

GLOBAL WATER TECHNOLOGIES, INC.
Management Discussion and Analysis
For the Years Ended December 31, 2010 and 2009
(UNAUDITED)

BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Business

Global Water Technologies, Inc. (the Company) was incorporated in Delaware in 1990. The Company was known as Fi-Tek VI, Inc. until November 1997. The Company then began operating as Global Water Technologies, Inc., with headquarters in Colorado and operations in the construction of cooling towers and various water treatment services. The Company deregistered with the SEC in August 2002 and has been in a non-reporting status since then. In May 2003, the Company filed a petition under Chapter 11 of the Federal Bankruptcy Code and then emerged from bankruptcy in July 2004 with its securities intact. In 2009, new management took control of the company, moved the headquarters to Indiana and undertook a series of steps to reduce overhead expenses.

The Company is currently involved in the development and sales of water treatment technologies, products and services, with a focus on commercial and industrial customers. The Company's current operations are conducted through its Electric H2O, Inc. subsidiary and all financials are reported on a consolidated basis.

The Company owns 90 percent of Electric H2O, Inc., its subsidiary that produces the ED2000™ line of products. ED2000™ uses a proprietary controller and offset coil fitted around a pipe to deliver an oscillating electric field to treat water. The products have historically been sold for use on cooling towers to reduce fouling and the formation of scale on heat transfer surfaces. Electric H2O also combines such treatment with filtration, using centrifugal separators and an innovative, self-cleaning screen filter system. Electric H2O, Inc. has ongoing operations utilizing contract manufacturing and distribution that generates both domestic and international sales. Historically sales volumes have been minimal and uneven, resulting in poor economies of scale and a long sales cycle. Although revenues are still minimal, there is continued and growing interest in such non-chemical water treatment. The Company believes it has excellent relationships with its suppliers (including one which has 10 percent ownership of the subsidiary) and is now positioned well to build on such operational efficiencies with increased marketing and sales efforts.

The Company has also started work to update its core technology and begun the process of identifying and developing new water technology opportunities through the formation of strategic partnerships and collaboration with other companies and organizations.

Forward-looking Statement

Statements relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments, and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, risk factors inherent in doing business. Forward-looking statements may be identified by terms such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "forecasts," "potential," or "continue," or similar terms or the negative of these terms. Although we believe

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that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The company has no obligation to update these forward-looking statements.

Significant Accounting Policies

Unaudited

The Company's financial statements are prepared on an accrual basis and are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the Company's financial position at December 31, 2010, and the results of its operations and cash flows for the twelve-month periods ended December 31, 2010 and 2009.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affects 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 revenue and expenses during the reporting period. Such estimates may be materially different from actual financial results. Significant estimates include the recoverability of long-lived assets and the collectability of accounts receivable.

Cash and Cash Equivalents

The Company maintains its cash accounts at a commercial bank. The total cash balance is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000 per commercial bank. As of December 31, 2010 and 2009, the Company had zero amounts in excess of the FDIC insured limits. For purposes of the statement of cash flows, the Company considers all cash and highly liquid investments with initial maturities of three months or less to be cash equivalents.

Accounts Receivable

The Company reviews accounts receivable periodically for collectability and establishes an allowance for doubtful accounts and records bad debt expense when deemed necessary. At December 31, 2010 and 2009, the Company had no balance in its allowance for doubtful accounts.

Inventory

The Company carries its inventories at the lower of its cost or market value. Cost is determined using the first-in, first-out ("FIFO") method. Market is determined based on net realizable value. The Company also provides due consideration to obsolescence, excess quantities, and other factors in evaluating net realizable value.

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Revenue Recognition

Revenue is recognized when earned. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Advertising Costs

The Company's policy regarding advertising is to expense advertising when incurred. The Company incurred \$2,485.49 and \$-256.78 (a negative amount due to cost sharing with other advertising partners) in advertising expense for the years ended December 31, 2010 and 2009, respectively.

Patents and Prepaid Expenses

Intangible assets, including patents and prepaid expenses for patents are recorded on the balance sheet. The development costs of the patents are not reflected as an asset on the balance sheet of the company. However, the legal fees and filing costs associated with the patent are carried as an intangible asset on the financial statements of the company. The purchase price (cost allocation to the patent) is also recorded as an intangible asset on the balance sheet. The Company recorded \$31,697 and \$19,025 in patent and prepaid expenses for the years ended December 31, 2010 and 2009, respectively.

Stock-Based Compensation

The Company adopted the provisions of and accounts for stock-based compensation using an estimate of value in accordance with the fair value method. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which generally is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation method applies to new grants and to grants that were outstanding as of the effective date and are subsequently modified.

Fair Value of Financial Instruments

The carrying amount of accounts payable, accrued expenses, convertible promissory notes are considered to be representative of their respective fair values because of the short-term nature of these financial instruments.

Other Comprehensive Income

The Company has no material components of other comprehensive income (loss) and accordingly, net loss is equal to comprehensive loss in all periods.

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Income Taxes

Provision for income taxes represents actual or estimated amounts payable on tax return filings each year. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying balance sheets, and for operating loss and tax credit carry forwards. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustment to the tax provision or benefit in the period of enactment.

Recent Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board ("FASB") issued *Proposed Accounting Standard Update (Topic 450) – Disclosure of Certain Loss Contingencies*. This amendment would lower the current disclosure threshold and broaden the current disclosure requirements to provide adequate and timely information to assist users in assessing the likelihood, potential magnitude, and potential timing (if known) of future cash outflows associated with loss contingencies. For public entities, the new guidance would be effective for fiscal years ending after December 15, 2010, and interim and annual periods in subsequent fiscal years. The Company is currently evaluating the impact of the future adoption of the Update.

There were various other accounting standards and interpretations issued in 2010, none of which are expected to have a material impact on the Company's financial position, operations or cash flows.

GOING CONCERN AND MANAGEMENT'S PLAN

The Company's financial statements for the years ended December 31, 2010 and 2009 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company reported a net loss of \$97,057 for the year ended December 31, 2010, and retained earnings (\$1,827,720) on December 31, 2010. At December 31, 2010, the Company had cash of \$2,885.

The Company currently operates with a very lean cost structure and limited long-term obligations. Staffing is provided on a contract basis with project teams that can be assembled and organized for specific business opportunities. The Company is operated by Erik Hromadka, who serves as President and CEO and Tony Sandlin, who serves as Secretary and Treasurer. The Company has consulting personnel for applications engineering, business development and sales. The Company also receives technical support from product suppliers and from members of its advisory board.

The Company maintains its headquarters in Indiana, where it shares office space at 8501 Bash Street #500, Indianapolis, Indiana 46250 and it is also an affiliate of the Indiana University Emerging Technology Center. The Company also maintains inventory in New York and Pennsylvania. It has no long-term lease obligations.

The Company is working to increase revenues at its Electric H2O, Inc. subsidiary through the addition of new products and additional applications for its existing technology. The Company is

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also working to identify areas where it can create value by facilitating the development and commercialization of new water technologies.

In 2010, the Company identified ballast water treatment as an area of interest and has begun seeking solutions that can meet new treatment standards. The Company also started preliminary discussions with potential partners regarding additional water technology opportunities.

Historically revenues have not been sufficient to meet operating and capital costs. In order to fund the proposed plan of operation, the Company will require an additional \$250,000 to \$400,000 in funding through the next twelve-month period at its current level of operations and may need further capital to continue new technology development and commercialization opportunities.

Estimated Working Capital Requirements During the Next Twelve Month Period

Operating expenses	
Marketing	\$ 15,000 - 50,000
General and Administrative	\$ 50,000 - 75,000
Legal and Accounting	10,000 - 25,000
Subtotal	\$ 75,000 - 150,000
Technology development	\$ 100,000 - 150,000
Debt reduction	\$ 75,000 - 100,000
Total	\$ 250,000 - 400,000

The Company's cash on hand at December 31, 2010 was \$2,870.72 and it had \$398,728.66 of negative working capital. The Company requires funds to enable it to address minimum current and ongoing expenses and to continue with the development and marketing of its products and services. The Company has taken aggressive steps to reduce its expenses over the past two years and as a result, its Electric H2O subsidiary has begun to operate profitably. The Company expects to reduce its current liabilities in 2011 as its convertible debentures begin to mature. Those debentures convert into common shares at the option of the company and at fixed rates.

The Company's prospects are subject to the risks and expenses encountered by start-up companies, such as limited management experience, uncertainties regarding the level of future revenues, the inability to budget expenses and manage growth accordingly, and the inability to access sources of financing when required and at favorable rates. The Company's limited operating history and the highly competitive nature of the water technology industries make it difficult or impossible to predict future results of operations.

The water industry is a challenging environment in which to do business. It is highly fragmented at the local level, with variable conditions, needs and demands for water treatment technologies and service. At the same time, very large companies operate municipal water systems that are highly regulated and very capital intensive. The result is that the industry as a whole is very conservative and new technologies are difficult to implement. Any company developing new and innovative technologies also faces the risks that those technologies may not perform as expected or be commercially viable when moved from the laboratory and into the field. Market conditions and competing technologies may also make such technologies obsolete before they become profitable.

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The Company's ability to continue as a going concern may be dependent on the success of management's plan. The financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

To the extent the Company's operations are not sufficient to fund the Company's capital requirements, the Company may attempt to enter into a revolving loan agreement with financial institutions or attempt to raise capital through the sale of additional capital stock or through the issuance of debt. At the present time, the Company does not have a revolving loan agreement with any financial institution nor can the Company provide any assurance that it will be able to enter into any such agreement in the future or be able to raise funds through the further issuance of debt or equity in the Company. The continuation of the Company as a going concern is dependent upon the continued financial support from its directors and officers, the ability to raise equity or debt financing, and the attainment of profitable operations from the business.

These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

INVENTORY

As of December 31, 2010 and 2009, inventory consisted of the following:

Item	December 31,	December 31,
	<u>2010</u>	<u>2009</u>
Raw materials and supplies	\$ 38,355	\$ 21,156
Work In Process	-	-
Finished goods	-	-
Total Inventory	\$ 38,355	\$ 21,156

INTELLECTUAL PROPERTY

The Company has a small patent portfolio that includes U.S. Patent No. 5,951,856 for Water Hardness Reduction Through Interactive Molecular Agitation and Filtration. The patent was issued in 1999 and the 12-year maintenance fee was been paid in 2010. On January 11, 2011, the Company was issued U.S. Patent No. 7,867,470 for the On-Site Manufacture of Sulfuric Acid. The Company has also completed a patent application for the use of forward osmosis to minimize produced water brines that is under review by the United States Patent and Trademark Office.

The Company believes there are opportunities to create value for its shareholders by developing and licensing intellectual property. The Company believes it has excellent legal representation for patent work and has begun to develop relationships with university and other research partners. However, the Company has not recognized any licensing revenue from its patents to date and there can be no assurances it will do so in the future.

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STOCKHOLDERS' EQUITY

The authorized capital stock of the Company is 1,000,000,000 common shares with a \$0.0006 par value and 20,000,000 preferred shares with a \$0.0001 par value. At December 31, 2010, the Company had 1,000,000,000 common shares issued, with 207,419,563 shares held in the treasury and 792,580,437 shares outstanding and no shares of its preferred stock issued and outstanding.

During the year ended December 31, 2009, the Company did not issue any shares of its common stock.

During the year ended December 31, 2010, the Company issued 20,000,000 shares of its restricted common stock to settle \$20,000 in debt to an officer of the company.

During the year ended December 31, 2010, the Company issued 32,000,000 shares of its restricted common stock as part of a compensation plan for an officer of the company.

Stock Option Plan

The Company did not grant any options during the years ended December 31, 2010 and 2009.

Transfer Agent

The Company's transfer agent is Island Stock Transfer, 100 Second Avenue South, Suite 705S, St. Petersburg, FL 33701.

CONVERTIBLE NOTES PAYABLE

On June 30, 2010, the Company issued a \$315,000 convertible note (Debenture A) with a maturity date on June 30, 2011 and bearing interest at 6% per annum for debt reduction of \$315,000. The note is convertible into shares of the Company's common stock at a conversion price of \$0.0035. Pursuant to the terms of the note the Company agreed to reserve for future issuance 100,000,000 common shares.

On July 2, 2010, the Company issued a \$25,000 convertible note (Debenture B) with a maturity date on June 30, 2013 and bearing interest at 12% per annum for cash proceeds of \$25,000. The note is convertible into shares of the Company's common stock at a conversion price of \$0.00125. Pursuant to the terms of the note the Company agreed to reserve for future issuance 20,000,000 common shares.

On November 15, 2010, the Company issued a \$7,500 convertible note (Debenture C) with a maturity date on November 15, 2011 and bearing no interest for cash proceeds of \$7,500. The note is convertible into shares of the Company's common stock at a conversion price of \$0.0005. Pursuant to the terms of the note the Company agreed to reserve for future issuance 15,000,000 common shares.

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INCOME TAXES

The Company is subject to domestic income taxes. Following its emergence from bankruptcy, income tax returns were filed for 2004 and 2005. Extensions have been filed for subsequent years. The Company does not anticipate that any income taxes are due for the years from 2006 through 2009 because the Company recorded losses in each year during that time.

The Company has also recorded a payable to the Internal Revenue Service for \$12,220.92 that represents Form 941 payroll tax due from the tax period ending December 31, 2004.

Deferred income taxes arise from temporary timing differences in the recognition of income and expenses for financial reporting and tax purposes. The Company's deferred tax assets consist entirely of the benefit from net operating loss (NOL) carryforwards. The NOL carryforwards expire in various future years. The Company's deferred tax assets are offset by a valuation allowance due to the uncertainty of the realization of the NOL carryforwards. NOL carryforwards may be further limited by a change in company ownership and other provisions of the tax laws. The company is also reviewing NOL carryforwards from years prior to 2004, but has not included any valuation for those years in its current financial statements.

The Company's deferred tax assets, valuation allowance, and change in valuation allowance are as follows:

Period Ending	Estimated NOL Carry- forward benefit	Valuation Allowance	Net Tax Benefit
December 31, 2010	1,827,720	(1,827,720)	-

Period Ending	Estimated NOL Carry- forward benefit	Valuation Allowance	Net Tax Benefit
December 31, 2009	1,730,663	(1,730,663)	-

LEGAL MATTERS

The Company entered into a settlement with former management in early 2009 and litigation ensued later in the year. A final amended settlement was reached on March 10, 2010 that returned 195,838,346 common shares to the treasury. Legal expenses were recorded as they occurred and the return of stock was treated as an equity transaction in 2010, with assets exchanged for equity.

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The Company also entered into a legal settlement with a former director on June 30, 2010 that resulted in the return of 63,581,217 restricted common shares to the treasury. The Company determined that the shares were issued in error in 2008. The shares had been held in certificate form and there was no entry in the Company records for the issuance and therefore no entry for the cancellation.

The Company has settled all outstanding legal matters and is not a party to any litigation at this time. The Company retains legal counsel in Denver and Indianapolis for securities and intellectual property matters.

SUBSEQUENT EVENTS

The Company has evaluated its activities subsequent to the year ended December 31, 2010 through March 1, 2011 and found no reportable subsequent events, other than the issuance of U.S. Patent No. 7,867,470 for the On-Site Manufacture of Sulfuric Acid On January 11, 2011 as mentioned above in the section regarding Intellectual Property.