000 for the three months ended June 30, 2017, compared to $304,000 for the three months ended June 30, 2016. The increase was primarily related to expenses associated with the acquisition of Eagletail.

Public company expenses increased $53,000 to $75,000 for the three months ended June 30, 2017, compared to $22,000 for the three months ended June 30, 2016, due to becoming a U.S. public company during the second quarter of 2016. Public company expenses were historically recorded at GWRC. Public company expenses primarily consist of listing fees, filing fees, and transfer agent expenses.

Franchise and other taxes increased $42,000, or 466.7%. This increase was due to an increase in franchise tax of $45,000. The increase in franchise taxes is associated with GWRI (a Delaware corporation) becoming a U.S. Public Company which requires that we pay $180,000 in Delaware franchise tax each year.

Depreciation – Depreciation expense increased $198,000, or 12.3%, to $1.8 million for the three months ended June 30, 2017 compared to $1.6 million for the three months ended June 30, 2016. The increase in depreciation expense was primarily due to the increase in fixed assets associated with the accelerated capital expenditures plan.

Other Income (Expense) – Other expense totaled $996,000 for the three months ended June 30, 2017 compared to other expense of $6.4 million for the three months ended June 30, 2016. The decrease of $5.4 million in other expense was primarily attributed to a decrease in interest expense of $6.2 million combined with the $8,000 change in Other – related party income (expense), partially offset by a $771,000 decrease in other income.

Interest expense decreased $6.2 million, or 82.5%, to $1.3 million for the three months ended June 30, 2017 compared to $7.5 million for the three months ended June 30, 2016. Interest expense decreased due to the June 2016 debt refinancing. As part of the refinancing, we paid $3.2 million in prepayment penalties and wrote off the remaining $2.2 million in capitalized loan fees related to the retired bonds. Additionally, quarterly interest expense was reduced by approximately $433,000 due to the reduced interest rates on the new notes.

Other – related party income (expense) decreased $8,000, to a loss of $33,000 for the three months ended June 30, 2017 compared to a loss of $41,000 for the three months ended June 30, 2016. Other related party income (expense) includes royalty income based upon a percentage of certain FATHOM™ recurring revenue combined with the equity method gains and losses associated with our equity method investment in FATHOM™. The change in other related party income (expense) was primarily driven by the increase in the FATHOM™ royalty of $6,000 for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, coupled with a $2,000 decrease in equity method loss on our investment in FATHOM™. See Note 5 – "Equity Method Investment" to the condensed consolidated financial statement in Part I, Item 1 of this report for more information.

Other income decreased $771,000, or 69.6%, to $336,000 for the three months ended June 30, 2017 compared to $1.1 million for the three months ended June 30, 2016. The decrease in other income was primarily related to the $954,000 gain on the settlement of the Sonoran purchases liability recorded in the three months ended June 30, 2016. Partially offsetting that decrease was the increase in royalty income of $3,000 for each new water meter installed within Valencia Water Company's prior service areas, which increased $144,000 to $336,000 for the three months ended June 30, 2017 compared to $192,000 for the three months ended June 30, 2016. This increase was primarily driven by accelerated growth in our former service territory.

Income Tax (Expense) Benefit – Income tax expense of $291,000 was recorded for the three months ended June 30, 2017 compared to an income tax benefit of $1.9 million for the three months ended June 30, 2016. The income tax expense recorded for the three months ended June 30, 2017 is related to current period pretax income compared to a pretax loss for the three months ended June 30, 2016.

Net Income – Our net income totaled $425,000 for the three months ended June 30, 2017 compared to a net loss of $3.5 million for the three months ended June 30, 2016. The $4.0 million increase for the three months ended June 30, 2017 compared to the three months ended June 30, 2016 was primarily attributed to the $6.2 million reduction of interest expense coupled with a $787,000 increase in operating income. Offsetting this increase in net income was a $2.2 million change in income taxes for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. Additionally, net income for the three months ended June 30, 2016 included a $954,000 gain on the settlement of the Sonoran purchase liability.

Comparison of Results of Operations for the Six Months Ended June 30, 2017 and 2016

The following table summarizes our results of operations for the six months ended June 30, 2017 and 2016 (in thousands):

	For the Six Months Ended June 30,	
	2017	2016
Revenues	$ 14,936	$ 14,405
Operating expenses	12,123	12,419
Operating income	2,813	1,986
Total other expense	(1,738)	(7,985)
Income (loss) before income taxes	1,075	(5,999)
Income tax benefit (expense)	(461)	2,153
Net income (loss)	$ 614	$ (3,846)
Basic earnings (losses) per common share	$ 0.03	$ (0.21)
Diluted earnings (losses) per common share	$ 0.03	$ (0.21)

Revenues – The following table summarizes our revenues for the six months ended June 30, 2017 and 2016 (in thousands).

	For the Six Months Ended June 30,	
	2017	2016
Water services	$ 6,682	$ 6,636
Wastewater and recycled water services	8,218	7,729
Unregulated revenues	36	40
Total revenues	$ 14,936	$ 14,405

Total revenues increased $531,000, or 3.7%, for the six months ended June 30, 2017 compared with the six months ended June 30, 2016. The operations of Willow Valley contributed revenue of $306,000 for the six months ended June 30, 2016 compared to no revenue for the six months ended June 30, 2017. The revenue for the remaining operating utilities increased $837,000, or 5.9%, to $14.9 million for the six months ended June 30, 2017 compared to $14.1 million for the six months ended June 30, 2016. The increase in revenue for the remaining operating utilities reflects the increase in rates related to Rate Decision No. 74364 in February 2014 combined with a 3.6% increase in active service connections, coupled with an increase in consumption during the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Water Services – Water services revenue increased $46,000, or 0.7%, to $6.7 million for the six months ended June 30, 2017 compared to $6.6 million for the six months ended June 30, 2016. The operations of Willow Valley contributed $306,000 for the six months ended June 30, 2016 compared to no revenue for the six months ended June 30, 2017. The water services revenue for the remaining operating utilities increased $352,000, or 5.6%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Water services revenue based on consumption increased $31,000, or 1.2%, to remain relatively consistent at $2.7 million for the six months ended June 30, 2017 and June 30, 2016. The operations of Willow Valley contributed $67,000 for the six months ended June 30, 2016 compared to no revenue for the six months ended June 30, 2017. Consumption revenue for the remaining operating utilities increased $98,000, or 3.8%, to $2.7 million for the six months ended June 30, 2017 compared to $2.6 million for the six months ended June 30, 2016. The increase in consumption revenue for the remaining utilities is primarily driven by an increase in irrigation consumption combined with an increase in rates for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Active water connections increased 3.7% to 19,417 as of June 30, 2017 from 18,716 as of June 30, 2016 primarily due to the positive growth in new connections.

Water consumption increased 6.3% to 1.1 billion gallons for the six months ended June 30, 2017 from 990 million gallons for the six months ended June 30, 2016. However, adjusting for the sale of Willow Valley, which operations accounted for 18 million gallons of consumption for the six months ended June 30, 2016, water consumption for the remaining operating utilities increased 8.2% from 972 million gallons to 1.1 billion gallons. The increase in consumption at the remaining operating utilities is primarily related to the increase in irrigation usage for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Water services revenue, excluding miscellaneous charges associated with the basic service charge, decreased $83,000, or 2.2%, to $3.7 million for the six months ended June 30, 2017 compared to $3.8 million for the six months ended June 30, 2016. The operations of Willow Valley contributed revenue of $235,000, for the six months ended June 30, 2016 compared to no revenue for the six months ended June 30, 2017. The remaining utilities' basic water service revenue increased $152,000, or 4.3%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. This increase resulted from an increase in active service connections for the remaining operating utilities, combined with an increase in rates related to Rate Decision No. 74364.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenue increased $489,000, or 6.3%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increase in wastewater and recycled water services revenue is primarily driven by a $453,000 increase in wastewater services revenue combined with a $36,000 increase in recycled water services revenue for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increase in wastewater services revenue reflects the increase in rates related to Rate Decision No. 74364, as well as the increase in active wastewater connections, which increased 3.5% to 18,718 as of June 30, 2017 from 18,079 as of June 30, 2016.

Recycled water services revenue, which is based on the number of gallons delivered, increased $36,000, or 11.3%, to $354,000 for the six months ended June 30, 2017 compared to $318,000 for the six months ended June 30, 2016. The increase in recycled water services revenue is primarily related to the increase in recycled water consumption coupled with an increase in recycled water rates. The volume of recycled water delivered increased 6 million gallons, or 2.0%, to 305 million gallons for the six months ended June 30, 2017 compared to 299 million gallons for the six months ended June 30, 2016. Recycled water rates increased 11.5% per Rate Decision No. 74364 compared to 2016.

Operating Expenses – The following table summarizes our operating expenses for the six months ended June 30, 2017 and 2016 (in thousands):

	For the Six Months Ended June 30,	
	2017	2016
Operations and maintenance	$ 2,925	$ 3,208
Operations and maintenance - related party	725	937
General and administrative	5,019	5,047
Depreciation	3,454	3,227
Total operating expenses	$ 12,123	$ 12,419

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased power), maintenance costs, and property tax, decreased $283,000, or 8.8%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Chemical and supply expenses decreased $132,000, or 41.3%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The decrease is primarily driven by a reduction in chemical utilization for the six months ended June 30, 2017 compared to the six months ended June 30, 2016, as additional chemicals were required in 2016 to ensure optimal operation of the wastewater facility in readiness for the inception of the Palo Verde wastewater recycling facility expansion project, which is underway.

Total personnel expenses decreased $88,000, or 10.0%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016, primarily due to a decrease in personnel related to the sale of Willow Valley, which operations represented $58,000 of personnel expense for the six months ended June 30, 2016 compared to zero expense for the six months ended June 30, 2017. Total personnel costs for the remaining operating utilities decreased $30,000, or 3.7%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The decrease in personnel expenses for the remaining utilities was primarily driven by a reduction of medical insurance expense, which decreased $33,000 for the six months ended June 30, 2017 compared

to the six months ended June 30, 2016. The decrease in medical insurance expense was driven by a reduction in medical claims compared to 2016.

Property taxes decreased $31,000, or 3.2%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. Property taxes are calculated using a centrally valued property calculation, which derives property values based upon three-year historical average revenues of the Company. As revenues increase, we generally expect property taxes to increase. For the six months ended June 30, 2017, property taxes decreased due to a change in governmental assessment when compared to the six months ended June 30, 2016.

Operations and Maintenance – Related Party – Operations and maintenance related party expenses are for service fees paid to FATHOM™ with respect to billing, customer service, and other support provided to our regulated utilities. Service fees paid to FATHOM™ decreased $212,000, or 22.6%, to $725,000 for the six months ended June 30, 2017 compared to $937,000 for the six months ended June 30, 2016. FATHOM™ service fees partially decreased as a result of the sale of Willow Valley, which operations represented $62,000 of such expenses for the six months ended June 30, 2016 compared to zero expense for the six months ended June 30, 2017. FATHOM™ service fees for the remaining operating utilities decreased $150,000, or 22.6%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The decrease in service fees for the remaining operating utilities was driven by the renegotiation of the FATHOM™ service contract in November 2016, wherein the monthly rate per water connection decreased $1.55, or 19.9%, from $7.79 per month to $6.24 per month beginning in January 2017.

General and Administrative – General and administrative costs include the day-to-day expenses of office operation; personnel costs, legal and other professional fees, insurance, rent, and regulatory fees. These costs decreased $28,000, or 0.6%, during the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Deferred compensation expense decreased $307,000, or 26.2%, to $865,000 for the six months ended June 30, 2017 compared to $1.2 million for the six months ended June 30, 2016. The decrease was primarily related to the lower increase of our stock price, which increased $0.80 for the six months ended June 30, 2017 compared to an increase of $3.34 for the six months ended June 30, 2016.

Insurance expenses increased $43,000, or 26.9%, to $203,000 for the six months ended June 30, 2017 compared to $160,000 for the six months ended June 30, 2016. This increase was primarily due to director and officer insurance expense, which increased as a result of the completed IPO in May 2016 and listing as a U.S. public company.

IT expenses decreased $69,000, or 37.7%, to $114,000 for the six months ended June 30, 2017 compared to $183,000 for the six months ended June 30, 2016. The decrease in IT expenses was primarily due to expense reductions realized by a change in provider and services.

Professional fees increased $82,000, or 10.6%, to $854,000 for the six months ended June 30, 2017 compared to $772,000 for the six months ended June 30, 2016. This increase was primarily related to expenses associated with the acquisition of Eagletail.

Investor relations expenses increased $33,000, or 275.0%, to $45,000 for the six months ended June 30, 2017 compared to $12,000 for the six months ended June 30, 2016. Investor relations expenses were historically recorded at GWRC. Investor relations expenses primarily consist of a monthly fee to our investor relations provider.

Public company expenses increased $106,000, or 481.8%, to $128,000 for the six months ended June 30, 2017 compared to $22,000 for the six months ended June 30, 2016, due to becoming a U.S. public company in 2016. Public company expenses were historically recorded at GWRC. Public company expenses primarily consist of listing fees, filing fees, and transfer agent expenses.

Franchise and other taxes increased $91,000, or 650.0% to $105,000 for the six months ended June 30, 2017 compared to $14,000 for the six months ended June 30, 2016. This increase was due to an increase in franchise tax of $90,000. The increase in franchise taxes is associated with GWRI (a Delaware corporation) becoming a U.S. Public Company which requires that we pay $180,000 in Delaware franchise tax each year.

Other Income (Expense) – Other expense totaled $1.7 million for the six months ended June 30, 2017 compared to other expense of $8.0 million for the six months ended June 30, 2016. The decrease of $6.2 million in other expense was primarily attributed to a decrease in interest expense of $6.7 million combined with the $323,000 change in Other – related party income, partially offset by a decrease in other income of $742,000 for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Interest expense decreased $6.7 million, or 71.8%, to $2.6 million for the six months ended June 30, 2017 compared to $9.3 million for the six months ended June 30, 2016. Interest expense decreased due to the June 2016 debt refinancing. As part of the refinancing, we paid $3.2 million in prepayment penalties and wrote off the remaining $2.2 million in capitalized loan fees related to the retired bonds during the six months ended June 30, 2016. Additionally, interest expense was further reduced by approximately $865,000 due to reduced interest rates on the new notes.

Other – related party income (expense) increased $323,000, to income of $181,000 for the six months ended June 30, 2017 compared to a loss of $142,000 for the six months ended June 30, 2016. Other related party income (expense) includes royalty income based upon a percentage of certain FATHOM™ recurring revenue combined with the equity method gains and losses associated with our equity method investment in FATHOM™. The change in other related party income (expense) was primarily driven by a $243,000 gain from the revaluation of our ownership interest in FATHOM™ in connection with FATHOM™'s financing transaction in March 2017 (See Note 5 – "Equity Method Investment" to the condensed consolidated financial statement in Part I, Item 1 of this report) combined with a reduction of our share of FATHOM™ operating losses for the six months ended June 30, 2017 compared to June 30, 2016.

Other income decreased $742,000, to $688,000 for the six months ended June 30, 2017 compared to $1.4 million for the six months ended June 30, 2016. The decrease in other income is primarily related to the $954,000 gain on the settlement of the Sonoran purchase liability recognized in the six months ended June 30, 2016. Partially offsetting the decrease was an increase in the Valencia earnout of $246,000 to $690,000 for the six months ended June 30, 2017 compared to $444,000 for the six months ended June 30, 2016. The Valencia earnout consists of $3,000 for each new water meter installed within Valencia Water Company's prior service areas. This increase was primarily driven by accelerated growth in our former service territory. Other income also improved due to a reduction in loss recorded on the sale of Willow Valley as we recorded a $54,000 loss for the six months ended June 30, 2016.

Income Tax (Expense) Benefit – Income tax expense of $461,000 was recorded for the six months ended June 30, 2017 compared to an income tax benefit of $2.2 million for the six months ended June 30, 2016. The income tax expense recorded for the six months ended June 30, 2017 is related to current period pretax income compared to a pretax loss for the six months ended June 30, 2016.

Net Income – Our net income totaled $614,000 for the six months ended June 30, 2017 compared to net loss of $3.8 million for the six months ended June 30, 2016. The $4.5 million increase for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 is primarily attributed to the $6.7 million reduction of interest expense, a $312,000 change of our equity method investment, a $827,000 operating income increase, and a $2.6 million change in income taxes. Additionally, net income for the six months ended June 30, 2016 included a $954,000 gain on the settlement of the Sonoran purchase liability.

Outstanding Share Data

As of August 8, 2017, there were 19,606,266 shares of our common stock outstanding and options to acquire an additional 343,395 shares of our common stock outstanding.

Liquidity and Capital Resources

Our capital resources are provided by internally generated cash flows from operations as well as debt and equity financing. Additionally, our 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. We use our capital resources to:

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

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

As of June 30, 2017, we have no notable near-term cash expenditure or debt obligations. While specific facts and circumstances could change, we believe that we have sufficient cash on hand and will be able to generate sufficient cash flows to meet our

operating cash flow requirements and capital expenditure plan as well as remain in compliance with our debt covenants for at least the next twelve months.

In March 2014, we initiated a dividend program to declare and pay a monthly dividend. On May 10, 2017, we announced a monthly dividend increase from $0.02250 per share ($0.27000 per share annually) to $0.02306 per share ($0.27672 per share annually). Although we expect monthly dividends will be declared and paid for the foreseeable future, the declaration of any dividends is at the discretion of our board of directors and is subject to legal requirements.

The senior secured notes contain a provision limiting the payment of dividends if we fall below a debt service ratio of consolidated EBITDA to consolidated debt service of 1.25, or 1.20 for the quarters ending June 30, 2021 through the quarter ending March 31, 2024. Consolidated EBITDA is calculated as net income plus depreciation, taxes, interest, and other non-cash charges net of non-cash income. Consolidated debt service is calculated as interest expense, principal payments, dividend declarations, and stock repurchases. As of June 30, 2017, we were in compliance with our dividend covenant, and we believe we will remain in compliance for at least the next twelve months.

Cash from Operating Activities – Cash flows provided by operating activities are used for operating needs and to meet capital expenditure requirements. Our 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.

For the six months ended June 30, 2017, our net cash provided by operating activities totaled $3.7 million compared to net cash used in operating activities of $2.5 million for the six months ended June 30, 2016. The $6.1 million change in cash from operating activities is primarily driven by the increase in operating income for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 and by the decrease in interest expense due to the 2016 debt refinancing.

Cash Used In Investing Activities – Our net cash used in investing activities totaled $12.8 million for the six months ended June 30, 2017 compared to cash used in investing activities of $292,000 for the six months ended June 30, 2016. The $12.5 million change in cash used in investing activities was primarily driven by an increase in capital expenditures of $10.1 million for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. In addition, cash provided by investing activities for the six months ended June 30, 2016 included $2.3 million in cash proceeds from the sale of Willow Valley.

We continue to invest capital prudently in our existing, core service areas where we are able to deploy our Total Water Management model as service connections grow. This includes any required maintenance capital expenditures and the construction of new water and wastewater treatment and delivery facilities. Capital expenditures increased in 2017 as compared to recent years as a result of our decision to accelerate certain capital expenditures within our capital improvement plan related to the Private Letter Ruling, subject to the approval of our one-year extension request to the Internal Revenue Service (see "—Recent Events—Private Letter Ruling"). Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Cash Used In Financing Activities – Our net cash used in financing activities totaled $2.3 million for the six months ended June 30, 2017, a $19.1 million change as compared to the $16.8 million in cash provided by financing activities for the six months ended June 30, 2016. This change was primarily driven by the refinancing of tax exempt bonds in 2016, wherein, we repaid $106.7 million in tax exempt bonds with $115.0 million in proceeds from our two series of senior secured notes, combined with the release of $8.8 million in bond reserves associated with the refinancing. Additionally, we generated $5.6 million in net proceeds from our U.S. IPO. Proceeds for the six months ended June 30, 2016 were partially offset by the $2.8 million payment to settle our Sonoran acquisition liability.

Senior Secured Notes – On June 24, 2016, we issued two series of senior secured notes with a total principal balance of $115.0 million at a blended interest rate of 4.55%. Series A carries a principal balance of $28.8 million and bears an interest rate of 4.38% over a twelve-year term, with the principal payment due on June 15, 2028. Series B carries a principal balance of $86.3 million and bears an interest rate of 4.58% over a 20-year term. Series B is interest only for the first five years, with $1.9 million principal payments paid semiannually thereafter. The proceeds of the Senior Secured Notes were primarily used to refinance the existing long-term tax exempt bonds, pursuant to an early redemption option at 103%, plus accrued interest, as a result of the U.S. IPO.

Insurance Coverage

We carry 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. We are 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 our short-term and long-term financial condition and the results of operations and cash flows.

Critical Accounting Policies, Judgments, and Estimates

The application of critical accounting policies is particularly important to our financial condition and results of operations and provides a framework for management to make significant estimates, assumptions, and other judgments. Additionally, our 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 our 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 our financial condition and results of operations as reflected in our financial statements.

There have been no significant changes to our critical accounting policies from those disclosed under "Managements' Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies, Judgments, and Estimates" in our most recent Annual Report on Form 10-K filed with the SEC on March 10, 2017.

Off Balance Sheet Arrangements

As of June 30, 2017 and December 31, 2016, we did not have any off-balance sheet arrangements.

Contractual Obligations

The following table summarizes our contractual cash obligations as of June 30, 2017 (in thousands):

		Payments Due By Period			
	Total	Less than 1 Year	2 - 3 Years	3 - 5 Years	More than 5 Years
Long term debt obligations	$ 115,073	$ 9	$ 21	$ 3,843	$ 111,200
Interest on long-term debt [2]	69,822	5,211	10,422	10,377	43,812
Operating lease obligations	286	122	112	52	—
FATHOM™ purchase obligations[3]	1,417	1,417	—	—	—
Total [1]	$ 186,598	$ 6,759	$ 10,555	$ 14,272	$ 155,012

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

(2) Interest on the long-term debt is based on the fixed rates of the Company's senior secured notes.

(3) The Company has entered into an agreement with FATHOM™ to replace a majority of its meter infrastructure within the upcoming year. See Note 7 – "Transactions with Related Parties" of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for more information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk associated with changes in commodity prices, equity prices, and interest rates. The Company uses fixed-rate long-term debt to reduce the risk from interest rate fluctuations. Although the Company's long-term debt is based on fixed rates, changes in interest rates could impact the fair market value of the Company's long-term debt. As of June 30, 2017, the fair market value of the Company's long-term debt was $113.9 million. For additional information about the Company's long-term debt, see Note 9 – "Debt" of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Office and Chief Financial Officer, reviewed and evaluated our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Office and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in providing them with timely material information relating to the Company.

Change in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the fiscal quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, we may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. To our knowledge, we are not involved in any legal proceeding which is expected to have a material effect on us.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in “Risk Factors” included in Part I, Item 1A of our Annual Report on Form 10‑K for the year ended December 31, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

a) Sales of Unregistered Securities

No unregistered securities were sold during the three months ended June 30, 2017.

b) Use of Proceeds

None.

c) Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit	Method of Filing
2.1.1	Arrangement Agreement	Incorporated by reference to Exhibit 2.1 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed January 19, 2016.
2.1.2	Plan of Arrangement	Incorporated by reference to Exhibit 2.1.2 of Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-209025) filed April 13, 2016.
3.1	Second Amended and Restated Certificate of Incorporation of Global Water Resources, Inc.	Incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed May 4, 2016.
3.2	Amended and Restated Bylaws of Global Water Resources, Inc.	Incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed May 4, 2016.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	Furnished herewith.
101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Global Water Resources, Inc.
Date: August 8, 2017	By: /s/ Michael J. Liebman
	Michael J. Liebman
	Chief Financial Officer and Corporate Secretary
	(Duly Authorized Officer and Principal Financial Officer)