Water Intelligence plc

Group Annual Report and Financial Statements
for the Year Ended 31 December 2017

Company number 03923150

Group Annual Report and Financial Statements

for the year ended 31 December 2017

Contents

Company Information

Directors & Advisers

Directors	Patrick DeSouza	Executive Chairman
	John Weigold	Executive Director
	David Silverstone	Non-Executive Director
	Michael Reisman	Non-Executive Director
	Laura Hills	Non-Executive Director
Company Secretary and Registered Office	Liam O'Donoghue 201 Temple Chambers 3-7 Temple Avenue London EC4Y 0DT	
Company number	Registered in England and Wales number 03923150	
Nominated adviser and broker	finnCap Ltd 60 New Broad Street London EC2M 1JJ	
Independent Auditor	Crowe Clark Whitehill LLP St Brides House 10 Salisbury Square London EC4Y 8EH	
Registrar	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA	
Bankers	Barclays Bank PLC 1 Churchill Place London E14 5HP	People's United Bank 265 Church Street New Haven CT 06510 USA

Chairman's Statement

Overview

We are pleased that once again we have delivered during 2017 on our stated objectives from these pages. We are energized that throughout the organization, both corporate and franchise, we are embracing the mission of building a world-class *multinational growth-oriented* company that provides minimally-invasive solutions to the global problem of water-loss from leakage. Compared with 2016, which was also a very good year, our performance was quite strong: Revenue grew 45%; profits before tax grew 48%; assisted by the US tax cut, profits grew 90%. For our shareholders, earnings per share grew 77%. As we described in our market update last month, Q1 2018 had a similar direction in terms of performance. Hence, we may look at 2017 as a jumping-off point in our journey of building a great company.

Our corporate strategy has been to establish a scalable operating platform that provides across business units a "One-Stop Shop" for customers wanting solutions to faulty water infrastructure whether residential, commercial, or municipal. Our two operating subsidiaries – American Leak Detection (ALD) and Water Intelligence International (WII) – performed well and provided complementary approaches for attacking the market. ALD has focused on residential and business-to-business customers through its franchise-operated and corporate-operated locations. ALD's installed base of customers, especially across the US, enables an opportunity for follow-through product sales. UK-based WII, meanwhile, has focused on international corporate expansion through an offering of municipal solutions that also can be sold by existing ALD locations. As a result, we are well on the way to creating a robust platform that can upsell and cross-sell solutions to our growing base of customers. With our platform, we are also able to help make markets for exciting technology products that are emerging. During Q1, we launched partnerships with Flo Technologies and Tagasauris to extend our offerings roadmap to include direct to consumer contextual e-commerce.

During Q1 2018, we reached an important milestone in terms of capital formation. Armed with our strong 2017 operating fundamentals, and seeking to make good on our objective of building a multinational growth company, we increased our capital base by approximately $7.5 million. Given our growing royalty base of income, bank credit is an alternative to unnecessary equity dilution. For our capital-raise, we were able to lower the cost of capital for our shareholders through a mix of equity and increased availability from commercial banks. We raised approximately $5.75 million from institutional and retail investors in the US and Europe and $1.75 million in increased availability from our bank lines of credit.

We shall put the additional capital to work to scale our platform faster. We shall deploy resources based on three operating priorities derived from what we already know has worked well. Each of these three operating priorities is risk-adjusted because we are mindful, as always, of the importance of calibrating both revenue and profitability.

First, we plan to use our strong capital base to scale and integrate operations across our existing sales footprint in the US, UK, Australia and Canada. The addressable market is substantial and demand for our minimally-invasive solutions, especially from our insurance partners, is high. As a baseline, we can achieve significant growth by simply doing more of the same but at a faster pace, particularly as we now have two formal national insurance contracts in place and other informal national relationships that we can formalize. Our key investment for this priority is hiring, training, and deploying more technicians to meet high demand for our solutions.

Second, since our business solutions DNA always has been focused on the use of technology, especially acoustic and infrared, we will continue to enhance our technology profile through new product partnerships and investments in cutting-edge solutions for our customers. We seek to participate in the marketplace evolution of the smart home and will incorporate the latest advances in data science including artificial intelligence. Given our sizeable installed base of US residential customers for ALD solutions, our insurance channel and data scientists from our Yale-centered affiliate PlainSight Group, we are well-positioned to help shape the home services market of the future. Moreover, we also seek to contribute to the future of urban infrastructure. During 2018, we will also position ourselves to work with UK and US innovation partners to shape a dynamic global municipal market with new WII solutions.

Finally, we also plan judiciously to open locations in adjacent geographies: the EU, launching operations with support from our locations in the UK and Belgium, and Mexico, launching operations with support from our locations in Florida, Texas, and California. These growth objectives have a reduced risk profile relative to other locations because of our existing operational presence in adjacent territories. Our key investment with this priority is managing the start-up costs of a new country. To be sure, we will have opportunities to establish partnerships to extend our presence in Asia where the problems of poor water infrastructure and growing population need are acute. Given our experience as a franchisor, we have the option to sell master franchises in countries where we are not locating corporate-run operations. Our international expansion in the near-term enables us to support future master franchises in farther-away geographies. Such master franchises would generate significant upfront fees. With the operational leadership of our UK-based WII team, who have provided municipal solutions around the world, we are confident about our ability to execute this third priority. As identified below and in our Subsequent Events section of the Accounts, we are off to a good start in 2018 for deploying capital along the lines of each of the three priorities.

2017 Performance of the Water Intelligence Platform

Water Intelligence showed strong growth during 2017 reaching $17.6 million in sales, which represented approximately 45% growth year-over-year (2016: $12.2 million). In terms of understanding our ability to execute against the above three priorities, especially marketing technology products for the smart home, it is important to observe that our sales footprint to end-users is actually more substantial than the $17.6 million that appears in our accounts. Based on international accounting standards, we do not report total sales to end-users but rather royalty income from our franchise business because we charge our franchisees a percentage fee based on their gross sales. However, the purchasers of our solutions make no distinction between franchise and corporate-operated service vehicles. Hence, to the marketplace we are currently at approximately $90 million of total sales whether by franchisees or corporate-operated locations. By the end of 2018, we should exceed $100 million of total sales – an excellent base from which to upsell products and solutions.

In breaking down the $90 million of total sales, above $80 million of services are provided by our American Leak Detection franchise business. These franchise-operated sales are recorded as approximately $6 million royalty income as discussed below and provided in our Strategic Report herein. Our corporate operations, both US and International, are approximately $10 million in sales and growing fast as also discussed below and provided in our Strategic Report. Corporate operations include activities at both ALD and WII. These business units are now able, not only to grow organically, but also to unlock additional customer value by cross-selling solutions for residential, business-to-business and municipal customers. For example, during 2017 our newly established WII corporate operation was able to sell a sizeable municipal job in Miramar, Florida through our ALD location because of ALD's reputation with homeowners in Miramar for finding leaks. In similar fashion, we plan to leverage our ALD platform by up-selling products created by our technology partners to ALD's nationwide base of customers. Essentially, given our Water Intelligence "One-stop Shop," we see sales opportunities all along the water value chain from monitoring water flow for anomalies to pinpointing leaks to fixing leaks in a minimally invasive fashion. We also see adjacent solutions touching water chemistry and renewables as also demanded by our customer base.

Increasing scale at the sales level also has translated into an increased shareholder value at the bottom-line. As the business has begun to scale more profits fell to the bottom line during 2017. Profits before tax increased approximately 48% year over year, reaching $1.15 million (2016: $0.77 million). When adjusted to understand on-going operating performance (adjusting for amortization and non-core costs), profits before taxes adjusted grew approximately 22% to $1.7 million (2016: $1.4 million). As noted above, assisted by the US tax cut, profits grew 90% to $0.91 million (2016: $0.48 million). Earnings per share grew 77% to 8 cents per share. As a result of the on-going US tax cut, we should see greater profit yield on sales.

As noted above, increasing profitability as the business scales is a trend that continued during Q1. Sales growth in Q1 2018 when compared with Q1 2017 reached 40% at $5.3 million (Q1 2017: $3.8 million). Profits before tax meanwhile increased 50% to $0.6 million (Q1 2017: $0.4 million). Because of our priority as a growth-oriented company, we will be reinvesting some of those Q1 profits to push 2018 sales growth and market presence while still maintaining a healthy profit margin.

Performance of Business Units

Each of our operating units – ALD and WII – performed well. The Strategic Report and segmental information detailed in the Accounts provide details. Our franchise business, ALD, grew strongly. Royalty income grew approximately 7% to $5.9 million (2016: $5.5 million). Such growth remained consistent with historical growth despite the fact that the pool of royalty income was reduced as a result of franchise reacquisitions in Indianapolis and Washington D.C. Royalty growth translated into profits before tax for this segment growing by 17% to $1.4 million (2016: $1.2 million). Franchise-related activities, meanwhile, led by our business-to-business insurance channel and, including parts and equipment sales, also grew strongly doubling in sales to $3.6 million (2016: $1.7 million). Profits before tax in this segment grew strongly by 39% reaching $0.32 million (2016: $0.23 million).

Our corporate-run locations represent execution from both ALD (largely residential and commercial) and WII (largely municipal). ALD's US corporate-operated locations reached $5.9 million in sales growing 41% year over year (2016: $4.2 million). This segment showed a profit before tax margin on sales of 6% at $0.35 million. Profit margin in 2017 was down from 8% for 2016. ($0.32 million profits before tax on $4.2 million of sales). The reduction in margin was the result of increased spending on adding and training technicians to support 41% year over year top line growth.

WII's corporate-run locations are captured by segmental information on international corporate activities, which grew strongly. Revenue tripled year on year. (2017: $2.1 million vs. 2016: $0.7 million). Margins on 2017 international corporate sales were negative at $0.16 million. These resulted from accelerating investments to increase international corporate sales. Consistent with our priorities, the choice to accelerate international corporate sales was made to balance the critical mass of this business relative to our franchise business and US corporate-run locations. Our Franchise and US Corporate businesses achieved approximately $5.9 million in 2017 sales. As international corporate sales grow in terms of critical mass, WII should be better able to cross-sell municipal solutions to franchise and corporate-run locations which largely focus on residential and commercial as noted above.

In executing our growth plan, we are mindful of operating costs and strive to be efficient with our use of resources. Segmental information makes this clear. Unallocated head office costs and non-core costs were reduced by approximately 30% to $0.79 million in 2017 from $1.14 million in 2016.

Path Ahead

We do look at 2017 as a jumping off point. We made great strides in building a multinational growth *platform* that provides solutions to a big addressable worldwide market – water conservation. The concept of "platform" is especially relevant in that our installed base of approximately 200,000 residential, commercial and municipal customers across business units allows for opportunities to both cross-sell solutions and up-sell products and, as a result, continue to own the customer via a "One-stop Shop".

Through the date of this audit, we have continued to execute as we have in the past: Building on prior wins and remaining focused on our three operating priorities as outlined above. The Subsequent Events section of the Accounts provides a chronological recap. First, we grew our core business of ALD by executing for our existing insurance business channels and developing additional insurance company partners. We plan on adding national contracts during 2018 and 2019. Second, we added a layer of growth to ALD by cross-selling WII municipal solutions. We had wins across the US and even announced a major win in Sydney during Q1. Third, we continued to develop our technology profile with product partnerships announced with Flo Technologies and Tagasuaris, both of which incorporate artificial intelligence in their respective solutions. These partnerships build on our 2017 implementation of a new national Internet marketing technology. Finally, during Q1 we continued to execute our strategy of reacquiring franchisees in strategic geographies to accelerate ALD's growth. We strengthened our corporate presence in central California with the reacquisition of Bakersfield; we strengthened our corporate presence in the Midwest with the reacquisition of Louisville; and finally strengthened our presence in South Florida with a reacquisition that will lead to our corporate expansion into the Caribbean and Mexico – priority number three as stated above.

Our enhanced capital base enables us to accelerate our organic approach. To be sure, the organic approach has done well achieving 45% sales growth and 48% profits before taxes growth during 2017. We plan on leveraging our market-making presence across the United States with product partnerships and, perhaps, an acquisition that would supplement our "One-Stop Shop" business model. We believe this model to be highly scalable. In the 2016 Annual Report, we indicated that $20 million in sales was in sight. We finished 2017 at $17.6 million and significantly increased our level of profitability. We are confident on achieving the $20 million in sales level for Water Intelligence during this year and now set our sights on achieving the $25 million level in the near-term.

Dr. Patrick DeSouza
Executive Chairman

16 May 2018

Business Review and Key Performance Indicators

The Chairman's Statement, on pages 3-6, provides an overview of the year and the outlook for Water Intelligence plc and its subsidiaries, referred to as the "Group". The business indicators offered below are meant to capture for the board not only the state of performance but also the evolution of our business model to a platform company that is a "One-Stop Shop" for customers through the cross-sale of solutions across our business units and the up-sale of technology products to our installed base of customers.

The Water Intelligence platform has two wholly-owned subsidiaries: American Leak Detection (ALD) and Water Intelligence International (WII). These business units are distinguished, to some degree, by the amount of franchise-operated and corporate-operated business lines. ALD, our core business is largely a franchise business with strategic corporate-operated locations. ALD is a leader in using technology to pinpoint and repair water leaks without destruction. Solutions target both residential and business to business customers such as insurance companies which value our minimally invasive value proposition. ALD has approximately $80 million of System-wide sales to end-users that is expressed through royalty income from franchisees and direct sales from corporate operations. With its installed and growing base of residential customers, ALD can also distribute technology home services products to meet consumer demand.

WII, is our UK-based operation that the Group acquired in Q4 2016 to focus on municipal solutions given the world-wide problem of failing water infrastructure. WII is exclusively a corporate-run unit that will lead the Group's international expansion. WII has the capability to execute ALD service offerings and is currently doing so at our corporate-operated location in Sydney. WII also can cross-sell complementary municipal offerings to ALD.

The Group's strategy includes unlocking sales growth and shareholder value through acquisition including selectively converting franchises to corporate operated locations. In doing so, some amount of the $80 million in System-wide sales can be converted from royalty income to the Group's corporate P&L. As a byproduct of such acquisition-led growth, it is important to separate continuing operating costs from non-core costs related to transactions that are executed as part of the Group's growth plan. Finally, because of the recurring nature of income from the franchise business, the Group is able to be efficient in its capital formation using both equity and debt. As a result, it is important that the Group manage to the right balance in allocating capital and to monitor net debt.

Six key performance indicators are used by the Board to monitor the above described business model: (i) growth in franchise royalty income, (ii) growth in franchise-related activities that include both the Group's business to business sales and sales of parts and equipment, (iii) growth in corporate-operated locations in the United States, (iv) growth in corporate activities located outside the United States, (v) non-core costs and (vi) net debt. These six indicators are reported to the board on a monthly basis and used to assist the board in the management of the business.

(i) Franchise Royalty Income.

The continued growth of the core ALD franchise business is the foundation for the business strategy of the Group because of the recurring nature of its royalty stream. Royalty income is a key indicator of the health of the franchise business because it is derived from ALD's System-wide sales across the United States, Australia and Canada. As System-wide sales increase, the Board can decide whether to selectively reacquire franchises adding critical mass of revenue and earnings to the Group or to keep adding high margin royalty income. Royalty income in 2017 grew by 7% compared with 2016 despite 2017 reacquisitions which had the effect of reducing the eligible pool of royalty income. Moreover, profits before tax from this business line grew at a significantly higher pace at 17%. Such growth is attributable in part to the benefits arising from the Group's insurance channel. The Group has 89 franchises at the end of 2017, representing a decrease of 2 franchises (2016: 91) due to reacquisition as corporate-run locations Growth in royalty income is as follows:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000	Change %
Total USA	5,688	5,312	7%
International	237	231	3%
Total Group Royalty Income	5,924	5,543	7%
Profit before tax (see note 4)	1,428	1,219	17%

(ii) Franchise-related Activities.

US franchise-related activities provide supporting evidence for strength of the core ALD business. Parts and equipment sales are an indication of franchisee reinvestment in growth in their own operations. Business-to-Business channels, such as insurance and property management represent national customers and are an indication that these customers value ALD's nationwide sales footprint – an important aspect of competitive strategy. Finally, sales of franchise units represent the decision to develop a new territory through a franchisee. This line item, correspondingly, is also a reflection of the Group's priority with respect to adding corporate-operated locations in order to develop a territory. Revenue from franchise-related activities more than doubled compared to 2016 largely because of the growth of the Group's business-to-business channels. Such sales growth was also reflected in growth of profits before tax. Profits before tax grew 39% compared with 2016. Performance from franchise-related activities are as follows:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000	Change %
Parts and equipment sales	1,039	1,050	(1%)
Business-to-Business sales	2,601	665	291%
Sales of Franchise Units	10	17	(41%)
Total Revenue from Franchise-Related Activities	3,650	1,732	111%
Profit before tax (see note 4)	315	227	39%

As discussed in the Chairman's Statement, the growth in business-to-business sales captures the additional jobs provided to our franchise system sourced from formal, centralized national insurance contracts, as opposed to, typical insurance jobs that all of our franchisees originate at a local level through local marketing.

(iii) US Corporate-Operated Locations.

Corporate-operated locations complement the franchise business with marketing and execution support in developing territories. Performance of the US corporate-operated locations is an indication of the success of the Group's strategy to both selectively reacquire ALD franchises and to open new locations to meet increasing demand for our minimally invasive leak detection and repair solutions. Corporate-operated locations supplement System-wide sales from franchisees and add a critical mass of revenue and profits to the Group accounts. The Group directly operates 11 territories, an increase of 2 territory (2016: 9). Sales growth from corporate-operated locations grew strongly both organically and from two reacquisitions when compared with 2016. Profits before taxes also grew despite increased investment for accelerated growth. 2017 corporate-operated performance is as follows:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000	Change %
Revenue	5,948	4,217	41%
Profit before tax (see note 4)	350	324	8%

(iv) International Corporate-Operated Locations.

The Group seeks to strengthen its multinational presence through its UK-based WII subsidiary. During Q4 2016 the Group added to its operating assets in the UK by acquiring NRW Utilities Ltd. and in Australia by acquiring a former ALD franchisee located in Sydney. 2017 represents a full-year of activity. Sales growth tripled. Negative profits stem from the Group's decision to accelerate investment in its WII business to gain critical mass to develop focus on international expansion relative to franchise and US corporate segments which each are approaching $6 million in sales.

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000	Change %
Water Intelligence International	1,398	641	118%
Sydney	696	43	1,519%
Total Revenue from International Corporate Activities	2,094	684	206%
(Loss)/Profit before tax (see note 4)	(157)	139	(213%)

(v) Non-Core Costs.

During 2017, the Group incurred what are considered to be non-core costs relating to (i) its share reorganization to address legacy structures originating prior to the formation of the Group and (ii) transactions executed for the future growth of the business. As discussed herein, understanding non-core costs as distinct from continuing costs enables the Board to evaluate choices made to accelerate operations and scale through acquisition. In 2017, there were $198,000 of non-core costs as compared to $296,000 in 2016. Please see table below for details:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Share reorganization and capital raising	141	79
Investment in University of Chicago R&D	–	25
Legal costs of acquisitions	19	151
Other legal costs	38	–
Imputed interest due to deferred acquisition payments	–	41
Total	**198**	**296**

(vi) Net Debt.

Management of financial resources is important for making various decisions regarding the rate of growth of operations. As noted herein, the recurring income from franchise royalty provides the Group with attractive attributes for using bank debt to complement equity sources of capital. In the current environment, the cost of capital with respect to bank debt is less expensive as compared with equity. Despite the growth of annual royalty income to approach $6 million the Board takes a conservative approach to capital formation. Net debt increased to $1,255,000 at 31 December 2017 from $763,000 at 31 December 2016. Amounts owed under the term loan have been reduced to $1.22 million based on its amortization schedule.

Group

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Lines of credit: acquisition and working capital	813	252
Term loan	1,217	1,568
	2,030	1,820
Less: Cash		
Held in US Dollars	598	601
Held in £ Sterling	114	397
Held in AU Dollars	63	59
	775	1,057
Total Net Debt	1,255	763

As set forth in the Subsequent Event section, during Q1 2018 the Group raised approximately $5.75 million through an equity issuance and increased its bank financing availability by $1.75 million. The equity issuance eliminated net debt. The increase in bank financing availability remained in keeping with the Group's strategy on efficient capital formation to preserve equity from unnecessary dilution.

Principal Risks and Uncertainties

The Group's objectives, policies and processes for measuring and managing risk are described in note 23. The principal risks and uncertainties to which the Group is exposed include:

Market Risk

The Group's activities expose it to the financial risk of changes in foreign currency exchange rates as it undertakes certain transactions denominated in foreign currencies. There has been no change to the Group's exposure to market risks. The Group monitors exposure to foreign exchange rate changes on a daily basis by a daily review of the Group's cash balances in the US, UK, and Australia.

Interest Rate Risk

The Group's interest rate risk arises from its short and term loan borrowings.

Whilst borrowing issued at variable rates would expose the Group to cash flow risks, as at year-end, the Company does not have any variable rate borrowings.

Credit Risk

The Group's credit risk is primarily attributable to its cash and cash equivalents and trade receivables. The credit risk on other classes of financial assets is considered insignificant.

Liquidity Risk

The Group manages its liquidity risk primarily through the monitoring of forecasts and actual cash flows.

Other Risks

There is a risk that existing and new customer relationships and R&D will not lead to the expected sales growth. The Group is reliant on a small number of skilled managers. Further, the Group is reliant on effective relationships with its franchisees, especially in the US.

By order of the Board

Patrick DeSouza
Executive Chairman

16 May 2018

Directors' Report

The Directors present their report on the affairs of Water Intelligence plc (the "Company") and its subsidiaries, referred to as the Group, together with the audited Financial Statements and Independent Auditors' report for the year ended 31 December 2017.

Principal Activities

The Group is the leading provider of leak detection and remediation services. The Group's strategy is to be a "one-stop" shop for solutions (including products) for residential, commercial and municipal customers.

Results

The financial performance for the year, including the Group's Statement of Comprehensive Income and the Group's financial position at the end of the year, is shown in the Financial Statements on pages 25 to 31.

2017 was marked by the further development of the Group's multinational presence, especially in the UK and Australia. 88.1% of the Group's revenue in the year ended 31 December 2017 (2016: 94.4%) came from its wholly owned subsidiary American Leak Detection, Inc. ("ALD"), with the remaining 11.9% (2016: 5.6%) of revenue coming from its wholly-owned subsidiary, Water Intelligence International Limited ("WII"). Of the 11.9% revenue coming from WII, 66.75% relates to WII's UK business and 33.25% relates to WII's Australian business.

Going Concern

The Directors have prepared a business plan and cash flow forecast for the period to April 2019. The forecast contains certain assumptions about the level of future sales and the level of margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term is funded mainly on cash generated by its profitable US-based franchise business, ALD. The Directors believe that funding will be available on a case by case basis for different initiatives such that the Group will have adequate cash resources to pursue its growth plan. The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, continue to adopt the going concern basis in preparing the financial statements. As noted in the Subsequent Events section, the Group increased its capital base by approximately $7.5 million in Q1 2018 through an equity issuance and an increase in availability from its bank credit facilities.

Research Design & Development

Expenditure on research and development, all of which was undertaken by third parties not related to the Group, was $10,752 (2016: $14,989). The Group is committed to increasing its R&D budget to meet anticipated market demands.

Dividends

The Directors do not recommend the payment of a dividend (2016: $nil).

Share Price

On 31 December 2017, the closing market price of Water Intelligence plc ordinary shares was 162.5 pence. The highest and lowest prices of these shares during the year to 31 December 2017 were 162.5 pence and 95.0 pence respectively.

Capital Structure

Details of the authorised and issued share capital are shown in Note 21. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Future Developments

Future developments are outlined in the outlook section of the Chairman's Statement on page 5.

Financial Risk Management

Financial risk management is outlined in the principal risks and uncertainties section of the Strategic Report on page 10.

Subsequent Events

On the 4 January 2018, the Company announced the signing and launch of the Company's second formal national contract with one of the top 5 insurance companies in the US. The agreement extends the Group's formal business-to-business channel.

On the 10 January 2018, the Group announced two strategic partnerships to extend its technology/innovation profile. ALD is partnering with Flo Technologies, Inc, to provide nation-wide distribution and service capabilities for Flo's smart home water security and conservation system. The Group is partnering with Tagasauris, Inc. to develop new products for both video marketing and e-commerce. Both Flo Technologies and Tagasauris use artificial intelligence as part of their respective product functionality.

On the 11 January 2018, David Silverstone exercised a portion of his options holdings to subscribe for a total of 10,000 ordinary shares of 1p each at an exercise price of $0.67 per ordinary share. Subsequently, David Silverstone sold the 10,000 ordinary shares at a price of $2.65.

On the 26 February 2018, the Group announced a contract between WII's Sydney, Australia, corporate location and Hunter Water Corporation, a state-owned water company. This strategic contract enables WII to support ALD's Australian franchisees with additional municipal opportunities.

On 7 March 2018, the Group announced that it had strengthened its capital base in order to support its growth plans. First, it raised approximately $5.75 million through the issue of an aggregate of 2,171,320 new ordinary shares in a placing and subscription. Such equity issuance was oversubscribed. Second, the Group increased its working capital line with People's Bank by $1.75 million.

On 7 March 2018, the Group announced that it had made certain board changes to strengthen its execution capabilities. David Silverstone moved from executive director to non-executive director. John Weigold moved from non-executive director to executive director. Laura Hills was appointed as Non-Executive Director of the Company. Robert Mitchell resigned from the board to take an operating role to launch a renewables line of business for the Group.

On the 7 March 2018, the Group continued its growth strategy of selectively reacquiring some of its ALD franchises. It announced the reacquisition of its Louisville, Kentucky, franchise. Louisville, a strongly performing operation, is situated adjacent to the Indianapolis and Cincinnati corporate locations in the central Midwest of the United States. Together these locations form a strategic set of corporate resources to execute sales and support growth of franchisees throughout the Midwest. This cluster of corporate operated locations also better enables the Company to execute the launch of operations in Chicago during 2018.

On 15 March 2018, the Group announced the acquisition of its Bakersfield, California, franchise. The Group plans to expand operations in this territory rapidly given the size of the opportunity and importance of water to this leading center for agriculture in the US.

On 15 May 2018, the Group announced the acquisition of its South Florida franchise. The Group plans to expand operations in this territory rapidly given the strength of its existing corporate operations immediately to the north in Ft. Lauderdale / Miami. The Group plans to launch international expansion efforts to the Caribbean and Mexico from its expanded Miami operation.

The provisional fair values of the acquisitions subsequent to year end are detailed below:

	South Florida $'000	Louisville $'000	Bakersfield $'000	Totals $'000
Fair value of assets and liabilities acquired				
Equipment	80	95	44	219
Net assets acquired	80	95	44	219
Consideration				
Cash	150	465	252	867
Deferred consideration – discounted to present value	205	1,084	–	1,289
Total consideration	355	1,549	252	2,156
Indefinite life intangible assets on acquisition	275	1,454	208	1,937

Directors

The Directors who served the Company during the year and up to the date of this report were as follows:

Executive Directors
Patrick DeSouza – Executive Chairman
John Weigold (Appointed 19 January 2017, Non-Executive Director until 7 March 2018)

Non-Executive Directors
Michael Reisman
Laura Hills (Appointed 6 February 2018)
David Silverstone (Executive Director until 7 September 2017)
Robert Mitchell (Resigned 6 February 2018)

The biographical details of the Directors of the Company are set out on the Company's website *www.waterintelligence.co.uk.*

Directors' emoluments

2017	Salary, Fees & Bonus $	Benefits $	Redundancy $	Total $
Executive Directors				
P DeSouza	450,000	–	–	450,000
Non-Executive Directors				
D Silverstone	21,000	–	–	21,000
R Mitchell	103,645	–	–	103,645
M Reisman	21,000	–	–	21,000
J Weigold	15,000	–	–	15,000
	610,645	**–**	**–**	**610,645**

2016	Salary, Fees & Bonus $	Benefits $	Redundancy $	Total $
Executive Directors				
P DeSouza	447,019	–	–	447,019
D Silverstone	47,000	–	–	47,000
Non-Executive Directors				
R Mitchell	108,189	–	–	108,189
M Reisman	21,000	–	–	21,000
S Leeb	21,000	–	–	21,000
	644,208	**–**	**–**	**644,208**

Directors' interests

The Directors who held office at 31 December 2017 and subsequent to year end had the following direct interest in the ordinary shares of the Company at 31 December 2017 and at the date of this report, excluding the shares held by Plain Sight Systems, Inc.:

	Number of shares at 31 December 2017	% held at 31 December 2017	Number of shares at 16 May 2018	% held at 16 May 2018
Patrick DeSouza*	3,442,110	28.32	4,192,110	27.52
Michael Reisman*	166,068	1.37	173,466	1.14
David Silverstone	38,500	0.32	–	–
Robert Mitchell	9,936	0.08	9,936	0.08
Laura Hills	–	–	89,331	0.59

*Included in the total above, Patrick DeSouza received (i) 600,000 Partly Paid Shares during 2016 and (ii) 750,000 in March 2018. These will not be admitted to trading or carry any economic rights until fully paid.

*Patrick DeSouza and Michael Reisman are directors and shareholders in Plain Sight Systems, Inc.

Share option schemes

In order to provide incentive for the management and key employees of the Group, the Directors award stock options. Details of the current scheme are set out in Note 7.

Substantial Shareholders

As well as the Directors' interests reported above, the following interests of 3.0% and above as at the date of this report were as follows:

	Number of shares	**% held**
Plain Sight Systems, Inc.	2,430,000	15.95
Oryx International Growth Fund Limited	735,900	4.83
Security Services Nominees Limited	700,000	4.59
George D. Yancopoulos	656,166	4.31
State Street Nominees Limited	622,752	4.09

Corporate Responsibility

The Board recognises its employment, environmental and health and safety responsibilities. It devotes appropriate resources towards monitoring and improving compliance with existing standards. An Executive Director has responsibility for these areas at Board level, ensuring that the Group's policies are upheld and providing the necessary resources.

Employees

The Board recognises that the Group's employees are its most important asset.

The Group is committed to achieving equal opportunities and to complying with relevant anti-discrimination legislation. It is established Group policy to offer employees and job applicants the opportunity to benefit from fair employment, without regard to their sex, sexual orientation, marital status, race, religion or belief, age or disability. Employees are encouraged to train and develop their careers.

The Group has continued its policy of informing all employees of matters of concern to them as employees, both in their immediate work situation and in the wider context of the Group's well-being. Communication with employees is effected through the Board, the Group's management briefings structure, formal and informal meetings and through the Group's information systems.

Independent Auditors

Crowe Clark Whitehill LLP has expressed their willingness to continue in office. In accordance with section 489 of the Companies Act 2006, resolutions for their re-appointment and to authorise the Directors to determine the Independent Auditors' remuneration will be proposed at the forthcoming Annual General Meeting.

Statement of disclosure to the Independent Auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware; and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

By order of the Board

Patrick DeSouza
Executive Chairman

16 May 2018

Corporate Governance

The Board is committed to proper standards of Corporate Governance, managing the Group in an efficient, effective, entrepreneurial and ethical manner for the benefit of shareholders over the longer term.

Under the AIM listing rules, the Company is not obliged to implement the provisions of the UK Governance Code. However, the Company is committed to considering, where appropriate, the principles of good governance contained in the UK Governance Code for a company of its size and nature.

The Company has established an audit committee, responsible for ensuring that the financial performance, position and prospects for the Company are properly monitored, controlled and reported on and for meeting the auditors and reviewing their reports relating to accounts and internal controls, and a remuneration committee, responsible for reviewing the performance of the executive director(s) and determining the level of remuneration and basis of service agreement(s). The Remuneration Committee also determines the payment of any bonuses to the executive director(s) and the grant of options.

Takeovers and Mergers

The Company is subject to The City Code on Takeovers and Mergers.

Board

The Company is run by the Board of Directors, which comprises two executive and three non-executive directors.

The Board meets regularly and is responsible for the Group's corporate strategy, monitoring financial performance, approval of capital expenditure, treasury and risk management policies. Board papers are sent out to all directors in advance of each Board meeting including management accounts and accompanying reports from those responsible.

Non-executive directors are able to contact the Executive Directors at any time for further information.

Board Committees

The Board has established an Audit Committee and a Remuneration Committee with delegated duties and responsibilities.

(a) Audit Committee
Laura Hills, non-Executive Director, is Chairman of the Audit Committee. The other members of the Committee are David Silverstone and John Weigold. The Audit Committee is responsible for ensuring that the financial performance, position and prospects for the Company are properly monitored, controlled and reported on and for meeting the auditors and reviewing their reports relating to accounts and internal controls.

(b) Remuneration Committee
Michael Reisman, Non-Executive Director, is Chairman of the Remuneration Committee. The other member of the Committee is Laura Hills. The Remuneration Committee is responsible for reviewing performance of Executive Directors and determining the remuneration and basis of service agreement with due regard for the Combined Code. The Remuneration Committee also determines the payment of any bonuses to Executive Directors and the grant of options.

The Company has adopted and operates a share dealing code for directors and senior employees on the same terms as the Model Code appended to the Listing Rules of the UKLA.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The system of internal financial control comprises those controls established to provide reasonable assurance of:The safeguarding of assets against unauthorised use or disposal; and

- The maintenance of proper accounting records and the reliability of financial information used within the business and for publication

The key procedures of internal financial control of the Group are as follows:

- The Board reviews and approves budgets and monitors performance against those budgets on a monthly basis. Variances are fully investigated
- The Group has clearly defined reporting and authorisation procedures relating to the key financial areas

Relations with Shareholders

The Company is available to hold meetings with its shareholders to discuss objectives and to keep them updated on the Company's strategy, Board membership and management.

The board also welcome shareholders' enquiries, which may be sent via the Company's website *www.waterintelligence.co.uk.*

Statement of Directors' Responsibilities

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with the Companies Act 2006 and for being satisfied that the Financial Statements give a true and fair view. The Directors are also responsible for preparing the Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Company law requires the Directors to prepare Financial Statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements. The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable them to ensure that the Financial Statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and Financial Statements are made available on a website. Financial Statements are published on the Group's website (www.waterintelligence.co.uk) in accordance with legislation in the United Kingdom governing the preparation and dissemination of Financial Statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors – the work carried out by the auditors does not involve the consideration of these matters and, accordingly, and the auditors accept no responsibly for any changes that may have occurred in the accounts since they were initially presented on the website. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained there.

Independent Auditors' report to the members of Water Intelligence plc

Opinion

We have audited the financial statements of Water Intelligence plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2017;
- the Group and parent company statements of financial position as at 31 December 2017;
- the Group and parent company statements of cash flows for the year then ended;
- the Group and parent company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be $90,000, based on a measure of profit before taxation. We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with management to report all identified errors in excess of $3,600. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The Group and its UK subsidiaries are accounted for from a location in the UK, whilst its material US subsidiaries and Australian subsidiary are accounted for from the US. Our audit was conducted from the main operating location in the UK and component auditors were used to carry the audit work in the US. We visited the US to carry out our review of component auditor working papers as well as meet with group and local management.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition Revenue is recognised in accordance with the accounting policy set out in the financial statements. The accounting policy contains a number of judgements, particularly in recognising when the risks and rewards of ownership have passed to the buyer. This is determined with reference to the underlying contract with the purchaser.	Our work focussed on validating that revenue is recognised in accordance with the accounting policies and that cut off was correctly applied through testing. We tested an appropriate sample of income from each revenue stream to validate the application of the group's income recognition policies.
Impairment of intangible assets The carrying value of intangible assets relates to trademarks, franchisor activities, goodwill on acquisitions and owned stores goodwill and indefinite life intangible assets. There is a risk that the carrying value could be impaired as a result of reduced activity.	We reviewed management's assessment of the carrying value of the group's intangible assets. In considering this assessment, we evaluated: • The discounted cash-flow forecasts for the group and the relevant cash generating units. This assessment included consideration of the key assumptions, which principally included discount rate and growth rates. • Board minutes, budgets and other operational plans • Discussion with management over plans and intentions for the group

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report and strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Glasby
(Senior Statutory Auditor)

for and on behalf of

Crowe Clark Whitehill LLP
Statutory Auditor

St Brides House
10 Salisbury Square
London
EC4Y 8EH

16 May 2018

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Revenue	4	17,615,178	12,175,237
Cost of sales		(3,334,101)	(1,667,004)
Gross profit		14,281,077	10,508,233
Administrative expenses			
– Other Income		33,671	24,621
– Share-based payments	7	(62,397)	(37,459)
– Amortisation of intangibles	13	(317,259)	(294,929)
– Other administrative costs	5	(12,668,525)	(9,268,173)
Total administrative expenses		(13,014,510)	(9,575,940)
Operating profit	5	1,266,567	932,293
Finance income	8	13,928	12,264
Finance expense	9	(135,461)	(172,086)
Profit before tax		1,145,034	772,471
Taxation expense	10	(286,330)	(294,098)
Profit for the year		858,704	478,373
Attributable to:			
Equity holders of the parent		913,250	484,669
Non-controlling interests		(54,546)	(6,296)
		858,704	478,373
Other Comprehensive Income			
Exchange differences arising on translation of foreign operations		(39,038)	(116,548)
Total comprehensive profit for the year		819,666	361,825
Attributable to:			
Equity holders of the parent		874,212	368,121
Non-controlling interests		(54,546)	(6,296)
		819,666	361,825
Profit per share attributable to equity holders of Parent		**Cents**	**Cents**
Basic	11	8.0	4.5
Diluted	11	7.5	4.4

The results reflected above relate to continuing activities.

The accompanying notes on pages 32 to 62 are an integral part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2017

	Notes	2017 $	2016 $
ASSETS			
Non-current assets			
Goodwill and indefinite life intangible assets	13	3,304,506	2,906,531
Other intangible assets	13	2,398,192	2,518,451
Property, plant and equipment	14	762,459	436,928
Trade and other receivables	17	59,075	42,445
		6,524,232	5,904,355
Current assets			
Inventories	16	359,973	327,501
Trade and other receivables	17	2,820,315	2,206,079
Cash and cash equivalents	18	774,767	1,056,888
		3,955,055	3,590,468
TOTAL ASSETS		10,479,287	9,494,823
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	21	65,305	64,257
Share premium	21	980,436	926,787
Shares held in treasury	21	(210,150)	–
Merger reserve		1,001,150	1,001,150
Share based payment reserve		135,088	72,691
Foreign exchange reserve		(303,681)	(264,643)
Reverse acquisition reserve	21	(27,758,088)	(27,758,088)
Retained earnings		32,021,892	31,108,642
		5,931,952	5,150,796
Equity attributable to Non-Controlling interest			
Non-controlling Interest		39,158	93,704
Non-current liabilities			
Borrowings	23	1,635,311	1,327,593
Deferred consideration	12	374,600	612,225
Deferred tax liability	20	115,233	305,081
		2,125,144	2,244,899
Current liabilities			
Trade and other payables	19	1,428,509	950,725
Borrowings	23	394,525	492,453
Deferred consideration	12	559,999	562,246
		2,383,033	2,005,424
TOTAL EQUITY AND LIABILITIES		**10,479,287**	**9,494,823**

The financial statements of Water Intelligence plc, company number 03923150, were approved by the board of Directors and authorised for issue on the 16 May 2018. They were signed on its behalf by:

Patrick De Souza
Executive Chairman

The accompanying notes on pages 32 to 62 are an integral part of these financial statements.

Company Statement of Financial Position

as at 31 December 2017

	Notes	2017 $	2016 $
ASSETS			
Non-current assets			
Investment in subsidiaries	15	7,411,412	6,757,904
		7,411,412	6,757,904
Current assets			
Trade and other receivables	17	1,750,787	1,158,443
Cash and cash equivalents	18	76	268,785
		1,750,863	1,427,228
TOTAL ASSETS		9,162,275	8,185,132
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	21	65,305	64,257
Share premium	21	980,436	926,787
Shares held in treasury	21	(210,150)	–
Merger reserve		1,001,150	1,001,150
Share based payment reserve		135,088	72,691
Foreign exchange reserve		(1,472,274)	(1,919,342)
Retained earnings		6,055,205	6,656,506
		6,554,760	6,802,049
Current liabilities			
Trade and other payables	19	2,607,515	1,383,083
		2,607,515	1,383,083
TOTAL EQUITY AND LIABILITIES		9,162,275	8,185,132

The loss for the financial year in the financial statements of the parent Company was $601,301 (2016: costs $621,594), which related entirely to Plc costs. Following the fundraising in March 2018, there is no longer a balance of Shares held in treasury.

The financial statements of Water Intelligence plc, company number 03923150, were approved by the board of Directors and authorised for issue on the 16 May 2018. They were signed on its behalf by:

Patrick De Souza
Executive Chairman

The accompanying notes on pages 32 to 62 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Share Capital $	Share Premium $	Shares held in Treasury $	Capital Redemption Reserve $	Reverse Acquisition Reserve $	Merger Reserve $	Share based payment reserve $	Foreign exchange reserve $	Retained (Losses)/ Earnings $	Total $	Non-controlling interest $	Total Equity $
As at 1 January 2016	**12,733,307**	**4,829,377**	**–**	**6,517,644**	**(27,758,088)**	**8,501,150**	**35,232**	**(148,095)**	**(874,022)**	**3,836,505**	**–**	**3,836,505**
Cancellation of deferred shares	(12,679,741)	–	–	–	–	–	–	–	12,679,741	–	–	–
Cancellation of share premium	–	(4,800,610)	–	–	–	–	–	–	4,800,610	–	–	–
Cancellation of capital redemption reserve	–	–	–	(6,517,644)	–	–	–	–	6,517,644	–	–	–
Issue of capital reduction shares	7,500,000	–	–	–	–	(7,500,000)	–	–	–	–	–	–
Cancellation of capital reduction shares	(7,500,000)	–	–	–	–	–	–	–	7,500,000	–	–	–
Issue of Ordinary Shares	10,691	898,020	–	–	–	–	–	–	–	908,711	–	908,711
Share-based payment expense	–	–	–	–	–	–	37,459	–	–	37,459	–	37,459
Equity contributions	–	–	–	–	–	–	–	–	–	–	100,000	100,000
Profit for the year	–	–	–	–	–	–	–	–	484,669	484,669	(6,296)	478,373
Other comprehensive loss	–	–	–	–	–	–	–	(116,548)	–	(116,548)	–	(116,548)
As at 31 December 2016	**64,257**	**926,787**	**–**	**–**	**(27,758,088)**	**1,001,150**	**72,691**	**(264,643)**	**31,108,642**	**5,150,796**	**93,704**	**5,244,500**
As at 1 January 2017	**64,257**	**926,787**	**–**	**–**	**(27,758,088)**	**1,001,150**	**72,691**	**(264,643)**	**31,108,642**	**5,150,796**	**93,704**	**5,244,500**
Issue of Ordinary Shares	1,048	53,649	–	–	–	–	–	–	–	54,697	–	54,697
Share buyback	–	–	(210,150)	–	–	–	–	–	–	(210,150)	–	(210,150)
Share-based payment expense	–	–	–	–	–	–	62,397	–	–	62,397	–	62,397
Profit for the year	–	–	–	–	–	–	–	–	913,250	913,250	(54,546)	858,704
Other comprehensive loss	–	–	–	–	–	–	–	(39,038)	–	(39,038)	–	(39,038)
As at 31 December 2017	**65,305**	**980,436**	**(210,150)**	**–**	**(27,758,088)**	**1,001,150**	**135,088**	**(303,681)**	**32,021,892**	**5,931,952**	**39,158**	**5,971,110**

The accompanying notes on pages 32 to 62 are an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2017

	Share Capital $	Share Premium $	Shares held in Treasury $	Capital Redemption Reserve $	Merger Reserve $	Share based payment reserve $	Foreign exchange reserve $	Retained (Losses)/ Earnings $	Total Equity $
As at 1 January 2016	**12,733,307**	**4,829,377**	**–**	**6,517,644**	**8,501,150**	**35,232**	**(514,331)**	**(24,219,895)**	**7,882,484**
Cancellation of deferred shares	(12,679,741)	–	–	–	–	–	–	12,679,741	–
Cancellation of share premium account	–	(4,800,610)	–	–	–	–	–	4,800,610	–
Cancellation of capital redemption reserve	–	–	–	(6,517,644)	–	–	–	6,517,644	–
Issue of capital reduction shares	7,500,000	–	–	–	(7,500,000)	–	–	–	–
Cancellation of capital reduction shares	(7,500,000)	–	–	–	–	–	–	7,500,000	–
Issue of Ordinary Shares	10,691	898,020	–	–	–	–	–	–	908,711
Share-based payment expense	–	–	–	–	–	37,459	–	–	37,459
Loss for the year	–	–	–	–	–	–	–	(621,594)	(621,594)
Other comprehensive loss	–	–	–	–	–	–	(1,405,011)	–	(1,405,011)
As at 31 December 2016	**64,257**	**926,787**	**–**	**–**	**1,001,150**	**72,691**	**(1,919,342)**	**6,656,506**	**6,802,049**
As at 1 January 2017	**64,257**	**926,787**	**–**	**–**	**1,001,150**	**72,691**	**(1,919,342)**	**6,656,506**	**6,802,049**
Issue of Ordinary Shares	1,048	53,649	–	–	–	–	–	–	54,697
Share buyback	–	–	(210,150)	–	–	–	–	–	(210,150)
Share-based payment expense	–	–	–	–	–	62,397	–	–	62,397
Profit for the year	–	–	–	–	–	–	–	(601,301)	(601,301)
Other comprehensive loss	–	–	–	–	–	–	447,068	–	447,068
As at 31 December 2017	**65,305**	**980,436**	**(210,150)**	**–**	**1,001,150**	**135,088**	**(1,472,274)**	**6,055,205**	**6,554,760**

The following describes the nature and purpose of each reserve within owners' equity:

Share capitalAmount subscribed for share capital at nominal value.

Share premiumAmount subscribed for share capital in excess of nominal value.

Shares held in treasuryAmounts received for buyback of shares

Merger reserveNon-distributable reserve arising on reverse acquisition.

Share based payment reserveAmounts recognised for the fair value of share options granted in accordance with IFRS 2.

Foreign exchange reserveForeign exchange differences on re-translation.

Retained profits/(losses)Cumulative net profits/(losses) recognised in the Financial Statements.

The accompanying notes on pages 32 to 62 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Cash flows from operating activities		
Profit before tax	1,145,034	772,471
Adjustments for non-cash/non-operating items:		
Depreciation of plant and equipment	168,817	81,098
Amortisation of intangible assets	317,259	294,929
Share based payments	62,397	37,459
Interest paid	135,461	172,086
Interest received	(13,928)	(12,264)
Operating cash flows before movements in working capital	1,815,040	1,345,779
Increase in inventories	(32,471)	(52,298)
Increase in trade and other receivables	(654,040)	(686,825)
Decrease in trade and other payables	(30,301)	(20,091)
Cash generated by operations	1,098,228	586,565
Income taxes	(476,178)	(53,466)
Net cash generated from operating activities	622,050	533,099
Cash flows from investing activities		
Purchase of plant and equipment	(444,976)	(347,660)
Purchase of intangible assets	(197,000)	–
Acquisition of subsidiaries	–	(329,368)
Reacquisition of franchises	(195,000)	(449,094)
Interest received	13,928	12,264
Net cash used in investing activities	(823,048)	(1,113,858)
Cash flows from financing activities		
Issue of ordinary share capital	1,048	10,691
Premium on issue of ordinary share capital	53,649	898,020
Share buyback	(210,150)	–
Interest paid	(135,461)	(172,086)
Proceeds from borrowings	332,434	276,468
Repayment of borrowings	(122,644)	(475,426)
Deferred financing costs	–	(31,473)
Equity contributions – non-controlling interest	–	100,000
Net cash (used by)/generated from financing activities	(81,124)	606,194
Net (decrease)/increase in cash and cash equivalents	(282,122)	25,435
Cash and cash equivalents at the beginning of year	1,056,889	1,031,454
Cash and cash equivalents at end of year	774,767	1,056,889

The accompanying notes on pages 32 to 62 are an integral part of these financial statements.

Company Statement of Cash Flows

for the year ended 31 December 2017

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Cash flows from operating activities		
Loss before tax	(601,301)	(621,594)
Adjustments for non-cash/non-operating items:		
Share based payment expense	62,397	37,459
Operating cash flows before movements in working capital	(538,904)	(584,135)
Increase in trade and other receivables	(592,344)	(480,850)
Increase in trade and other payables	1,017,992	406,122
Cash used by operations	(113,256)	(658,863)
Income taxes	–	–
Net cash used by operating activities	(113,256)	(658,863)
Cash flows from financing activities		
Issue of ordinary share capital	1,048	10,691
Premium on issue of ordinary share capital	53,649	898,020
Share buyback	(210,150)	–
Net cash (used by)/generated from financing activities	(155,453)	908,711
(Decrease)/Increase in cash and cash equivalents	(268,709)	249,848
Cash and cash equivalents at the beginning of period	268,785	18,937
Cash and cash equivalents at end of period	76	268,785

The accompanying notes on pages 32 to 62 are an integral part of these financial statements.

Notes to the Financial Statements

1 General information

The Group is a leading provider of minimally invasive, leak detection and remediation services. The Group's strategy is to be a "One-Stop Shop" of water-leak solutions (services and products) for residential, commercial and municipal customers.

The Company is a public limited company domiciled in the United Kingdom and incorporated under registered number 03923150 in England and Wales. The Company's registered office is 201 Temple Chambers, 3-7 Temple Avenue, EC4Y 0DT.

The Company is listed on AIM of the London Stock Exchange. These Financial Statements were authorised for issue by the Board of Directors on 16 May 2018.

2 Adoption of new and revised International Financial Reporting Standards

No new IFRS standards, amendments or interpretations became effective in 2017 which had a material effect on these Financial Statements.

At the date of approval of these Financial Statements, the Directors have considered IFRS Standards and Interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective. The Group has not early adopted these amended standards and interpretations. The Directors have completed their evaluation of the impact of IFRS9 in respect of the impact of the expected loss model on the impairment of receivables, and IFRS15 in respect of the revenue recognition for service revenue. The review for IFRS 15 included consideration of each of the business lines and the relevant contracts with customers. The Directors have concluded that the adoption of these standards and interpretations from 1 January 2018 does not have a material impact on the Group's Financial Statements. The Directors are currently evaluating the impact of IFRS16 in respect of leases, to be adopted from 1 January 2019, and whilst this exercise is not concluded, the Directors do not presently anticipate that the adoption of this standard and interpretation will have a material impact on the Group's Financial Statements in the periods of initial application.

3 Significant accounting policies

Basis of preparation

These Financial Statements of the Group and Company are prepared on a going concern basis, under the historical cost convention (with the exception of share-based payments and goodwill) and in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union, in accordance with the Companies Act 2006. The Parent Company's Financial Statements have also been prepared in accordance with IFRS and the Companies Act 2006.

The preparation of Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Financial Statements are presented in US Dollars ($), rounded to the nearest dollar.

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Directors' Report, Strategic Report and the Chairman's Statement. The Directors have prepared a business plan and cash flow forecast for the period to April 2019. The forecast contains certain assumptions about the level of future sales and the level of margins achievable. As noted in the Subsequent Events section, the Group increased its capital base by approximately $7.5 million in Q1 2018 through an equity issuance and an increase in availability from its bank credit facilities.

3 Significant accounting policies continued

These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term is funded entirely on cash generation by its profitable US-based franchise business, ALD. The Directors believe that the funding will be available on a case by case basis for different initiatives such that the Group will have adequate cash resources to pursue its growth plan.

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly, continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation
The Group financial statements consolidate the accounts of Water Intelligence plc and all of its subsidiary undertakings made up to 31 December 2017. The Consolidated Statement of Comprehensive Income includes the results of all subsidiary undertakings for the period from the date on which control passes. Control is achieved where the Company (or one of its subsidiary undertakings) obtains the power to govern the financial and operating policies of an investee entity so as to derive benefits from its activities.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The acquisition of ALDHC in 2010 was accounted for as a reverse acquisition. The assets and liabilities revalued at their fair value on acquisition therefore related to the Company. Both a merger reserve and a reverse acquisition reserve were created to enable the presentation of a consolidated statement of financial position which combines the equity structure of the legal parent with the reserves of the legal subsidiary.

Inter-company transactions and balances and unrealised gains or losses on transactions between Group companies are eliminated in full.

Parent Company income statement – UK head office only
The Company has taken advantage of Section 408 of the Companies Act 2006 in not presenting its own Statement of Comprehensive Income. The Company's loss after tax for the year ended 31 December 2017 is $601,301 (2015: $621,594).

Inventories
The inventories, consisting primarily of equipment, parts, and supplies, are recorded at the lower of cost (FIFO) or market value.

Provisions
A provision shall be recognised only in the event that certain criteria are met, these being:

- An obligation has arisen as a result of the Group or Company's past activities;
- A cash outflow will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

Defined contribution pension scheme
Water Intelligence International provides a government run pension scheme under UK legislation. Employees have the opportunity to opt in or opt out. It is compulsory for companies to offer this to their employees. This was implemented on 1 November 2017.

3 Significant accounting policies continued

Taxation
Income tax expense represents the sum of the current tax and deferred tax charge for the year.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's and Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end.

Deferred tax
Deferred income taxes are provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred income taxes are determined using tax rates that have been enacted or substantially enacted and are expected to apply when the related deferred income tax asset is realised or the related deferred income tax liability is settled.

The principal temporary differences arise from depreciation or amortisation charged on assets and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses and are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Foreign currencies

(i) Functional and presentational currency
Items included in the Financial Statements are measured using the currency of the primary economic environment in which each entity operates ("the functional currency") which is considered by the Directors to be Pounds Sterling (£) for the Parent Company and US Dollars ($) for ALDHC. The Financial Statements have been presented in US Dollars which represents the dominant economic environment in which the Group operates and is the functional currency of the Group. The effective exchange rate at 31 December 2017 was £1 = US$1.2491 (2016: £1 = US$1.2305). The average exchange rate for the year 31 December 2017 were £1 = US$1.2880 (2016: £1 = US$1.3562).

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group Companies
The results and financial position of all the group entities that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at closing rate at the date of the statement;

(b) the income and expenses are translated at average exchange rates for period where there is no significant fluctuation in rates, otherwise a more precise rate at a transaction date is used; and

(c) all resulting exchange differences are recognised in equity.

3 Significant accounting policies continued

Leases
Assets held under finance leases are initially recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lesser is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Revenue recognition
Revenue is recognised at the fair value of the consideration received or receivable. Specific policies set forth below reflect the nature of the business line.

Franchise royalty income
In particular, the Group receives royalties from franchisees in various percentages of their gross monthly sales. Royalties are paid monthly and recognised under the accrual method of accounting.

Franchise related activities
Service revenue is recognised when the services are rendered and complete. This also applies to services rendered by any Business to Business channel.

Advance collections from franchise sales are included in deferred income until all requirements are performed.

US Corporate operated locations
Sales of other goods and products, in particular corporate run stores, are sold by the Group are recognised at fair value of the consideration received or receivable following delivery of the goods or services.

International corporate activities
For the majority of customers, revenue is recognised as invoiced, as the work is completed in the same reporting period. For one customer, where the work is performed in the reporting period prior to invoicing, revenue is recognised on an accruals basis in the reporting period in which the work is performed.

3 Significant accounting policies continued

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Cash and cash equivalents

Cash and cash equivalent comprise cash in hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each year end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

Equity instruments

An equity instrument is any instrument with a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments (ordinary shares) are recorded at the proceeds received, net of direct issue costs.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Property, plant and equipment

All property, plant and equipment is stated at cost less accumulated depreciation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Equipment and displays:	5 to 7 years
Motor vehicles:	5 years
Leasehold improvements:	7 years or lease term, whichever is shorter

The asset's residual values and economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Assets that are no longer of economic use to the business are retired.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses) or gains in the income statement.

Goodwill

Goodwill represents the excess of the fair value of the consideration over the fair values of the identifiable net assets acquired.

3 Significant accounting policies continued

Goodwill arising on acquisitions is not subject to amortisation but is subject to annual impairment testing. Any impairment is recognised immediately in the Consolidated Statement of Comprehensive Income and not subsequently reversed.

Other intangible assets

Intangible assets are recorded as separately identifiable assets and recognised at historical cost less any accumulated amortisation. These assets are amortised over their definite useful economic lives on the straight-line method.

Amortisation is computed using the straight-line method over the definite estimated useful lives of the assets as follows:

	Years
Covenants not to compete	3
Customer lists	5
Trademarks	20
Patents	10
Product development	2

Any amortisation is included within administrative expenses in the statement of comprehensive income.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The asset's residual values and economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses) or gains in the Statement of Comprehensive Income.

Research and development

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled.

- It is technically feasible to complete the intangible asset so that it will be available for use or resale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible;
- It can be demonstrated how the intangible asset will generate possible future economic benefits;
- Adequate technical, financial and other resource to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense in the period incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and are amortised from the point at which they are ready for use on a straight-line basis over the asset's estimated useful life.

3 Significant accounting policies continued

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that is subject to risks and returns that are different from those of other business segments.

Impairment reviews
Assets that are subject to amortisation and depreciation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Assets that are not subject to amortisation and depreciation are reviewed on an annual basis at each year end and, if there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. Any impairment loss arising from the review is charged to the Statement of Comprehensive Income whenever the carrying amount of the asset exceeds its recoverable amount.

Share based payments
The Group has made share-based payments to certain Directors and employees and to certain advisers by way of issue of share options. The fair value of these payments is calculated either using the Black Scholes option pricing model or by reference to the fair value of any fees or remuneration settled by way of granting of options. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the best estimate of the number of shares that will eventually vest.

Critical accounting estimates and judgements
The preparation of Financial Statements in conformity with International Financial Reporting Standards requires the use of judgements together with accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting period. Although these judgements and estimates are based on management's best knowledge of current events and actions, the resulting accounting treatment estimates will, by definition, seldom equal the related actual results.

The key judgements in respect of the preparation of the financial statements are in respect of the accounting for acquisitions, determination of separately identifiable assets on acquisition, the determination of cash generating units, the evaluation of segmental information, the evaluation of whether there is any indication of any impairment in investments, intangibles, goodwill or receivables and whether deferred tax assets should be recognised for tax losses.

The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the fair value of assets arising on acquisition, carrying value of the goodwill, the carrying value of the other intangibles, the carrying value of the investments, and the deferred taxation provision. Please see relevant notes for these areas.

4 Segmental Information

In the opinion of the Directors, the operations of the Group currently comprise five operating segments, being (i) Franchise Royalty Income, (ii) Franchise-related activities (including product and equipment sales and Business-to-Business sales), (iii) US corporate-operated locations, (iv) International corporate- operated locations and (v) head office costs. Information reported to the Group's Chief Operating Decision Maker (being the Executive Chairman), for the purpose of resource allocation and assessment of division performance is now separated into the four income generating segments (items (i) to (iv)), and items that do not fall into these segments have been categorized as unallocated head office costs (v).

The Group mainly operates in the US, with operations in the UK and certain other countries. In 2017, 88.1% (2016: 94.4%) of its revenue came from ALD, which includes royalties from franchisees and corporate-operated locations, with the remainder coming from WII which is comprised of a UK-based municipal business 7.9% (2016: 5.6%), and an Australian business – 4%.

No single customer accounts for more than 10% of the Group's total external revenue.

4 Segmental Information continued

The following is an analysis of the Group's revenues and profits from operations and assets by business segment.

Revenue

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Franchise royalty income	5,924,353	5,543,207
Franchise related activities	3,649,200	1,731,849
US corporate operated locations	5,947,805	4,216,584
International corporate operated locations	2,093,820	683,597
Total	17,615,178	12,175,237

Profit/(Loss) before tax

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Franchise royalty income	1,427,858	1,219,247
Franchise related activities	315,099	226,934
US corporate operated locations	349,609	324,423
International corporate operated locations	(157,141)	139,004
Unallocated head office costs	(592,778)	(841,137)
Non-core costs	(197,613)	(296,000)
Total	1,145,034	772,471

Assets

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Franchise royalty income	4,748,391	6,814,156
Franchise related activities	359,972	327,502
US corporate operated locations	3,739,931	2,186,759
International corporate operated locations	1,630,993	166,406
Total	10,479,287	9,494,823

Amortization

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Franchise royalty income	290,858	268,358
International corporate operated locations	26,401	27,248
Total	317,259	295,606

4 Segmental Information continued

Depreciation

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Franchise royalty income	–	3,734
Franchise related activities	–	–
US corporate operated locations	151,427	71,885
International corporate operated locations	15,992	5,660
Total	167,419	81,279

Finance Expense

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
International corporate activities	3,283	17,671
Unallocated head office costs	132,178	154,415
Total	135,461	172,086

For the purpose of monitoring segmental performance, no liabilities are reported to the Group's Chief Operating Decision Maker.

Geographic Information

As noted herein, the Group has two wholly-owned subsidiaries – ALD and WII. ALD has U.S. franchises and corporate operated locations and international franchises that are located in Australia and Canada. Meanwhile, WII has corporate operated activities outside the U.S. We may also regroup the same information into US and Outside the US to capture the Group's effort to be multinational company. As shown below, the biggest change between 2017 and 2016 has been the growth of International/Outside the US to $2.3 million from $914,262.

Total Revenue

	Year ended 31 December 2017			Year ended 31 December 2016		
	US $	International $	Total $	US $	International $	Total $
Franchise royalty income	5,687,764	236,590	5,924,354	5,312,542	230,665	5,543,207
Corporate owned Stores	5,947,805	–	5,947,805	4,216,584	–	4,216,584
Franchise related activities	3,649,200	–	3,649,200	1,731,849	–	1,731,849
International corporate activities	–	2,093,820	2,093,820	–	683,597	683,597
Total	15,284,769	2,330,410	17,615,179	11,260,975	914,262	12,175,237

5 Expenses by nature

The Group's operating profit has been arrived at after charging:

	Note	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Raw materials and consumables used		851,482	815,260
Employee costs	6	7,313,155	6,002,080
Operating lease rentals		640,154	121,813
Depreciation charge		167,419	81,279
Amortization charge		317,259	295,606
Marketing costs		215,006	333,827
R & D		10,752	14,989
Foreign exchange (gain)/loss		(8,162)	3,016

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Auditors remuneration		
Fees payable to the Company's auditor for audit of Parent Company and Consolidated Financial Statements	71,482	39,318
Fees payables to the Company's auditor for other services (assurance related services)	–	12,925

The Group auditors are not the auditors of the US subsidiary companies. The fees paid to the auditor of the US subsidiary companies were $125,445 (2016: $92,085) for the audit of these companies and $nil (2016: $nil) for other services.

6 Employees and Directors

The Directors of the Company are considered to be the key management of the business.

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Short-Term employee benefits		
Directors fees, salaries and benefits	610,645	644,208
Wages and Salaries	6,246,178	4,943,189
Social Security Costs	393,935	377,224
Long-Term employee benefits		
Share based payments	62,397	37,459
	7,313,155	6,002,080

6 Employees and Directors continued

Information regarding Directors emoluments are as follows:

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Short-Term employee benefits		
Directors' fees, salaries and benefits	610,645	644,208
Social Security Costs	20,102	19,190
Long-Term employee benefits		
Share based payments	61,114	36,176
	691,861	699,574

The highest paid Director received emoluments of $450,000 (2016: $447,019).

The average number of employees (including Directors) in the Group during the year was:

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Directors (executive and non-executive)	5	5
Management	7	6
Field Services	86	57
Franchise Support	20	16
Administration	6	5
	124	89

7 Share options

The Company grants share options at its discretion to Directors, management, and advisors. These are accounted for as equity settled options. Should the options remain unexercised after a period of ten years from the date of grant the options will expire unless an extension is agreed to by the board. Options are exercisable at a price equal to the Company's quoted market price on the date of grant or an exercise price to be determined by the board.

Details for the share options and warrants granted, exercised, lapsed and outstanding at the year-end are as follows:

	Number of share options 2017	Weighted average exercise price ($) 2017	Number of share options 2016	Weighted average exercise price ($) 2016
Outstanding at beginning of year	1,765,000	1.12	1,152,000	1.05
Granted during the year	–	–	730,000	1.33
Forfeited/lapsed during the year	–	–	(117,000)	1.21
Exercised during the year	(80,000)	0.67	–	–
Outstanding at end of the year	1,685,000	1.15	1,765,000	1.12
Exercisable at end of the year	1,005,000	1.02	1,085,000	1.00

7 Share options continued

Fair value of share options
During the year, the Group did not grant any options.

The fair value of options granted during the prior year has been calculated using the Black Scholes model which has given rise to fair values per share ranging from 0.2528p to 0.3194p. This is based on risk-free rates ranging from 0.239% to 0.369% and volatility ranging from 62% to 69%.

The Black Scholes calculations for the options granted during 2016 and 2017 resulted in a charge of $62,397 (2016: $37,459) which has been expensed in the year. As the options granted prior to 2016 had no vesting period, none of the charge expensed in 2017 related to options granted prior to 2016.

The weighted average remaining contractual life of the share options is 7.33 years (2016: 8.34 years).

Options arrangements that exist over the Company's shares at year end and at the date of the report are detailed below:

Grant	At report date	2017	2016	Date of Grant	Exercise price	Exercise period From	To
ALDHC Plan (1)	317,500	417,500	417,500	01/12/2013	$1.14	01/12/2013	01/12/2023
2013 Directors (2)	250,000	250,000	250,000	01/08/2013	$1.30	01/08/2013	01/08/2023
2015 Options (3)	117,500	337,500	417,500	08/06/2015	$0.67	08/06/2015	08/06/2025
2016 Directors (4)	200,000	200,000	200,000	13/06/2016	$1.26	13/06/2019	13/06/2026
2016 Directors (4)	–	50,000	50,000	13/06/2016	$0.92	13/06/2019	13/06/2026
2016 Employee (5)	220,000	220,000	220,000	19/12/2016	$1.24	19/12/2019	19/12/2026
2016 Employee (5)	210,000	210,000	210,000	19/12/2016	$1.56	19/12/2019	19/12/2026
2018 Employee (6)	135,000	–	–	06/03/2018	$3.15	06/03/2021	06/03/2028
Total	**1,510,000**	**1,685,000**	**1,765,000**				

All share options are equity settled on exercise.

(1) Under ALDHC's 2006 Employee, Director and Consultant Stock Plan ("ALDHC Option Plan"), certain Directors and employees of ALD, were granted options to acquire an aggregate of 738,750 shares in ALDHC with an exercise price of $1.14 per share. Of these grants, the Executive Chairman had been granted an option to purchase 250,000 shares. Following Admission, all options under the ALDHC Option Plan were to be cancelled or waived in return for the grant of options over New Ordinary Shares with the same economic value as existing options under the ALDHC Option Plan. The conversion to options over 417,500 New Ordinary Shares in respect of these options has been completed in 2013, the balance being attributable to leavers between 2010 and 2013 or options that have not been taken up. These Options have all vested in full. The Executive Chairman exercised 100,000 of these options in March 2018.

(2) In recognition of three years of deferred compensation and additional services rendered, each member of the Board, after consultation with the NOMAD, received an option to purchase 50,000 New Ordinary Shares pursuant to the Option Plan in 2013. The Director options have an exercise price of $1.30 per share or 67% above the highest share price for 2013. These Options have all vested in full.

(3) On 5 June 2015, the Group granted 417,500 Share Options to the Executive Chairman and David Silverstone, both Directors of the Company, and to certain Employees, all with an exercise price of $0.67. 100,000 of these Share Options relate to the Executive Chairman's compensation and an additional 50,000 of these Share Options relate to the Executive Chairman's personnel guarantee of the loan with Liberty Bank in 2014. 40,000 of these Share Options relate to compensation payable to David Silverstone. 80,000 of these were exercised in September 2017. Subsequent to year end, 10,000 were exercised in January 2018 and a further 150,000 were exercised in March 2018.

(4) On 13 June 2016, each member of the Board received an option to purchase 50,000 New Ordinary Shares. The Director options have an exercise price of $1.26 per share which is 5% higher than the highest share price for 2015. These Options have a three-year vesting requirement. Stephen Leeb's 50,000 options lapsed on his resignation as a Director during 2016. On 13 June 2016, the Executive Chairman, a Director of the Company, was also granted 50,000 Share Options with an exercise price of $0.92 related to the Executive Chairman's personnel guarantee of the loan with Liberty Bank in 2015, which were exercised in March 2018.

(5) On 19 December 2016, certain employees were granted an option to purchase 220,000 New Ordinary Shares at a price of $1.24 and 210,000 New Ordinary Shares at a price of $1.56 based on 2016 performance and as an incentive for future performance. These options have a three-year vesting requirement.

(6) On 14 March 2018, certain employees were granted an option to purchase 135,000 New Ordinary Shares at a price of $3.15 pursuant to the acquisition of franchise based in Louisville, Kentucky. These options have a three-year vesting requirement.

Patrick DeSouza received (i) 600,000 Partly Paid Shares at an exercise price of $1.07 during 2016 and (ii) 750,000 Partly Paid Shares at an exercise price of $2.71 in March 2018 in connection with capital raising and bank financings. These Partly Paid Shares carry voting rights but will not be admitted to trading or carry any economic rights until fully paid.

8 Finance income

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Interest income	13,928	12,264

9 Finance expense

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Interest expense	135,461	172,086

10 Taxation

Group	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Current tax:		
Current tax on profits in the year	476,178	53,466
Prior year over provision	–	–
Total current tax	476,178	53,466
Deferred tax current year	(189,848)	240,632
Deferred tax prior year	–	–
Deferred tax (credit)/expense (note 20)	(189,848)	240,632
Income tax expense	286,330	294,098

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Profit before tax on ordinary activities	1,145,035	772,471
Tax calculated at domestic rate applicable profits in respective countries (2017: 34% versus 2016: 35%)	398,289	270,365
Tax effects of:		
Non-deductible expenses	65,187	56,891
Losses carried back	2,996	–
Other tax adjustments, reliefs and transfers	(1)	–
State taxes net of federal benefit	43,377	33,962
Adjustment in respect of prior year	(82,657)	(77,702)
Deferred tax not recognised	87,340	11,156
Adjust deferred tax rate to 34%	903	35,614
Changes in rates	(229,104)	(36,188)
Taxation expense recognised in income statement	286,330	294,098

The Group is subject to income taxes in multiple jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

10 Taxation continued

As also set forth, in Note 20, at the balance sheet date, the Group's UK trading operations had unused tax losses of £3,473,249 (2016: £3,459,553) available for offset against future profits. £593,205 (2016: £590,866) represents unrecognised deferred tax assets thereon at 17%. The deferred tax asset has not been recognised due to uncertainty over timing of utilization.

The effective rate for tax for 2017 was lowered due to the effect of the US tax cut on 2017 deferred tax liabilities. The effective rate for 2017 is 25% (2016: 35%). It is anticipated that the Group will use an effective tax rate of 25% going forward as a result of the US tax cut.

11 Earnings per share

The profit per share has been calculated using the profit for the year and the weighted average number of ordinary shares outstanding during the year, as follows:

Basic

	Year ended 31 December 2017 $	**Year ended 31 December 2016 $**
Profit for the year attributable to equity holders of the Parent ($)	913,250	484,669
Weighted average number of ordinary shares	11,403,236	10,690,410
Diluted weighted average number of ordinary shares	12,123,812	10,825,113
Profit per share (cents)	8.0	4.5
Diluted profit per share (cents)	7.5	4.4

12 Acquisitions

During 2017, the Group purchased franchisee operations in Indianapolis and Northern Virginia. These acquisitions not only are expected to contribute revenue and earnings but also strengthen the Group's corporate execution capabilities in the US. In the US such corporate presence supports the ALD franchise system.

On 7 June 2017, the Group completed the reacquisition of its Indianapolis franchise. The current franchise owner has remained with the business as a corporate manager to grow it faster with corporate support. Indianapolis strengthens corporate presence in the Midwest of the United States along with prior acquisitions of Detroit (2015) and Cincinnati (2016) and, as noted in the Subsequent Events, the Q1 2018 acquisition of Louisville.

On 8 August 2017, the Group completed the reacquisition of its Northern Virginia franchise and combined it with its Washington D.C. location which opened 8 May 2017 to create a new regional corporate center.

12 Acquisitions continued

These can be summarised as follows:

	Indianapolis $	Northern Virginia $	Totals $
Fair value of assets and liabilities acquired			
Equipment	44,373	5,000	49,373
Net assets acquired	44,373	5,000	49,373
Consideration			
Cash	125,000	70,000	195,000
Accounts receivable balance applied	23,174	–	23,174
Note payable	229,174	–	229,174
Total consideration	377,348	70,000	447,348
Intangible assets arising on acquisition (see note 13)	332,975	65,000	397,975

The intangible assets arising on Indianapolis and Northern Virginia of $397,975 is included in additions to goodwill and indefinite life intangible assets for owned & operated stores (see note 13).

The amount of deferred consideration for 2017 acquisitions as well as the remaining deferred consideration for acquisitions made in 2015 and 2016 (after discounting anticipated cash flows to evaluate the fair value), can be summarized as follows:

Current

	Year acquired	Year ended 31 December 2017 $	Year ended 31 December 2016 $
T&M Tech LLC (South Michigan Franchise)	2015	64,654	62,115
Cincinnati	2016	48,302	58,212
NRW	2016	67,456	307,540
Sydney	2016	263,747	134,379
Indianapolis	2017	115,839	–
Total current deferred consideration		559,998	562,246

Non-Current

	Year acquired	Year ended 31 December 2017 $	Year ended 31 December 2016 $
T&M Tech LLC (South Michigan Franchise)	2015	149,187	215,094
Cincinnati	2016	112,079	159,128
NRW	2016	–	61,508
Sydney	2016	–	176,495
Indianapolis	2017	113,335	–
Total non-current deferred consideration		374,601	612,225

The Group acquired additional assets in Sydney during 2017 leading to an increase in the current deferred consideration.

13 Intangible assets

Goodwill and other indefinite life intangible assets

Group	Goodwill Acquisitions $	Owned & Operated stores $	Goodwill on franchisor activities $	Totals $
Cost				
At 1 January 2016	1,493,729	907,316	636,711	3,037,756
Additions	831,380	606,124	–	1,437,504
At 31 December 2016	2,325,109	1,513,440	636,711	4,475,260
Additions (see note 12)	–	397,975	–	397,975
At 31 December 2017	2,325,109	1,911,415	636,711	4,873,235
Impairment				
At 1 January 2016	1,493,729	75,000	–	1,568,729
Impairment in year	–	–	–	–
At 31 December 2016	1,493,729	75,000	–	1,568,729
Impairment in year	–	–	–	–
At 31 December 2017	1,493,729	75,000	–	1,568,729
Carrying amount				
At 31 December 2016	831,380	1,438,440	636,711	2,906,531
At 31 December 2017	831,380	1,836,415	636,711	3,304,506

The carrying value of Goodwill Acquisitions at 31 December 2017 relate to goodwill additions arising on the acquisition of Indianapolis and Northern Virginia in 2017.

Goodwill and indefinite life intangible assets on owned & operated stores comprises legacy owned stores together with additions arising from reacquisitions of franchise operations in 2015, 2016 and 2017. Additions in 2017 relate to Indianapolis and Northern Virginia (see note 12).

Goodwill on Franchisor Activities relates to the royalty income franchise business.

Where appropriate consideration of separately identifiable intangible assets has been considered in the evaluation of the fair value of assets acquired and the determination of the fair value of goodwill arising. For the acquisitions in 2017, 2016 and 2015 relating to the reacquisition of franchises, it is considered that the value being attributed to the purchase consideration relates to the synergies with surrounding franchises, obtaining wider geographical coverage directly within the Group, the focus to seize potential opportunity within their wider business strategy for revenue and earnings growth and the ability to expand new service offerings. Where appropriate consideration of separate intangibles such as covenants not to compete are evaluated.

13 Intangible assets continued

There is no separately identified intangible considered to arise from the customer list of the franchise reacquired given the terms of the franchise agreement and on that these customers continue to be customers of the Group's products and services before and after the reacquisition.

An impairment review is undertaken annually or whenever changes in circumstances or events indicate that the carrying amount may not be recovered. For the purpose of impairment testing, goodwill or indefinite life intangible assets are allocated to appropriate cash generating units which can be summarised as follows:

Goodwill Acquisitions – Indianapolis and Northern Virginia - are separately categorized as cash generating units.

Goodwill or indefinite life intangible assets on owned & operated stores are categorized as cash generating units that are expected to benefit from the synergies of the combination.

Goodwill on Franchisor Activities is considered as one cash generating unit by reference to revenues and activities derived from the franchise royalty income and franchise related activities segments (see note 4).

The cash generating units to which goodwill or indefinite life intangible assets have been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not recovered in a subsequent period.

The key assumptions/inputs used for the impairment assessment based on the forecast cash flow and revenues for 2018 were as follows:

	%
Discount rate	15
Short-term revenue growth	5
Long-term revenue growth	3.5
Tax rate	25
Discount rate sensitivity step	2
Perpetual growth rate sensitivity step	1

This has resulted in no impairment charge being required in 2017 (2016: $nil).

Based upon the sensitivity analysis had the estimated discount rate used been 2% higher and the perpetual revenue growth rate used been 1% lower in these calculations the Group would still not have incurred any material impairment for any of the categories of goodwill or indefinite life intangible assets.

13 Intangible assets continued

Other Intangible assets table

	Product development $	Covenants not to compete $	Customer Lists $	Trademarks $	Patents $	Website $	Enterprise Solution Development $	Total $
Cost								
At 1 January 2016	164,880	290,000	217,500	5,293,817	23,692	–	–	5,989,889
Additions	–	–	132,857	–	–	–	–	132,857
At 31 December 2016	164,880	290,000	350,357	5,293,817	23,692	–	–	6,122,746
Additions	–	–	–	–	–	90,000	107,000	197,000
At 31 December 2017	164,880	290,000	350,357	5,293,817	23,692	90,000	107,000	6,319,746
Accumulated amortisation								
At 1 January 2016	164,880	270,000	217,500	2,633,294	23,692	–	–	3,309,366
Amortisation expense	–	6,667	26,571	261,691	–	–	–	294,929
At 31 December 2016	164,880	276,667	244,071	2,894,985	23,692	–	–	3,604,295
Amortisation expense	–	6,667	26,401	261,691	–	22,500	–	317,259
At 31 December 2017	164,880	283,334	270,472	3,156,676	23,692	22,500	–	3,921,554
Carrying amount								
At 31 December 2016	–	13,333	106,286	2,398,832	–	–	–	2,518,451
At 31 December 2017	–	6,666	79,885	2,137,141	–	67,500	107,000	2,398,192

All intangible assets have been acquired by the Group.

Customer list additions in the year relate to website development costs.

14 Property, plant, and equipment

The calculation of amortization of intangible assets requires the use of estimates and judgement, related to the expected useful lives of the assets.

An impairment review is undertaken annually or whenever changes in circumstances or events indicate that the carrying amount may not be recovered.

	Equipment & displays $	Motor vehicles $	Leasehold Improvements $	Total $
Cost				
At 1 January 2016	657,425	248,535	123,418	1,029,378
Acquired on acquisition of subsidiary	47,693	20,871	–	68,564
Additions	254,096	93,843	–	347,939
Exchange differences	(279)	–	–	(279)
Disposals	–	–	–	–
At 31 December 2016	958,935	363,249	123,418	1,445,602
Acquired on acquisition of subsidiary	49,373	–	–	49,373
Additions	327,748	102,229	15,000	444,977
Exchange differences	2,086	2,655	–	4,741
Disposals	(486,533)	(106,678)	(123,418)	(716,629)
At 31 December 2017	**851,609**	**361,455**	**15,000**	**1,228,064**
Accumulated depreciation				
At 1 January 2016	571,112	227,400	123,418	921,930
Depreciation expense	65,426	21,499	–	86,925
Exchange differences	(148)	(33)	–	(181)
At 31 December 2016	636,390	248,866	123,418	1,008,674
Acquired on acquisition of subsidiary	–	–	–	–
Eliminated on disposals	(485,278)	(103,237)	(123,418)	(711,933)
Depreciation expense	120,122	46,615	682	167,419
Exchange differences	800	645	–	1,445
At 31 December 2017	**272,034**	**192,889**	**682**	**465,605**
Carrying amount				
At 31 December 2016	322,545	114,383	–	436,928
At 31 December 2017	**579,575**	**168,566**	**14,318**	**762,459**

The calculation of depreciation on property, plant and equipment requires the use of estimates and judgement, related to the expected useful lives of the assets. The depreciation expense in the year to 31 December 2017 is not material to the accounts, and therefore any change in estimate related to expected useful lives would not have a material effect on the Financial Statements.

The value of the assets charged as security for the bank debt is $656,485 (2016: $393,354).

15 Investment in subsidiary undertakings

Company	Subsidiary Undertakings $
Cost	
At 31 December 2016	13,158,810
Exchange difference	653,508
At 31 December 2017	13,812,318
Impairment	
At 31 December 2016	6,400,906
Exchange difference	–
At 31 December 2017	6,400,906
Carrying amount	
At 31 December 2016	6,757,904
At 31 December 2017	7,411,412

The Directors annually assess the carrying value of the investment in the subsidiary and in their opinion no impairment provision is currently necessary. See notes 12 and 13 for the assumptions and sensitivities in assessing the carrying value of the investment.

The net carrying amounts noted above relate to the US incorporated subsidiaries.

The subsidiary undertakings during the year were as follows:

	Registered office address	Country of incorporation	Interest held %
Water Intelligence International Limited (leak detection products and services)	201 Temple Chambers 3-7 Temple Avenue, London, EC4Y 0DT	England and Wales	100%
Water Intelligence Australia Pty	1 Farrer Place, Sydney, NSW 2000	Australia	100%
American Leak Detection Holding Corp. (holding company of ALD Inc.) *	199 Whitney Avenue, New Haven, Connecticut 06511 U.S.	US	100%
American Leak Detection, Inc. (leak detection product and services)	199 Whitney Avenue, New Haven, Connecticut 06511 U.S.	US	100%
Qonnectis Group Limited (dormant)	201 Temple Chambers 3-7 Temple Avenue, London, EC4Y 0DT	England and Wales	
NRW Utilities Limited (dormant)	201 Temple Chambers 3-7 Temple Avenue, London, EC4Y 0DT	England and Wales	

* Subsidiaries owned directly by the Parent Company. As noted in the Chairman's Statement, acquisitions, especially franchise reacquisitions are part of the growth strategy of the Group. The Parent's subsidiary, American Leak Detection, Inc. has reacquired one franchise by purchasing 60% upfront and having an unrestricted option to acquire the remaining 40% at a preset price at any time in the future. As a result, American Leak Detection, Inc., in the table above, has a minority interest subject to consolidation.

16 Inventories

	Group	
	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Group Inventories	359,973	327,501

During the year ended 31 December 2017, an expense of $3,334,101 (2016: $1,586,095) was recognised in the Consolidated Statement of Comprehensive Income, including business to business expenses of $2,518,840 (2016: $653,433). There has been no write down of inventories during 2017.

17 Trade and other receivables

	Group		Company	
	Year ended 31 December 2017 $	Year ended 31 December 2016 $	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Trade notes receivable	59,075	42,445	–	–

All non-current receivables are due within five years from the end of the reporting period.

	Group		Company	
	Year ended 31 December 2017 $	Year ended 31 December 2016 $	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Trade receivables	1,458,112	816,843	–	–
Prepayments	328,142	494,713	4,891	27,840
Due from Group undertakings	–	–	1,704,886	1,092,595
Accrued royalties receivable	476,744	428,983	–	–
Trade notes receivable	76,218	122,197	–	–
Other receivables	315,969	227,621	41,010	38,008
Due from related party	165,130	115,722	–	–
Current portion	2,820,315	2,206,079	1,750,787	1,158,443

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The average credit period taken on sales is 37 days (2016: 26 days).

As at the 31 December 2017, trade receivables of $116,088 (2016: $70,395) were past due but not impaired. These relate to a number of customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

Ageing of past due but not impaired receivables

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
60-90 days	42,328	27,404
90+ days	73,760	42,991
	116,088	70,395
Average age (days)	92	92

17 Trade and other receivables continued

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Year ended 31 December 2017 $	Year ended 31 December 2016 $
US Dollar	2,398,632	1,833,602
UK Pound	317,513	338,677
Australian Dollar	104,170	33,799
	2,820,315	2,206,078

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

18 Cash and cash equivalents

	Group		Company	
	Year ended 31 December 2017 $	Year ended 31 December 2016 $	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Cash at bank and in hand	774,767	1,056,888	76	268,785

19 Trade and other payables

	Group		Company	
	Year ended 31 December 2017 $	Year ended 31 December 2016 $	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Trade payables	659,547	494,263	148,401	15,041
Accruals and other payables	768,962	456,462	87,700	84,727
Due to Group undertakings	–	–	2,371,414	1,283,315
	1,428,509	950,725	2,607,515	1,383,083

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs and are payable within 3 months. The average credit period taken for trade purchases is 16 days (2016: 16 days).

20 Deferred Tax

The analysis of deferred tax liabilities is as follows:

Group	2017 $	2016 $
Deferred tax (liability)/assets	(115,233)	(305,081)

20 Deferred Tax continued

The movement in deferred tax liabilities is as follows:

2017

	Opening balance $	Recognized in the income statement $	Closing balance $
Temporary differences:	–	–	–
Net operating profit (loss) (non-current)	–	–	–
Short term timing differences	(305,081)	189,848	(115,233)
	(305,081)	189,848	(115,233)

2016

	Opening balance $	Recognized in the income statement $	Closing balance $
Temporary differences:	–	–	–
Net operating profit (loss) (non-current)	–	–	–
Short term timing differences	(64,449)	(240,632)	(305,081)
	(64,449)	(240,632)	(305,081)

At the balance sheet date, the Group's UK trading subsidiaries had unused tax losses of £3,473,249 (2016: £3,459,553) available for offset against future profits. £593,205 (2016: £590,866) represents unrecognised deferred tax assets thereon at 17%. The deferred tax asset has not been recognised due to uncertainty over timing of utilization.

21 Share capital

The issued share capital in the year was as follows:

Group & Company

	Ordinary Shares Number	Shares held in treasury Number	Total Number
At 31 December 2016	11,473,833	–	11,473,833
At 31 December 2017	11,402,649	151,184	11,553,833

Group & Company

	Share Capital $	Share Premium $
At 31 December 2016	64,257	926,787
At 31 December 2017	65,305	980,436

On 4 January 2017, the Company announced it purchased 73,600 ordinary shares of 1 penny each in the capital of the Company ("Ordinary Shares") at a price of 88.5 pence per Ordinary Share. Following this transaction, the Company held 73,600 Ordinary Shares in treasury which carry no voting rights.

21 Share capital continued

At 30 June 2017, two executives - David Silverstone and Scott Weiner – changed their employment status. In connection with the terms of their respective employment, the Company reacquired ordinary shares from each after their respective exercise of certain options. The 80,000 shares pursuant to the exercise of options by Scott Weiner and David Silverstone, as outlined above, were admitted to trading on AIM on 13 September 2017.Following this option exercise, the issued share capital of the Company carrying voting rights is 12,153,833. Following the purchase of these 80,000 shares by the Company, the Company holds 151,184 Ordinary Shares in treasury which carry no voting rights and the issued share capital of the Company carrying voting rights reduces to 12,002,649. The issued share capital of the Company carrying voting rights is 12,002,649 shares, which is divided into 11,402,649 Ordinary Shares admitted to trading on AIM, and 600,000 Partly Paid Shares of 1 penny each which are not admitted to trading on AIM. The total number of voting rights in the Company, excluding Treasury shares will therefore be 12,002,649.

Reverse acquisition reserve

The reverse acquisition reserve was created in accordance with IFRS3 Business Combinations and relates to the reverse acquisition of Qonnectis Plc by ALDHC in July 2010. Although these Consolidated Financial Statements have been issued in the name of the legal parent, the Company it represents in substance is a continuation of the financial information of the legal subsidiary ALDHC. A reverse acquisition reserve was created in 2010 to enable the presentation of a consolidated statement of financial position which combines the equity structure of the legal parent with the reserves of the legal subsidiary. Qonnectis Plc was renamed Water Intelligence Plc on completion of the reverse acquisition on 29 July 2010.

22 Obligations under operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are set out below.

2017

	Land & Buildings $	Other $	Total $
No later than one year	69,296	179,951	249,247
Later than one year, and not later than five years	4,400	420,459	424,859
Total	73,696	600,410	674,106

2016

	Land & Buildings $	Other $	Total $
No later than one year	136,256	105,220	241,476
Later than one year, and not later than five years	73,459	229,392	302,851
Total	209,715	334,612	544,327

The operating lease commitments above apply to the Group; the Company has no operating leases. All leases relate to vehicles.

23 Financial instruments

The Group has exposure to the following key risks related to financial instruments:

i. Market risk (including foreign currency risk management)

ii. Interest rate risk

iii. Credit risk

iv. Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated Financial Statements.

The Directors determine, as required, the degree to which it is appropriate to use financial instruments or other hedging contracts or techniques to mitigate risk. The main risk affecting such instruments is foreign currency risk which is discussed below. Throughout the year ending 31 December 2016 no trading in financial instruments was undertaken (2016: none) and the Group did not have any derivative or hedging instruments.

The Group uses financial instruments including cash, loans and finance leases, as well as trade receivables and payables that arise directly from operations.

Due to the simple nature of these financial instruments, there is no material difference between book and fair values. Discounting would not give a material difference to the results of the Group and the Directors believe that there are no material sensitivities that require additional disclosure.

Fair value of financial assets and financial liabilities
The estimated difference between the carrying amount and the fair values of the Group's financial assets and financial liabilities is not considered material.

Credit risk
The Group's principal financial assets are bank balances, cash, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. Receivables are regularly monitored and assessed for recoverability. The Group has no significant concentration of credit risk as exposure is spread over a number of customers.

Credit risk management
Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. The Group seeks to limit credit risk on liquid funds through trading only with counterparties that are banks with high credit ratings assigned by international credit rating agencies. Disclosures related to credit risk associated with trade receivables is presented in Note 17.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the year-end was in respect of the past due receivables that have not been impaired are disclosed in note 17.

23 Financial instruments continued

Categories of financial instruments

	Group		Company	
	Year ended 31 December 2017 $	**Year ended 31 December 2016 $**	**Year ended 31 December 2017 $**	**Year ended 31 December 2016 $**
Loans and receivables	–	–	–	–
Cash and cash equivalents	774,767	1,056,888	76	268,785
Trade and other receivables – current	2,820,315	2,206,079	1,750,787	1,158,443
Trade and other receivables – non-current	59,075	42,445	–	–
Financial Liabilities measured at amortised cost				
Trade and other payables	1,428,509	950,725	2,607,515	1,383,083
Borrowings – current	394,525	492,453	–	–
Borrowings – non-current	1,635,311	1,327,593	–	–
Deferred consideration – current	559,999	562,246	–	–
Deferred consideration – non-current	374,600	612,225	–	–

Borrowings

Bank Loans

Term Loan. The Group had a commercial banking relationship with Liberty Bank ("Liberty"). During 2014 the loan was refinanced and the term of the loan was reset for 5 years to 2019. The principal amount outstanding at 5 December 2016 was $1,574,801. As of 5 December 2016, interest on the loan was 5.75% annually, with monthly installments of principal and interest amounting to $52,959 per month.

On December 5, 2016, the Group replaced Liberty with People's United Bank ("People's") and closed on a new term loan with People's. The note refinanced the outstanding note from Liberty Bank and reset the term for 4 years to 2020. The principal amount outstanding at 31 December 2017 is $1,227,874 (2016: $1,600,000). Annual interest on the loan is fixed for the term at 4.78% and requires installments of principal and interest amounting to $36,716 to be paid per month beginning on 1 January 2017. People's Bank also requires PlainSight Systems (PSS), among others, to guarantee the loan.

Working Capital Line of Credit. The Group also had a working capital line of credit with Liberty. The line bore interest at a rate equal to 3.62% at December 5, 2016 and was due on demand. The line of credit was secured by substantially all of the assets of the Group. PSS and other related parties also guaranteed the obligation. As part of the change in the banking relationship, the Group paid off amounts owing under the Liberty line of credit by drawing upon a $500,000 line of credit established by People's.

The line bears interest at a rate equal to LIBOR plus 3.00%. As of December 31, 2017, the interest rate was 3.77%. The Group must make monthly interest only payments on the unpaid balance until its maturity in December 2018. However, on March 6, 2018, the line was increased to $2,000,000 and the maturity date was extended to December 2019. The line of credit is secured by substantially all of the assets of the Group and other related parties including PSS. The balance outstanding on the working capital line of credit as of December 31, 2017, and 2016 was $228,133 and $251,519, respectively.

23 Financial instruments continued

Acquisition Line of Credit. Reacquiring ALD franchises is part of the Group's growth strategy. In addition to the $2,000,000 line of credit, People's has provided the Group a $1,500,000 acquisition line of credit ("ALOC"). The ALOC has a two-year draw period. The line bears interest at a rate equal to LIBOR plus 3.00%. As of December 31, 2017, the interest rate was 3.62%. Commencing January 1, 2017, the Group has made monthly interest-only payments on any advances outstanding. However, as part of the Agreement, such interest-only payments would be converted into a term loan if any ALOC advance exceeded $250,000 or automatically at the end of a two-year draw period. Upon conversion, the term loan would bear interest at a rate per annum equal to three (3) percentage points in excess of People's four year cost of funds interest rate. The line of credit is secured by substantially all of the assets of the Group and the guarantee of other related parties including PSS. The balance outstanding as of December 31, 2017, was $584,750. There was no balance outstanding as of December 31, 2016.

In connection with the People's working capital line of credit and ALOC, the Group is required to comply with certain financial and non-financial covenants to be performed on a consolidated basis. The most restrictive of these covenants includes a debt service coverage ratio to be tested quarterly and a minimal semiannual increase in capital funds to be tested semiannually. The Group was in compliance with those requirements at December 31, 2017.

	Current		Non-Current	
Financial Instruments	**Year ended 31 December 2017 $**	**Year ended 31 December 2016 $**	**Year ended 31 December 2017 $**	**Year ended 31 December 2016 $**
Term loan	394,525	492,453	833,349	1,075,593
Working Capital Line of Credit	–	–	228,133	252,000
Acquisition Line of Credit	–	–	584,750	–
Total	394,525	492,453	1,646,232	1,327,593

Capital risk management

In managing its capital, the Group's primary objective is to maintain a sufficient funding base to enable working capital, research and development commitments and strategic investment needs to be met and therefore to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders. In making decisions to adjust its capital structure to achieve these aims, through new share issues, the Group considers not only its short-term position but also its long term operational and strategic objectives.

The capital structure of the Group currently consists of cash and cash equivalents, medium term borrowings and equity comprising issued capital, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense for each class of financial asset, financial liability and equity instrument are disclosed in Note 3.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies (other than the functional currency of the Company and its UK operations, being £ Sterling), with exposure to exchange rate fluctuations. These transactions predominately relate to royalties receivable in the US denominated in currencies other than US$ being Canadian Dollars, Australian Dollars, and Euro; royalties from such sources in 2017 were $236,590 (2016: $230,666). No foreign exchange contracts were in place at 31 December 2017 (2016: Nil).

23 Financial instruments continued

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities were:

	Group		Company	
	Year ended 31 December 2017 $	Year ended 31 December 2016 $	Year ended 31 December 2017 $	Year ended 31 December 2016 $
Assets				
Sterling and Australian Dollars	598,004	828,291	1,750,863	1,427,228
Liabilities				
Sterling and Australian Dollars	467,946	264,242	2,607,515	1,383,083

As shown above, at 31 December 2017 the Group had Sterling denominated monetary net assets of $130,059 (2016: $564,049). If Sterling weakens by 10% against the US dollar, this would decrease assets by $13,006 (2016: $56,405) with a corresponding impact on reported losses.

Interest rate risk management
The Group is potentially exposed to interest rate risk because the Group borrows and deposits funds at both fixed and floating interest rates. However, at the year end, the borrowings are only subject to fixed rates.

Interest rate sensitivity analysis
The losses recorded by both the Group and the Company for the year ended 31 December 2016 would not materially change if market interest rates had been 1% higher/lower throughout 2016 and all other variables were held constant.

Liquidity risk management
Ultimate responsibility for liquidity management rests with management. The Group's practice is to regularly review cash needs and to place excess funds on fixed term deposits for periods not exceeding one month. The Group manages liquidity risk by maintaining adequate banking facilities and by continuously monitoring forecast and actual cash flows.

The Directors have prepared a business plan and cash flow forecast for the period to 30 June 2017. The forecast contains certain assumptions about the level of future sales and the level of margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term trading is reliant on cash generation from its predominantly US-based royalty income.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest due repayment dates. The table shows principal cash flows.

Group	0-6 months $	6-12 months $	>12 months $	Total $
2017				
Fixed interest rate instruments principal	220,297	220,297	881,187	1,321,781
Other financial liabilities	–	–	–	–
2016				
Fixed interest rate instruments principal	215,244	215,244	1,389,558	1,820,046
Other financial liabilities	–	–	–	–

The Company has no non-derivative financial liabilities.

23 Financial instruments continued

Derivatives
The Group and Company have no derivative financial instruments.

Fair values
The Directors consider that the carrying amounts of financial assets and financial liabilities approximate their fair values.

24 Contingent liabilities

The Directors are not aware of any material contingent liabilities.

25 Related party transactions

PSS was a former owner of ALDHC and ALD until the reverse merger in 2010 that created Water Intelligence. PSS is now an affiliate of Water Intelligence and hence is a related party. PSS provides a technology license to Water Intelligence and ALD on terms favourable to Water Intelligence and ALD. The license is royalty-free for the first $5 million of sales for products developed with PSS technology.

During the normal course of operations there are inter-Group transactions among PSS, Water Intelligence plc, Water Intelligence International, ALDHC and ALD. The financial results of these related party transactions are reviewed by an independent director of Water Intelligence plc, the parent of Water Intelligence International, ALDHC and ALD.

One set of inter-Group transactions surrounds its banking facilities. As set forth in detail in Note 23 (Borrowings), the Group has a term loan, working capital line of credit, and acquisition line of credit with People's. Each of these borrowings are guaranteed by PSS and certain related parties. For the PSS's on-going guarantee, ALD pays 0.75% per annum based on the outstanding balance of the loans calculated at the end of each month.

PSS owes a receivable to ALD. Interest charged on the PSS receivable will match the interest rate charged by the bank. The monthly charge for the PSS guarantee would not change and would be offset against amounts owed by PSS. The charge will be eliminated should the guarantee no longer be required by People's Bank. Interest income related to the PSS receivable amounted to $10,302 and $7,378 for the years ending 31 December 7 and 31 December 2016, respectively. The guarantee fee expense for the PSS guarantee amounted to $10,496 and $13,296 for the years ended 31 December 2017 and 31 December 2016, respectively. The related receivable/prepaid balance remaining for PSS was $165,130 and $115,722 at 31 December 2017 and 2016, respectively.

During the year, the Company had the following transactions with its subsidiary companies:

Water Intelligence International Limited

	$
Balance at 31 December 2016	1,092,595
Net loans to subsidiary	622,590
VAT transferred under group registration	68,582
Other expenses recharged and exchange differences	(78,881)
Balance at 31 December 2017	1,704,886

ALDHC

	$
Balance at 31 December 2016	(376,729)
Balance at 31 December 2017	(376,729)

25 Related party transactions continued

ALD Inc.

	$
Balance at 31 December 2016	(906,586)
Loans to WI	(460,082)
Other expenses recharged and exchange differences	(628,017)
Balance at 31 December 2017	(1,994,685)

26 Subsequent events

On the 4 January 2018, the Company announced the signing and launch of the Company's second formal national contract with one of the top 5 insurance companies in the US. The agreement extends the Group's formal business-to-business channel.

On the 10 January 2018, the Group announced two strategic partnerships to extend its technology/innovation profile. ALD is partnering with Flo Technologies, Inc, to provide nation-wide distribution and service capabilities for Flo's smart home water security and conservation system. The Group is partnering with Tagasauris, Inc. to develop new products for both video marketing and e-commerce. Both Flo Technologies and Tagasauris use artificial intelligence as part of their respective product functionality.

On the 11 January 2018, David Silverstone exercised a portion of his options holdings to subscribe for a total of 10,000 ordinary shares of 1p each at an exercise price of $0.67 per ordinary share. Subsequently, David Silverstone sold the 10,000 ordinary shares at a price of $2.65.

On the 26 February 2018, the Group announced a contract between WII's Sydney, Australia, corporate location and Hunter Water Corporation, a state-owned water company. This strategic contract enables WII to support ALD's Australian franchisees with additional municipal opportunities.

On 7 March 2018, the Group announced that it had strengthened its capital base in order to support its growth plans. First, it raised approximately $5.75 million through the issue of an aggregate of 2,171,320 new ordinary shares in a placing and subscription. Such equity issuance was oversubscribed. Second, the Group increased its working capital line with People's Bank by $1.75 million.

On 7 March 2018, the Group announced that it had made certain board changes to strengthen its execution capabilities. David Silverstone moved from executive director to non-executive director. John Weigold moved from non-executive director to executive director. Laura Hills was appointed as Non-Executive Director of the Company. Robert Mitchell resigned from the board to take an operating role to launch a renewables line of business for the Group.

On the 7 March 2018, the Group continued its growth strategy of selectively reacquiring some of its ALD franchises. It announced the reacquisition of its Louisville, Kentucky, franchise. Louisville, a strongly performing operation, is situated adjacent to the Indianapolis and Cincinnati corporate locations in the central Midwest of the United States. Together these locations form a strategic set of corporate resources to execute sales and support growth of franchisees throughout the Midwest. This cluster of corporate operated locations also better enables the Company to execute the launch of operations in Chicago during 2018.

On 15 March 2018, the Group announced the acquisition of its Bakersfield, California, franchise. The Group plans to expand operations in this territory rapidly given the size of the opportunity and importance of water to this leading center for agriculture in the US.

26 Subsequent events continued

On 15 May 2018, the Group announced the acquisition of its South Florida franchise. The Group plans to expand operations in this territory rapidly given the strength of its existing corporate operations immediately to the north in Ft. Lauderdale / Miami. The Group plans to launch international expansion efforts to the Caribbean and Mexico from its expanded Miami operation.

The provisional fair values of the acquisitions subsequent to year end are detailed below:

	South Florida $'000	Louisville $'000	Bakersfield $'000	Totals $'000
Fair value of assets and liabilities acquired				
Equipment	80	95	44	219
Net assets acquired	80	95	44	219
Consideration				
Cash	150	465	252	867
Deferred consideration – discounted to present value	205	1,084	–	1,289
Total consideration	355	1,549	252	2,156
Indefinite life intangible assets on acquisition	275	1,454	208	1,937

27 Control

The Company is under the control of its shareholders and not any one party. The shareholdings of the directors and entities in which they are related are as outlined within the Director's Report.

Water Intelligence plc

(the "Company")

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING ("AGM") of the Company will be held at the offices of Weil Gotshal & Manges, 110 Fetter Lane, London EC4A 1AY at 11.30 a.m. on 19 June 2018.

The AGM will be held in order to consider and if thought fit, pass resolutions 1 to 6 below as ordinary resolutions and resolutions 7 and 8 below as special resolutions.

Ordinary Resolutions

1. THAT the Company's annual accounts for the financial year ended 31st December 2017, together with the last directors' report and the auditor's report on those accounts and the directors' report, be received and adopted.

2. To reappoint Crowe Clark Whitehill LLP as the Company's auditors to hold office from the conclusion of this meeting until the conclusion of the next meeting at which accounts are laid before the Company.

3. To authorise the directors to agree the remuneration of the auditors.

4. To re-appoint as a director Laura Hills who was appointed by the board on 6 March 2018.

5. To re-appoint as a director David Silverstone who retires by rotation in accordance with the Articles of Association.

6. THAT, in substitution for any existing and unexercised authorities, the directors be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "**Act**") to exercise all the powers of the Company to allot equity securities (as defined in section 560(1) of the Act) provided that this authority shall be limited to the allotment of equity securities to any person or persons up to an aggregate nominal amount of £40,000.

   The authorities conferred by this resolution shall expire at the conclusion of the next annual general meeting of the Company (unless previously renewed, varied or revoked by the Company in a general meeting), provided that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares be granted after such expiry and the directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired.

Special Resolutions

7. THAT, subject to and conditional upon the passing of Resolution 6, in substitution for any existing and unexercised authorities, the directors be and they are hereby empowered pursuant to section 570 of the Act to allot equity securities wholly for cash, within the meaning of section 560(1) of the Act, pursuant to the general authority conferred by Resolution 6 above as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

   (a) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of Ordinary Shares in the Company on the register of members at such record dates as the directors may determine and other persons entitled to participate therein where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares in the Company held or deemed to be held by them on any such record dates (which shall include the allotment of equity securities to any underwriter in respect of such issue or offer), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever; and

   (b) the allotment of equity securities (otherwise than in sub-paragraph a. above) to any person or persons up to an aggregate nominal amount of £30,000, provided that the authorities conferred by this resolution shall expire at the conclusion of the next annual general meeting of the Company (unless previously renewed, varied or revoked by the Company), save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred hereby has expired and that all previous authorities under section 570 of the Act be and they are hereby revoked (and in this resolution the expression "equity securities" and references to the "allotment of equity securities" shall bear the same respective meanings as in section 560 of the Act).

8. THAT, the Company be generally and unconditionally authorised to make market purchases (as defined in the Act) of ordinary shares on such terms and in such manner as the directors may from time to time determine, provided that:

   (a) the maximum number of ordinary shares authorised to be purchased shall be 5,000,000;

   (b) the minimum price which may be paid for an ordinary share is 1p;

   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share (as derived from the Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

   (d) the minimum and maximum prices per ordinary share referred to in subparagraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;

   (e) the authority conferred by this resolution shall expire at the conclusion of the next annual general meeting of the Company unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

   (f) the Company may make a contract to purchase ordinary shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority.

BY ORDER OF THE BOARD

Patrick DeSouza, Executive Chairman
For and on behalf of Water Intelligence plc

Dated: 16 May 2018

Registered Office:
201 Temple Chambers
3-7 Temple Avenue
London
EC4Y 0DT

Notes:

1. Shareholders entitled to attend and vote at the AGM ("Shareholders") may appoint a proxy or proxies to attend and speak and, on a poll, vote on their behalf. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form enclosed. A proxy need not be a member of the Company. A Shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that Shareholder. Investors who hold their shares through a nominee may wish to attend the AGM as a proxy, or to arrange for someone else to do so for them, in which case they should discuss this with their nominee or stockbroker. Shareholders are invited to complete and return the enclosed proxy form. To appoint more than one proxy you may photocopy the proxy form. Completion of the proxy form will not prevent a Shareholder from attending and voting at the AGM if subsequently he/she finds they are able to do so. To be valid, completed proxy forms must be received at the offices of the Company's registrars, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen B63 3DA, United Kingdom by not later than 11.30 a.m. on 15 June 2018 (being 48 hours prior to the time fixed for the AGM, excluding weekends and public holidays) or, in the case of an adjournment, as at 48 hours prior to the time of the adjourned AGM (weekends and public holidays excluded).

2. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares in the capital of the Company registered in the register of members of the Company 48 hours prior to the time of the AGM (weekends and public holidays excluded) or, in the case of an adjournment 48 hours prior to the time of the adjourned AGM (weekends and public holidays excluded), shall be entitled to attend and vote at the AGM, or any adjournment.

Perivan Financial Print 249986