**Water Intelligence plc**

Group Annual Report and Financial Statements for
the Year Ended 31 December 2019

Company number 03923150

# Group Annual Report and Financial Statements

for the year ended 31 December 2019

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# Company Information

**Directors & Advisers**

| | | |
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| **Directors** | Patrick DeSouza | Executive Chairman |
| | Bobby Knell | Executive Director |
| | Laura Hills | Non-Executive Director |
| | Michael Reisman | Non-Executive Director |
| | David Silverstone | Non-Executive Director |

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|---|---|
| **Company Secretary and Registered Office** | Adrian Hargrave<br>27-28 Eastcastle Street<br>London<br>United Kingdom<br>W1W 8DH |
| **Company number** | Registered in England and Wales number 03923150 |
| **Nominated adviser and broker** | WH Ireland Limited<br>24 Martin Lane<br>London<br>EC4R 0DR |
| **Broker** | Dowgate Capital Limited<br>15 Fetter Lane<br>London<br>EC4A 1BW |
| **Independent Auditor** | Crowe UK LLP<br>St Brides House<br>10 Salisbury Square<br>London EC4Y 8EH |
| **Registrar** | Neville Registrars Limited<br>Neville House<br>18 Laurel Lane<br>Halesowen West Midlands<br>B63 3DA |

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| **Bankers** | Barclays Bank PLC<br>1 Churchill Place<br>London<br>E14 5HP | People's United Bank<br>265 Church Street<br>New Haven<br>CT 06510<br>USA |

**Overview**.

We closed the last Annual Report with a look at the first third of 2019 followed by our outlook on the year ahead. We indicated that we remained confident about delivering on our vision of a world-class water infrastructure services company. As reported below, we delivered again. We had another remarkable year both in terms of financial and operating performance. We completed a five-year growth plan that produced compounded annual growth in sales of 35% and profits before tax of 33%.

Similarly, at the end of this year's Chairman's Statement, we will be reviewing the first third of 2020 and then presenting our Outlook for the remainder of the year. One might think that our tone would be circumspect with the Covid-19 crisis marking the first third of this year. On the contrary, we remain confident about our prospects. As discussed below, we are navigating the crisis well and accelerating our growth plans in order to distinguish ourselves from others in the marketplace.

Global demand for preventing water loss through infrastructure products and services is only increasing, crisis or not. Moreover, as illuminated by Covid-19, consumer demand for solutions to public health concerns emerging from sanitary overflow and poor wastewater infrastructure as people "shelter in place" is also becoming more acute. We remain confident about our ability to meet such market demand because of our attention to scaling our business over the last five years as we discussed in last year's report. We have also reinvested into proprietary new products, such as a residential sewer diagnostic tool that will be deployed in the market during Q3 2020. In fact, because of our extensive and growing sales footprint – over $125 million in sales to third parties from both franchise operations (from which our royalty income is derived) and corporate operations - across 46 states of the US, we are much more than a valuable water infrastructure services company. Rather, having provided solutions for over 200,000 customers across the US, we are becoming an even more valuable distribution platform for follow-through sales that address related water and wastewater problems – a "One Stop Shop". As discussed below, we will be accelerating this strategic direction.

**2019 Group Fundamentals**. As reflected by our 2019 results, we continue to scale nicely. During 2019, much like 2018, more of our results dropped to the bottom-line as the rate of growth in statutory profits before tax at 34% exceeded the rate of growth of revenue at 27%; of course, we were pleased by both results. In absolute terms, revenue reached $32.36 million (2018: $25.47 million). Statutory profits before tax reached $2.36 million (2018: $1.75 million). Profits before tax adjusted for non-cash and non-recurring costs grew 34% to $3.35 million (2018: $2.47 million). Profit per share on a fully diluted basis grew 22% to 11.1 cents a share.

Our balance sheet also remained strong enabling us to reinvest to execute our long-range growth plan. At 31 December 2019, the Group had $5.3 million in cash. This amount balanced all borrowings and deferred consideration from franchise reacquisitions which together totalled $5.3 million. Given our fundamentals, our balance sheet is fairly conservative. Borrowings and deferred consideration are amortized over four-to-five years while the Group has a store of $5.3 million in cash that itself is growing annually since we also generate cash from operations. Strong growth and prudent corporate finance put us in a good position during these uncertain times. Overall, assets grew 36% to $28.12 million (2018: $20.71 million).

**Operating Businesses and KPIs**. The Group has two wholly-owned operating subsidiaries: our flagship, American Leak Detection ("ALD") and our UK-based, Water Intelligence International ("WII"). These two subsidiaries use acoustic and infrared technologies to provide minimally-invasive solutions for all types of leak problems: residential, commercial and municipal. Our solutions apply to both potable and non-potable water lines. The Group's subsidiaries work closely together to execute a growth plan that envisions a "One-Stop Shop" for customers as noted above. Our core business – American Leak Detection – focuses on residential and commercial leak detection and repair solutions across the US, Canada and Australia. ALD delivers services through both franchise-operated and corporate-operated locations. As noted above, sales to third parties from our franchise locations are recorded as royalty income that is derived from such gross sales. WII complements ALD by providing solutions for municipal customers for both clean water and wastewater. Because of ALD's reputation across the US, WII has been able to cross-sell municipal solutions to an increasing number of communities in the US. Moreover, WII has been instrumental in introducing municipal solutions to ALD's Australian locations. In the near future, ALD will be returning the favour by cross-selling into WII's UK base of operations providing residential and commercial leak detection and repair services. Working together each subsidiary reduces customer acquisition costs for the other and enables efficiencies in service delivery.

The success of our two subsidiaries and overall growth plan are captured by certain KPIs set forth in our Strategic Report. First, our core service delivery platform is expanding. Royalty growth from the ALD franchise system remains strong. During 2019, ALD royalty income grew 4% to $6.5 million (2018: $6.2 million) in absolute terms despite four strategic reacquisitions that removed royalty income from the pool: Ontario, Canada and in the US - South Atlanta; Orlando; and Tucson. The latter two locations previously contributed significant royalty income. The health of our franchise system is important because its sales and execution contribute to market presence across the US. Such reach produces an efficient multiplier effect enabling the Group to be a significant distribution platform for additional follow-through sales to customers. As a collateral benefit, monthly recurring royalty income enables the Group to optimize its capital formation through bank debt, especially in today's low interest rate environment.

Second, our insurance business-to-business channel continues to grow rapidly. Demand from national insurance companies remains strong as water-related claims ($13 billion+ market) continue to grow along with the price of water. Insurance companies seek to leverage ALD's nationwide operational footprint to provide minimally-invasive leak detection and repair services wherever claims arise. During 2019, our insurance channel grew by 41% to $7.1 million (2018: $5.0 million). We added two national accounts last year which will fuel continued growth in 2020 and beyond. As noted in the Strategic Report, the business-to-business channel feeds our franchise system and enables scaling by providing jobs to the franchise system at lower customer acquisition costs through a centralized corporate system.

Third, ALD corporate-run operations complement our franchise system by (i) executing our service offerings and opening-up new offerings; and (ii) unlocking value in terms of financial performance. ALD corporate operations are made up of both franchise locations that have been reacquired and greenfield operations. During 2019 corporate-run operations grew 43% to $14.5 million (2018: $10.1 million). Profit before taxes grew 67% to $2.0 million. (2018: $1.2 million). It should be noted, however, that such growth is not due simply to reacquisition and conversion of franchisee revenue and profits into corporate revenue and profits. We have demonstrated that corporate operations can add value to territories formerly run by franchisees. If one evaluates corporate locations owned prior to January 1, 2018, sales grew 10% to $8.6 million (2018: $7.8 million). Profit before taxes, on the other hand, grew 37% to $1.30 million (2018: $0.95 million). As corporate-run operations increase profit margins while still reinvesting in growth, they unlock shareholder value because the net profits that they produce are higher than foregone net royalty income for doing the same execution activity in the location under the same brand.

Corporate operations also are helpful to the franchise system in introducing new service offerings. In addition to standard ALD residential and commercial solutions, US corporate-run locations also have introduced WII municipal solutions to the US. During 2019, US corporate locations built a book of business amounting to $1 million in municipal contracts, $500,000 of which was executed during 2019. It should also be noted that fast-growing corporate locations reinforce franchise operations with increased local marketing presence and general management support.

Fourth, UK-based WII continues to grow steadily. WII complements ALD with municipal offerings and leads our multinational growth efforts. During 2019, WII grew revenue by 16% to $3.37 million (2018: $2.9 million). As noted above, it introduced a new municipal offering in the US and is helping the franchise system bid for more municipal contracts during 2020. In addition, WII is growing in Australia through its Sydney operations and has begun to market its offerings in the EU and South Africa.

Our two operating businesses work synergistically and set the stage for providing more products and services to our customers in order to handle an increasingly wide range of water infrastructure problems. As we enter new geographies, we believe that offering a full service matrix of solutions for various types of pipes (residential, commercial and municipal) and situations (clean water and wastewater) will be attractive to our customers and will enhance our prospects for long-term growth.

**<u>Covid-19 and First Third of 2020</u>**.

Despite Covid-19, we look to remain ambitious with our growth plans. As an "essential service" provider, we have continued to operate across the US, UK, Canada and Australia. We have contributed valuable solutions in our communities with respect to clean water provisioning and solving for sanitary overflow as homeowners "shelter in place". To a degree, Covid-19 adversely impacts our 2Q 2020 performance relative to our typical growth trajectory. Consumers have had to adjust to service providers visiting their homes even though their demand for water and wastewater solutions has remained high. We are seeing evidence that June performance is returning to our typical upward trajectory.

Nonetheless, we are still making prudent budgetary choices such as increasing our inventories of protective personal equipment (PPE). We are taking actions to safeguard our various stakeholders: corporate employees, franchisees, customers, business partners, such as insurance companies, and shareholders. By working together in more proactive fashion, we are navigating the crisis as well as can be expected. In certain ways, the Covid-19 crisis may have actually brought our company, our franchisees and our customers closer together given the saliency of dealing with water loss and sanitary overflow alongside the realities of shelter in place. The pandemic also reaffirms our decision during 2019 to invest in video e-commerce technology as homeowners in a post-Covid-19 world will be more likely to seek information on-line about water-related products and solutions.

<u>Scottsdale Convention and First 60 Days</u>.

In mid-March, before the onset of shelter in place policies, our American Leak Detection franchise System and corporate leadership team gathered in Scottsdale, Arizona for our annual convention. This year's Convention proved to be special. As a testament to the commitment of our franchisees and corporate staff, the event was extraordinarily well-attended with team members coming from across the US, UK, Canada and Australia. The purpose of Convention 2020 was to communicate our next five-year growth plan. Given the success of our last five years with compounded annual growth of 35% in revenue and 33% in profit before taxes, our stakeholders expected a robust, ambitious plan.

I am proud to say that we had strong consensus in Scottsdale that Covid-19 would not deter us in our mission to be a market leader in transforming the water infrastructure business through our use of minimally-invasive technologies. We set, as our next target, to double total sales under our brand (whether franchise or corporate) to $250 million by the end of 2023. Both franchise and corporate operations are committed to making the necessary investments to reach this goal.

During the first sixty days after leaving Scottsdale, while Covid-19 created disruptions across the global economy, we have been focused on taking clear steps to hit the ground running towards the revenue and profit targets provided by our next five-year plan. We are immediately building on initiatives that have marked the last five years.

First, we reacquired two franchises in strategic locations: Minneapolis, Minnesota and San Jose, California. Both are accretive transactions and the territories have room for further organic growth. Minneapolis will enable us to have a stronger presence in the Upper Midwest of the US where we already have traction in winning municipal contracts with our UK-based Water Intelligence International offerings. We would like to expand our municipal business from this base of operations. In addition, from Minneapolis, we may be able to open some greenfield locations in Canada. San Jose, meanwhile will enable us to have a regional corporate office in Silicon Valley. The Bay Area is currently home to two very successful multi-million dollar franchises. Given the size of the addressable market and sensitivity of the entire Bay Area to sustainability issues, we believe that the San Jose operation has the opportunity to work with the neighbouring franchises and expand our presence significantly. Moreover, technology innovation is core to our brand and to our future. We plan to work with partners in Silicon Valley to develop new products.

Second, we extended our national account structure with wins from regional insurance companies. Such regional accounts enable us to deepen our insurance company relationships. We anticipate signing additional accounts with national insurance companies prior to the end of Q3 2020.

Third, we started field trials to launch of our newest technology product – a residential sewer diagnostic tool. We plan to go to market with this device over the summer. The sewer diagnostic tool is valuable in a

Covid and post-Covid world because sewer blockages will increase as homeowners dispose of sanitary wipes in toilets. Conventional sewer diagnostic approaches use video cameras which are cumbersome. Our tool uses acoustics and analyses the data efficiently in the cloud. Our product enables analysis of blockages an order of magnitude faster than other products in the market.

As we develop our brand, we seek to introduce more technology products. We have strong R&D relationships at Columbia University, Yale and University of Chicago. Pre-crisis, we were sponsoring a water product design competition with Columbia Business School to mark the University's Year of Water Initiative. We anticipate the design competition to be rescheduled for later this year. With our reacquisition of the San Jose franchise, we seek to partner with venture capital firms and Stanford University in launching sustainability products. As noted above, because of our services footprint across the United States touching over 200,000 homes annually, we are really a distribution platform for new products that complement our service offerings.

Finally, as recently announced, we have signed a long-term relationship with the world's leading cloud-based CRM (customer relationship management) platform - Salesforce.com - to automate our execution processes from dispatch of technicians to invoicing of customers to follow-up with additional customer services and sales. In the 2018 Chairman's Statement, we discussed certain attributes of scaling our business. We noted that with our critical mass of sales and matrix of product and services offerings we had the makings of a valuable distribution platform. With the integration of enterprise technology from Salesforce.com, we are taking a giant step towards realizing efficiencies in execution and becoming a "One Stop Shop" as we have communicated over the years. Further, we see our coming video e-commerce offerings as a seamless complement whereby customers can be educated in sustainability, order products and services on-line and have our technicians instantaneously scheduled and routed to deliver the solution.

**Conclusion**.

We are off to a good start in 2020 despite the Covid-19 crisis. The Covid-19 crisis has underscored the value of our business both in good times and bad as an "essential service" provider. For our shareholders, we are "acyclical" and a relative safe-haven. The crisis has also highlighted the value of our brand and reputation in the United States as a trusted service provider on whom homeowners and insurance companies may count. Navigated well, crises do present opportunities to distinguish oneself. We had an excellent Convention in Scottsdale and have come out of the gates fast on a mission to make a difference in the marketplace and to continue our trajectory of strong compounded annual growth for our next five-year plan.

**Dr. Patrick DeSouza**
*Executive Chairman*

16 June 2020

## Business Review and Key Performance Indicators

The Chairman's Statement, on pages 3 to 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 growing base of customers through additional cross-sales of solutions from across our business units and also the up-sales of technology products to fulfil more of the needs of our customers.

The Water Intelligence platform has two wholly-owned subsidiaries: American Leak Detection (ALD) and Water Intelligence International (WII). These business units are distinguished by the degree of franchise-operated and corporate-operated locations and their respective priorities on residential, business-to-business and municipal customers. 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 $125 million of sales to end-users of our brand. That critical mass of sales is derived from direct sales via corporate-operated locations and indirect sales measured by royalty income from franchisees, which, in turn, is based on franchisee gross sales to end-users. With its installed and growing base of residential customers, ALD can also upsell technology home services products to meet growing consumer demand for solutions to water loss and water quality. Meanwhile, WII, our UK-based operation that the Group acquired in Q4 2016, focuses on municipal solutions given the world-wide problem of failing water infrastructure. WII's solutions are also technology-centred. It is exclusively a corporate-run unit that leads the Group's international expansion. WII does have the capability to execute ALD service offerings and is currently doing so at our corporate-operated location in Sydney. WII also cross-sells complementary municipal offerings and residential wastewater solutions to ALD for municipal customers in the US.

The Group's growth strategy is evaluated through key performance indicators (KPIs) and incorporates both corporate-operated and franchise-operated organic growth from ALD and WII solutions, as well as, unlocking additional sales growth and shareholder value through acquisition, especially by selectively converting ALD franchises to corporate-operated locations. Such re-acquisitions of franchisee operations enable some amount of the approximately $100 million in highly profitable franchisee sales to end-users of our solutions, recorded as royalty income, to be converted to the Group's direct P&L. One measure of unlocking value for shareholders from such reacquisitions is based on our ability to grow converted corporate locations faster than would be the case under franchisee operation. As a by-product of such acquisition-led P&L growth, it is also 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 and growing nature of monthly royalty income from the franchise business, the Group is able to be efficient in its capital formation using both equity and bank debt. As a result, it is important that the Group manage to the right balance in capital formation by monitoring the level of net borrowings.

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

**2019 Conclusions Drawn From 6 KPIs:**

i. ALD Franchise System is expanding its sales and brand presence across the United States as indicated by royalty growth which furthers our evolution as a "One-Stop Shop" distribution platform. Royalty growth continues given market demand despite franchisee reacquisitions which remove some royalty from the pool of eligible royalty income.

ii. ALD Business-to-Business Channel takes advantage of our national execution presence under one brand and, led by the growth of insurance company channel, is fuelling expansion in both franchise-operated and corporate-operated locations.

iii. ALD corporate-operated locations add to critical mass of Group revenue and profits and through selective reacquisitions from our expanding franchise System further unlocks the Group's equity value

iv. WII complements our ALD brand and contributes complementary municipal sales to the Group's overall sales presence in the US and international geographies

v. Non-core costs, largely legal transactions costs, are an acceptable trade-off relative to the operating P&L benefits of adding critical mass to the Group's revenue and profits

vi. Net-borrowing position is favourable for Group's continued growth and business plan especially given the consistent growth of monthly recurring income and low interest rate environment

(i) Franchise Royalty Income.

The continued growth of the core ALD franchise business is the foundation for the business strategy of the Group. ALD is the centrepiece of the Group's distribution strategy as a "One-Stop Shop" platform because of its sales footprint in 46 states of the US and multiple locations in Australia and Canada. Moreover, because of the recurring nature of its royalty stream, the Group is able to increase shareholder value in its capital formation with a mix of debt and equity. As System-wide franchisee sales increase, the Board can decide whether to selectively reacquire franchises and convert them to corporate-operated locations adding critical mass of revenue and profits to the Group or to keep adding high margin royalty income to the Group. Royalty income in 2019 grew in absolute terms by 4% compared with 2018 despite significant reacquisitions during 2019 which had the effect of reducing the eligible pool of royalty income. Such royalty growth is attributable in part to the benefits arising from the Group's insurance channel which expands the franchise System. Profit before taxes from this business line grew by 11%. The Group has 103 franchises at the end of 2019 which represents a decrease of 2 franchises (2018: 105). The net decrease was the result of the reacquisition and conversion of 4 franchises into corporate-run locations and an increase of 2 new franchises. Performance from royalty income is as follows:

| | **Year ended 31 December 2019 $'000** | **Year ended 31 December 2018 $'000** | **Change %** |
|---|---|---|---|
| Total USA | 6,356 | 6,087 | 4% |
| International | 143 | 178 | (20)% |
| Total Group Royalty Income | 6,499 | 6,265 | 4% |
| Profit before tax (see note 4) | 1,603 | 1,448 | 11% |

(ii) Franchise-related Activities.

US franchise-related activities provide supporting evidence for the strength of the core ALD business. Parts and equipment sales are one indication of franchisee reinvestment in growth of their respective 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 brand and sales footprint – an important aspect of competitive strategy. Jobs for franchisees are sourced by Corporate headquarters from insurance companies using a centralized processing system. The jobs are then dispatched to franchisees from corporate administration with corporate administration taking liability and payment risk. Finally, sales of franchise units represent the decision to develop a new territory through a franchisee. This line item conveys the Group's current priority with respect to adding corporate-operated locations as opposed to franchisee-operated locations in order to develop and grow a territory. Revenue from franchise-related activities in 2019 grew by 31% compared to 2018 largely because of the growth of the Group's business-to-business channel. Profit before taxes grew 24% in 2019 compared with 2018. Performance from franchise-related activities are as follows:

| | Year ended 31 December 2019 $'000 | Year ended 31 December 2018 $'000 | Change % |
|---|---|---|---|
| Parts and equipment sales | 854 | 1,076 | (21)% |
| Business-to-Business sales | 7,106 | 5,023 | 41% |
| Sales of Franchise Units | 90 | 55 | 64% |
| Total Revenue from US Other Activities | 8,050 | 6,154 | 31% |
| Profit before tax (see note 4) | 601 | 484 | 24% |

(iii) US Corporate Operated Locations (ALD).

Corporate-run locations both greenfield and initiated after reacquisition of franchise locations contribute revenue and profits to the Group. In addition, such operations support the franchise System with strategy, marketing and execution support in further developing territories. Performance of the US corporate-run locations post-reacquisition is also an indication of the success of the Group's strategy to selectively reacquire ALD franchises to meet increasing market demand for our minimally invasive leak detection and repair solutions. The Group directly operates 18 territories, an increase of 3 territory (2018: 15). Sales growth from corporate-operated locations grew strongly both organically and from reacquisitions when compared with 2018.

As set forth below, ALD Corporate-operated revenue grew 43% to $14.4 million (2018: $10.1 million). Meanwhile profit before taxes grew strongly by 67% to a little more than $2 million (2018: $1.2 million). This KPI table was redesigned in 2018 to add information for the Board. We have begun to measure the difference between near-term corporate growth through reacquisitions of franchisees and longer-run corporate-operated organic growth post reacquisition. We have included a line item for corporate locations owned during the comparison years. Holding aside 2019 franchise reacquisitions, sales growth from corporate-operated locations owned prior to 1 January 2018 grew 10% to $8.6 million (2018: $7.8 million). Profit before taxes for the same subset of corporate-operated locations grew 37% to $1.3 million (2018: $0.95 million).

Table (iii) also enables us to assess the trade-off between franchise royalty growth and corporate-operated growth by examining yield in terms of Group profit before tax. Corporate store profit before tax amount to $2 million. If the same $14.4 million of sales to the same customers was executed by a franchisee, the Group would receive approximately $0.23 million or 11% of the profit before taxes. ($14.4 million of sales multiplied by 6% royalty fee equals approximately $0.86 million of royalty income; and $0.86 million is then multiplied by 27% profit margin of royalty income - see KPI #1 – to yield $0.23 million of profit before taxes to the Group). Hence, when compared to the $2 million in corporate store profits before taxes contributed to the Group, the incremental profit of reacquiring franchises unlocks shareholder value. On the other hand, it should be noted that, recurring monthly royalty revenue is especially valuable for optimal capital formation by reinforcing non-dilutive bank finance. The Board will use this KPI to evaluate the trade-offs.

Performance from corporate-operated locations is as follows:

| | Year ended 31 December 2019 $'000 | Year ended 31 December 2018 $'000 | Change % |
|---|---|---|---|
| Revenue | 14,446 | 10,141 | 43% |
| *Locations owned prior to 1 January 2018* | *8,567* | *7,759* | *10%* |
| Profit before tax (see note 4) | 2,025 | 1,213 | 67% |
| *Locations owned prior to 1 January 2018* | *1,301* | *952* | *37%* |

(iv) International Corporate Operated Locations (WII)

The Group continues to strengthen its multinational presence through its UK-based WII subsidiary. WII was established during Q4 2016 with the acquisition of NRW Utilities Ltd. WII has expanded its operational scope by managing the corporate location established in Sydney, Australia after the reacquisition of a former ALD franchisee in 2017 and now Ontario, Canada after another reacquisition.

The objective was for UK-based WII to lead the Group's international expansion. Sales have grown 16% during 2019 to $3.4 million. (2018: $2.9 million). Most importantly, profits grew strongly. (2019: $0.22 million; 2018: $0.03 million). Performance from Water Intelligence International is as follows:

| | **Year ended 31 December 2019 $'000** | **Year ended 31 December 2018 $'000** | **Change %** |
|---|---|---|---|
| UK-based WII | 1,386 | 1,628 | (15)% |
| Sydney, Australia | 1,421 | 1,279 | 11% |
| Ontario, Canada | 562 | | N/A |
| Total Revenue from International Corporate Activities | 3,369 | 2,907 | 16% |
| Profit before tax (see note 4) | 226 | 31 | 630% |

(v) Non-Core Costs.

During 2019, the Group incurred what are considered to be non-core costs relating to (i) legal costs relating to transactions executed for the future growth of the business and (ii) a prepayment write off for a service that had not been performed. As discussed herein, understanding non-core costs, as distinct from continuing operating costs, enables the Board to evaluate capital allocation choices made to accelerate operations organically and to scale through acquisition. In 2019, there were $493,000 of non-core costs. During 2018, there were $287,000 of non-core costs. Please see table below for details:

| | **Year ended 31 December 2019 $'000** | **Year ended 31 December 2018 $'000** |
|---|---|---|
| Product development legal costs | - | 60 |
| Technology product write-off | 93 | 60 |
| Plumbing unit write-off related to acquisition | 187 | 32 |
| Transaction-related employee costs | 82 | - |
| Transaction-related legal costs | 131 | 135 |
| **Total** | **493** | **287** |

(vi) Net Borrowings.

Management of financial resources is important for making various decisions regarding the reinvestment rate in the 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 macroeconomic environment, bank debt is a relatively cheaper cost of capital than equity. Net *cash* is currently approximately $2.0 million.

**Group**

| | Year ended 31 December 2019 $'000 | Year ended 31 December 2018 $'000 |
|---|---|---|
| Lines of credit: acquisition and working capital | 1,264 | 1,616 |
| Term loan | 2,047 | 822 |
| | 3,311 | 2,438 |
| Less: Cash | | |
| *Held in US Dollars* | 4,127 | 3,569 |
| *Held in £ Sterling* | 633 | 1,239 |
| *Held in CDN Dollars* | 121 | |
| *Held in AU Dollars* | 400 | 208 |
| | 5,281 | 5,016 |
| Total Net Borrowings/(Cash) | (1,970) | (2,578) |

## 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, Canada 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.

**Covid-19 Risk**

The Group delivers water and wastewater services and is considered a supplier of "essential services" under governmental policies covering shelter-in-place. As such the Group has continued to operate during the pandemic. While 2Q has produced slowing, as homeowners evaluated the risks of residential delivery of solutions, a combination of Company health and safety protocols for our technicians and the continued consumer demand for water and wastewater solutions has enabled the Group to return to executing its operating plan. The Group has sufficient cash to execute its plan and work protocols for the health and safety of all our stakeholders, especially our technicians and our customers.

**Other Risks**

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

**Corporate Governance statement S172 of the UK's Companies Act**
Each director must act in a way that, in good faith, would most likely promote the success of the Group for the benefit of its stakeholders. The Board of Directors consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters indicated in S172) in the decisions taken during the year ended 31 December 2019. Following is an overview of how the Board performed its duties during 2019.

Shareholders
The Executive Chairman, Chief Financial Officer, members of the Board and senior executives on the management team have regular contact with major shareholders. The Board receives regular updates on the views of shareholders which are taken into account when the Board makes its decisions. During May 2019, the Company raised capital from largely its current shareholders and received feedback during that process. Also, given investor communication, the Board continues to invest in Water Intelligence International to grow both in the UK and US.

Employees
The Board recognizes the importance of advanced human capital to a technology and services-led business. The Board works through its human resources director to provide on-going training and benefits. It also provides advancement opportunities in its various corporate-operated locations. As noted in the Directors' Report, the Group has taken a variety of steps to address the COVID-19 pandemic in terms of its employees.

Franchisees
The Group holds an annual convention for its franchisees which includes education and training sessions. Franchisees have an Advisory Committee that provides input to the Board with quarterly meetings. One of our Board members, Bobby Knell, successfully developed the Dallas franchise and retired as one of our leading franchisees. He provides an additional channel for input from the franchise System.

Customers
ALD has a reputation for high quality service delivery across the United States for over thirty years. Given the importance of our reputation with customers, especially insurance companies, the Board pays significant levels of attention to the quality of our service delivery. Management gathers data that it shares with the Board on customer satisfaction.

Community and Environment
The Group's brand stands for the conservation of water and the importance of providing solutions to wastewater leaks. Through our advertising and marketing the Group seeks to communicate to the public the importance of sustainability, particularly with respect to water. For example, the Group took an active role in not only providing leak detection services to local government in Flint, Michigan – a community known for its lead in the water crisis – but also working to educate community members on the importance of on-going water monitoring. The Board has sought to be active with respect to education and water. During 2019 and 2020, members of the Board have worked with Columbia University to contribute to its "Year of Water" education campaign. In that context, the Board has also worked with non-profits focused on global water-related issues, especially among the poor in Africa.

By order of the Board

**Patrick DeSouza**
*Executive Chairman*

16 June 2020

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 2019.

## Principal Activities

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" 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 29 to 35.

2019 was marked by sustained and balanced multinational growth for both ALD and WII – ideal for scaling of operations. Total revenue grew 27% to $32.4 million and profit before tax grew 34% to $2.36 million when compared with 2018. Our ALD subsidiary grew revenue 28% to $29 million and profit before tax 24% to $2.13 million when compared with 2018. Our WII subsidiary grew revenue 16% to $3.37 million and turned sharply upward in profit before taxes to $0.23 million. More generally, Water Intelligence 2019 results are consistent with its 2014-19 CAGR of 35% revenue growth and 33% profit before taxes growth even though the Group has grown much larger in absolute terms of revenue and profit before taxes. The splits between ALD and WII revenue remained consistent with 2018 with approximately 90% of total revenue attributable to ALD and 10% of total sales attributable to WII consistent with balanced growth.

## Going Concern

The Directors have prepared a business plan and cash flow forecast for the period to April 2021. 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 generation by its profitable and growing US-based franchise business, ALD. The Directors also note that the Group has cash net of borrowings of $1.97 million on its balance sheet as of 31 December 2019 (see Strategic Report) and has diversified its operations further with growth in WII. Moreover, after an oversubscribed capital raise in May 2019, the Directors believe that funding will be available on a case-by-case basis for different additional initiatives. The Directors conclude that the Group will have adequate cash resources both to pursue its growth plan and to accelerate execution if it so chooses. 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.

## Research Design & Development

Expenditure on pure research and development, all of which was undertaken by third parties not related to the Group, was $10,152 (2018: $64,285). The Group's focus is currently on reinvestment for commercialization of products not pure R&D. The Group remains committed to anticipate market demands and has spent money on new product development during the year which has been capitalised.

## Dividends

The Directors do not recommend the payment of a dividend (2018: $nil).

## Share Price

On 31 December 2019, the closing market price of Water Intelligence plc ordinary shares was 233.0 pence. The highest and lowest prices of these shares during the year to 31 December 2019 were 450.0 pence and 171.5 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 throughout the Chairman's Statement on pages 3-6.

## Financial Risk Management

Financial risk management is outlined in the principal risks and uncertainties section of the Strategic Report on page 11.

## Subsequent Events

On 15 June 2020, the Group announced that it has launched an implementation of Salesforce.com's customer relationship management software across its ALD corporate and franchise operations. The implementation will enable ALD to automate its entire workflow from customer leads to service dispatch of technicians anywhere in the US to customer reporting upon job completion to invoicing. The implementation will produce much greater efficiencies and capability to execute on a faster rate of growth. ALD's franchise System will share in the licensing and implementation investment.

On 1 June 2020, the Group completed the reacquisition of its San Jose, California franchise territory within the Group's ALD franchise business. San Jose is a strategic reacquisition because of its location in Silicon Valley. The Group plans to use this corporate base to advance its innovation roadmap and R&D. The reacquisition also enables the Group to add further scale to Water Intelligence financially and operationally. The purchase price was approximately $1.05 million. 2019 sales for San Jose franchise location were approximately $0.7 million and pre-tax profits were approximately $0.2 million. The reacquisition also reinforces growth in the Bay Area with its multimillion dollar franchises in the San Francisco and Berkeley territories.

On 30 April 2020, the Group completed the reacquisition of its Minneapolis, Minnesota franchise within the Group's ALD franchise business. Minneapolis is a significant reacquisition that enables the Group to add further scale to Water Intelligence financially and operationally. The purchase price was approximately $1.3 million to be paid evenly over four years. 2019 sales for the Minneapolis franchise location was approximately $0.98 million and pre-tax profits were approximately $0.31 million. Operationally, the reacquisition of Minneapolis creates a corporate base in the Upper Midwest region of the United States. During 2019, the Group executed several significant municipal contracts in the Upper Midwest affording cross-selling opportunities from the Group's Water Intelligence International subsidiary.

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

| | **Minneapolis** | **San Jose** | **Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **Fair value of assets and liabilities acquired** | | | |
| Equipment | 64,730 | 69,397 | 132,127 |
| Vehicles | 40,922 | - | 40,922 |
| Other | 10,990 | 16,000 | 26,990 |
| Net assets acquired | 116,642 | 85,397 | 200,039 |
| **Consideration** | | | |
| Cash | 329,670 | 380,000 | 707,670 |
| Deferred consideration – discounted to present | 983,012 | 667,000 | 1,650,012 |
| Total consideration | 1,312,682 | 1,047,000 | 2,357,682 |
| Intangible asset arising on acquisition | 1,196,040 | 961,603 | 2,157,643 |

During 2019, a claim was brought against the Company by a former franchise owner which was settled subsequent to the end of the year in February 2020. The parties agreed to an adjustment to the original purchase price for the reacquisition for the franchise. In addition, among other items, the former franchise owner agreed to a covenant not to compete and an extension of confidentiality over intangible assets of the Company in perpetuity. As such, the Company accrued the settlement as of 31 December 2019, totalling a net amount of $200,000 and recorded a covenant not to compete asset in connection with the accrual. The covenant not to compete commences in February 2020 for a period of one year from that date.

<u>COVID-19</u>

PPP Program - The Paycheck Protection Program (PPP) brings much needed relief to business owners affected by the coronavirus. Not only does this loan program provide funding to help cover payroll and other expenses, but if used for qualifying purposes, part or all of the loan can be forgiven. ALD applied for and received funding of $1,869,800 under this program in April 2020

Work Protocols and PPE **-** The Group reviewed all applicable Shelter-in-Place Orders and determined that our operations qualify as services related to essential/critical infrastructure with respect to water and wastewater and that we are able to continue to operate under those Orders. The Group has taken health and safety measures with respect to all personnel and increased significantly its inventory of Personal Protective Equipment (PPE). The Group has issued work protocols with respect to our service technicians who are essential to the delivery of our water and wastewater solutions to customers. All non-essential personnel have been notified to work remotely until further notice. All employees have been instructed to comply with social distancing rules/requirements in their jurisdictions, as well as other safety and health precautions including use of PPE, frequent hand-washing and sanitizing of all equipment.

## 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 (Resigned 17January 2019)
Bobby Knell (Appointed 12 March 2019)

**Non-Executive Directors**
Laura Hills
Michael Reisman
David Silverstone

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

## Directors' emoluments

**2019**

| | Salary, Fees & Bonus | Benefits | Redundancy | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Executive Directors** | | | | |
| P DeSouza | 517,346 | 20,034 | - | 537,380 |
| B Knell | 40,000 | - | - | 40,000 |
| J Weigold | 41,250 | - | - | 41,250 |
| **Non-Executive Directors** | | | | |
| D Silverstone | 21,000 | - | - | 21,000 |
| L Hills | 20,000 | - | - | 20,000 |
| M Reisman | 20,000 | - | - | 20,000 |
| | **659,596** | **20,034** | | **679,630** |

**2018**

| | Salary, Fees & Bonus | Benefits | Redundancy | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Executive Directors** | | | | |
| P DeSouza | 479,417 | 22,455 | - | 501,872 |
| J Weigold | 125,000 | | | 125,000 |
| **Non-Executive Directors** | | | | |
| D Silverstone | 21,000 | - | - | 21,000 |
| M Reisman | 20,000 | - | - | 20,000 |
| L Hills | 20,000 | - | - | 20,000 |
| | **665,417** | **22,455** | **-** | **687,872** |

## Directors' interests

The Directors who held office at 31 December 2019 and subsequent to year end had the following direct interest in the ordinary shares of the Company at 31 December 2019 and at the date of this report, excluding the shares held by Plain Sight Systems, Inc.

| | Number of shares at 31 December 2019 | % held at 31 December 2019 | Number of shares at 1 June 2020 | % held at 1 June 2020 |
|---|---|---|---|---|
| Patrick DeSouza* | 5,042,110 | 29.83 | 5,042,110 | 29.83 |
| Michael Reisman* | 177,599 | 1.05 | 177,599 | 1.05 |
| David Silverstone | - | - | - | - |
| John Weigold | - | - | - | - |
| Laura Hills | 114,230 | 0.67 | 114,230 | 0.67 |

*Included in the total above, Patrick DeSouza received (i) 600,000 Partly Paid Shares during 2016 (ii) 750,000 in March 2018 and (iii) 800,000 in May 2019. 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

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 | 14.38 |
| State Street Nominees Limited | 1,000,000 | 5.92 |
| Canaccord Genuity Group Inc. | 959,106 | 5.67 |
| Amati AIM VCT | 814,200 | 4.82 |
| George D. Yancopoulos | 759,996 | 4.50 |

## 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 UK 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 that Director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware; and
- that 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 June 2020

# Corporate Governance Statement

As a Board, we believe that practising good Corporate Governance is essential for building a successful and sustainable business in the long-term interests of all stakeholders. Water Intelligence's shares are listed on AIM, a market operated by the London Stock Exchange.

IFRS 15 (Revenue from Contracts with Customers) came into effect 1 January 2018 replacing IAS 18 (Revenue and Related Interpretations). We have expanded our discussion in footnote 3 to cover each type of customer: residential, business-to-business, municipal and franchise.

With effect from September 2018, Water Intelligence has adopted the QCA Corporate Governance Code. The Company has adopted a share dealing code for the Board and employees of the Company which is in conformity with the requirements of Rule 21 of the AIM Rules for Companies. The Company takes steps to ensure compliance by the Board and applicable employees with the terms of such code.
The following pages outline the structures, processes and procedures by which the Board ensures that high standards of corporate governance are maintained throughout the Group.

Further details can be found on our website at www.waterintelligence.co.uk/corporate-Board-and-governance.

## Takeovers and Mergers

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

## Board

The Board, chaired by Patrick DeSouza, comprises two executive and three non-executive directors and it oversees and implements the Company's corporate governance programme. As Chairman, Dr. DeSouza is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. Michael Reisman and David Silverstone are the Company's independent directors. The Board is supported by two committees: audit and remuneration. The Board does not consider that it is of a size at present to require a separate nominations committee, and all members of the Board are involved in the appointment of new directors.

Each Board member commits sufficient time to fulfil their duties and obligations to the Board and the Company. They are required to attend at least 4 Board meetings annually and join regular Board calls that take place between formal meetings and offer availability for consultation when needed.

Board papers are sent out to all directors in advance of each Board meeting including management accounts and accompanying reports from those responsible.

Meetings held during the period between 1 January 2019 and 31 December 2019 and the attendance of directors is summarised below:

| | **Board meetings Possible (attended)** | **Audit committee Possible (attended)** | **Remuneration committee Possible (attended)** |
|---|---|---|---|
| Patrick DeSouza | 6/6 | | |
| Bobby Knell | 6/6 | | |
| Michael Reisman | 6/6 | 2/2 | 2/2 |
| David Silverstone | 6/6 | | 2/2 |
| Laura Hills | 6/6 | 2/2 | |

## 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 member of the Committee is Michael Reisman. 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 David Sliverstone. 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.

## Board Experience

All five members of the Board bring complementary skill sets to the Board. One director is female and four are male. The Board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. In addition, the Board receives regular updates from, amongst others, its nominated adviser, legal counsel and company secretary in relation to key rule changes and corporate governance requirements, as well as regular liaison with audit firms both in the UK and the US in respect of key disclosure and accounting requirements for the Group, especially as accounting standards evolve. In addition, each new director appointment is required to receive AIM rule training from the Company's nominated adviser at the time of their appointment.

### Patrick J. DeSouza, Executive Chairman

*Term of office:* Appointed as Executive Chairman in July 2010.

*Background and suitability for the role:* Dr. DeSouza has been Chairman of American Leak Detection since 2006 and Executive Chairman since its reverse merger to create Water Intelligence plc in 2010. He has 25 years of operating and advisory leadership experience with both public and private companies in the defence, software/Internet and asset management industries. Over the course of his career, Dr. DeSouza has had significant experience in corporate finance and cross-border mergers and acquisition transactions. He has practised corporate and securities law as a member of the New York and California bars. Dr. DeSouza has also worked at the White House as Director for Inter-American Affairs on the National Security Council. He is the author of Economic Strategy and National Security (2000) and has been a visiting lecturer at Yale Law School. He is a graduate of Columbia College, the Yale Law School and Stanford Graduate School.

### Bobby Knell, Executive Director

*Term of office:* Appointed March 2019.

*Background and suitability for the role:* The ALD franchise business is central to the operations and value proposition of Water Intelligence. Bobby has been serving as a managing director at Water Intelligence responsible for franchise relations for the last four years. Prior to this role, Bobby founded and grew the Dallas franchise of American Leak Detection into a multi-million dollar operation, an operation now run by his son. His appointment furthers the alignment of strategy and interests between corporate operations and the growing American Leak Detection franchise business.

### Michael Reisman, Independent Non-executive Director

*Term of office:* Appointed as a non-executive director on 30 July 2010.

*Background and suitability for the role:* Professor Reisman currently serves as Myres S. McDougal Professor of International Law at the Yale Law School, where he has been on the faculty since 1965 and has previously been a visiting professor in Tokyo, Berlin, Basel, Paris, Geneva and Hong Kong Professor Reisman is the President of the Arbitration Tribunal of the Bank for International Settlements and a member of the Advisory Committee on International Law of the Department of State. He has served as arbitrator and counsel in many international cases. He was also President of the Inter-American Commission on Human Rights of the Organization of American States. Because of his experience and the international character of the Company, Professor Reisman leads matters of governance, corporate responsibility and remuneration. He is a graduate of Yale Law School.

### Laura Hills, Non-executive Director

*Term of office:* Appointed as a non-executive director on 6 February 2018 and Vice-Chairman August 2019.

*Background and suitability for the role:* Laura has more than 30 years' experience as a legal professional, having spent 10 years working for Overseas Private Investment Corporation (OPIC), where she served as Associate General for the agency's finance program, supervising a team of lawyers on all finance transactions ranging from micro-lending and small business to multi-creditor infrastructure project financing in emerging market countries. In 2002, Ms. Hills founded Hills, Stern & Morley LLP, an emerging markets legal firm based in Washington D.C. Laura sits on the Board of the Gerald Ford Presidential Foundation. Given her background in finance and transactions, Laura heads the Audit Committee. Laura brings considerable expertise in negotiating on infrastructure and renewables related transactions globally. Moreover, Ms. Hills experience with non-profits assists the Board in fulfilling its responsibility to advance the mission of Water Intelligence to support underserved communities globally. Laura holds undergraduate, graduate and law degrees from Stanford University.

### David Silverstone, Independent Non-executive Director

*Term of office:* Appointed as a non-executive director on 6 February 2018, having previously been an Executive Director since November 2011.

*Background and suitability for the role:* David has been involved in water issues since the early 1970s. He served as Connecticut's first consumer advocate on utility issues from 1974 to 1977. He then practiced law focusing on utility issues representing water, electric and gas utilities, consumer groups, large consumers and small power producers until 1999. From 1999 to 2000 he was Group Vice-President and Chief Administrative Officer of The Southern Connecticut Gas Company, a local gas distribution company. From 2001 until his retirement in 2008 he was Chief Executive Officer of the South Central Connecticut Regional Water Authority based in New Haven, Connecticut. The Authority has over 400,000 consumers, 1600 miles of pipe, and an annual operating budget of over $75 million. Since his retirement he has been Chairman and Chief Executive Officer of Science Park Development Corporation, a non-profit company charged with the redevelopment of commercial space adjacent to Yale University into a high tech/bioscience mixed use development. Mr. Silverstone graduated from Lehigh University with a B.A, and from Columbia University School of Law with a J.D. David's experience in the water sector provides the Board with additional insight and knowledge as to how to work with the wider water industry

The Group has a non-Board Chief Financial Officer, Pat Lamarco, who attends all Board meetings and reports regularly to the Board and assists in the preparation of Board materials and in reviewing the budget and ongoing performance. Mr. Lamarco has significant tax and audit experience. Mr. Lamarco was formerly a partner with RSM, a global accounting firm.

The Company Secretary is responsible for ensuring that Board procedures are followed and that all applicable rules and regulations are complied with. Adrian Hargrave currently performs the role of Company Secretary, providing an advisory role to the Board. The Company Secretary is supported and guided in this role by the Company's legal advisors.

The Directors have access to the Company's CFO, NOMAD, Company Secretary, lawyers and auditors as and when required and are able to obtain advice from other external bodies when necessary.

## Board Performance and Effectiveness

The performance and effectiveness of the Board, its committees and individual Directors is reviewed by the Chairman and the Board an ongoing basis. Training is available should a Director request it, or if the Chairman feels it is necessary. The performance of the Board is measured by the Chairman and Michael Reisman, one of the non-executive directors, with reference to the Company's achievement of its strategic goals.

## Risk Management

The Directors recognise their responsibility for the Group's system of internal control and have established systems to ensure that an appropriate and reasonable level of oversight and control is provided. The Group's systems of internal control are designed to help the Group meet its business objectives by appropriately managing, rather than eliminating, the risks to those objectives. The controls can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Executive Chairman with the assistance of the Company Secretary and the Chief Financial Officer manages a risk register for the Group that identifies key risks in the areas of corporate strategy, financial, clients, staff, environmental and the investment community. The Governance Committee of the Board are provided with a copy of the register. The register is reviewed periodically and is updated as and when necessary.

Within the scope of the annual audit, specific financial risks are also evaluated in detail, including in relation to foreign currency, interest rates, debt covenants, taxation and liquidity.

The annual budget is reviewed and approved by the Board. Financial results, with comparisons to budget and latest forecasts are reported on a monthly basis to the Board together with a report on operational achievements, objectives and issues encountered. Significant variances from plan are discussed at Board meetings and actions set in place to address them.

Approval levels for authorisation of expenditure are at set levels throughout the management structure with any expenditure in excess of pre-defined levels requiring approval from the Executive Chairman and the Chief Financial Officer.

Measures continue to be taken to review and embed internal controls and risk management procedures into the business processes of the organisation and to deal with areas of improvement which come to the management's and the Board's attention. We expect the internal controls for the business to change as the business expands both geographically and in terms of product development.

The Company's auditors are encouraged to raise comments on internal control in their management letter following their audit, and the points raised and actions arising are monitored through to completion by the Audit Committee.

## Corporate Culture

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. There is a professional Human Resources Director.  David Silverstone is responsible at the Board level. The Human Resources Director reports directly to Mr. Silverstone. Mr. Silverstone ensures that the Group's policies are upheld and providing the necessary resources. All members of the Board have significant experience in matters of public policy.

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 an employee handbook that is provided to all employees upon starting their employment within the Group.

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.

In addition, all directors and senior employees are required to abide by the Group's share dealing code, which was updated in 2016 to reflect changes made to legislation following the introduction of the Market Abuse Regulation.

## Audit Committee Annual Review

The role of the Audit Committee is to monitor the quality of internal controls and check that the financial performance of the Group is properly assessed and reported on. It receives and reviews reports from the Chief Financial Officer, other members of management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The members of the Audit Committee are Laura Hills (Chairman) and Michael Reisman.

The Executive Chairman and Chief Financial Officer are invited to attend parts of meetings, with other senior financial managers required to attend when necessary. The external auditors attend meetings to discuss the planning and conclusions of their work and meet with the members of the Committee. The Committee is able to call for information from management and consults with the external auditors directly as required.

The objectivity and independence of the external auditors is safeguarded by reviewing the auditors' formal declarations, monitoring relationships between key audit staff and the Company and tracking the level of non-audit fees payable to the auditors.

The Committee met twice during the year, to review the 2018 annual accounts and the interim accounts to 30 June 2019. The Committee reviewed with the independent auditor its judgements as to the acceptability of the Company's accounting principles.

In particular, the Committee discussed the application of the new accounting standard, IFRS16. The Committee reviewed and discussed the auditor's comments on improvements which could be made to the internal controls. In addition, the Committee monitors the auditor firm's independence from Company management and the Company.

## Remuneration Committee Annual Review

The Remuneration Committee convenes not less than once a year and during the year it met on two occasions. The Committee comprises Michael Reisman and David Silverstone, with Michael Reisman as Chairman. The Remuneration Committee is responsible for reviewing the performance of Executive Directors and determining the remuneration and basis of service agreement. The Remuneration Committee also determines the payment of any bonuses to Executive Directors and the grant of options. Where appropriate the Committee consults the Executive Chairman regarding its proposals. No Director plays a part in any discussion regarding his or her own remuneration.

## 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 2019, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2019;
- the Group and parent company statements of financial position as at 31 December 2019;
- 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 2019 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 \$190,000 (2018: \$165,000) 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 $5,000. 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*<br>Revenue is recognised in accordance with the accounting policy set out in the financial statements. The group has a number of different revenue streams, some of which contain 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 and the nature of the service provided. | Our audit procedures consisted of:<br>Validating that revenue is recognised in accordance with the accounting policies through testing an appropriate sample of income from each revenue stream.<br>Assessing the appropriateness of the related disclosures in the financial statements. |
| *Impairment of intangible assets*<br>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. Any significant future downturn in performance or activity could also result in an impairment of these assets. | We reviewed management's assessment of the carrying value of the group's intangible assets. In considering this assessment, we evaluated:<br>• 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.<br>• Board minutes, budgets and other operational plans<br>• 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 18, 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 U.K. LLP**
Statutory Auditor
St Brides House
10 Salisbury Square
London
EC4Y 8EH
16 June 2020

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

| | Notes | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|---|
| **Revenue** | 4 | 32,363,935 | 25,466,651 |
| **Cost of sales** | | (7,448,289) | (5,669,616) |
| **Gross profit** | | 24,915,646 | 19,797,035 |
| Administrative expenses | | | |
| – Other Income | | | 48,027 |
| – Share-based payments | 7 | (176,960) | (104,652) |
| – Amortisation of intangibles | 13 | (319,041) | (327,201) |
| – Other administrative costs | | (21,723,670) | (17,450,905) |
| Total administrative expenses | | (22,219,671) | (17,834,731) |
| **Operating profit** | | 2,695,975 | 1,962,304 |
| Finance income | 8 | 61,754 | 28,003 |
| Finance expense | 9 | (400,241) | (235,957) |
| **Profit before tax** | | 2,357,488 | 1,754,350 |
| Taxation expense | 10 | (662,062) | (468,624) |
| **Profit for the year** | | 1,695,426 | 1,285,726 |
| **Attributable to:** | | | |
| Equity holders of the parent | | 1,695,033 | 1,294,701 |
| Non-controlling interests | | 393 | (8,975) |
| | | 1,695,426 | 1,285,726 |
| **Other Comprehensive Income** | | | |
| Exchange differences arising on translation of foreign operations | | (164,145) | (439,517) |
| Fair value adjustment on listed equity investment (net of deferred tax) | | 584,378 | - |
| **Total comprehensive profit for the year** | | 2,115,660 | 846,209 |

| | | | |
|---|---|---|---|
| **Attributable to:** | | | |
| Equity holders of the parent | | 2,115,267 | 855,184 |
| Non-controlling interests | | 393 | (8,975) |
| | | 2,115,660 | 846,209 |

| **Profit per share attributable to equity holders of Parent** | | **Cents** | **Cents** |
|---|---|---|---|
| Basic | 11 | 11.7 | 9.7 |
| Diluted | 11 | 11.1 | 9.1 |

The results reflected above relate to continuing activities.

The accompanying notes on pages 35 to 68 are an integral part of these financial statements.

# Consolidated Statement of Financial Position

as at 31 December 2019

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill and indefinite life intangible assets | 13 | 9,090,701 | 6,254,967 |
| Listed equity investment | 24 | 1,932,252 | - |
| Other intangible assets | 13 | 1,949,832 | 2,423,565 |
| Property, plant and equipment | 14 | 3,898,133 | 1,732,527 |
| Trade and other receivables | 17 | 605,234 | 618,005 |
| | | 17,476,152 | 11,029,064 |
| **Current assets** | | | |
| Inventories | 16 | 334,011 | 451,465 |
| Trade and other receivables | 17 | 5,036,149 | 4,211,981 |
| Cash and cash equivalents | 18 | 5,280,808 | 5,016,406 |
| | | 10,650,968 | 9,679,852 |
| **TOTAL ASSETS** | | 28,127,120 | 20,708,916 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to holders of the parent** | | | |
| Share capital | 21 | 114,440 | 101,915 |
| Share premium | 21 | 9,717,349 | 6,887,739 |
| Shares held in treasury | 21 | (539,834) | - |
| Merger reserve | | 1,001,150 | 1,001,150 |
| Share based payment reserve | | 416,700 | 239,740 |
| Foreign exchange reserve | | (907,344) | (743,198) |
| Reverse acquisition reserve | 21 | (27,758,088) | (27,758,088) |
| Equity investment reserve | | 584,378 | - |
| Retained earnings | | 34,894,649 | 33,246,277 |
| | | 17,523,400 | 12,975,535 |
| | | | |
| **Equity attributable to Non-Controlling interest** | | | |
| Non-controlling Interest | | 100,793 | 100,499 |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | 23 | 2,321,400 | 1,448,303 |
| Deferred consideration | 12 | 556,198 | 879,307 |
| Deferred tax liability | 20 | 588,684 | 316,221 |
| | | 3,466,282 | 2,643,831 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 19 | 4,596,085 | 2,550,280 |
| Borrowings | 23 | 1,163,055 | 989,736 |
| Deferred consideration | 12 | 1,277,505 | 1,449,035 |
| | | 7,036,645 | 4,989,051 |
| **TOTAL EQUITY AND LIABILITIES** | | 28,127,120 | 20,708,916 |

The financial statements of Water Intelligence plc, company number 03923150, were approved by the Board of Directors and authorised for issue on 16 June 2020. They were signed on its behalf by:

**Patrick De Souza**
*Executive Chairman*

The accompanying notes on pages 35 to 68 are an integral part of these financial statements.

# Company Statement of Financial Position

as at 31 December 2019

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 15 | 7,206,394 | 6,971,382 |
| Listed equity investment | 24 | 1,932,252 | - |
| | | 9,138,646 | 6,971,382 |
| **Current assets** | | | |
| Trade and other receivables | 17 | 5,006,073 | 4,818,232 |
| Cash and cash equivalents | 18 | 195,750 | 48,164 |
| | | 5,201,824 | 4,866,396 |
| **TOTAL ASSETS** | | 14,340,470 | 11,837,778 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to holders of the parent** | | | |
| Share capital | 21 | 114,440 | 101,915 |
| Share premium | 21 | 9,717,349 | 6,887,739 |
| Shares held in treasury | 21 | (539,834) | - |
| Merger reserve | | 1,001,150 | 1,001,150 |
| Share based payment reserve | | 416,700 | 239,740 |
| Foreign exchange reserve | | (1,870,038) | (2,013,369) |
| Equity investment reserve | | 584,378 | - |
| Retained earnings | | 4,599,878 | 5,360,880 |
| | | 14,024,022 | 11,578,055 |
| **Non-current liabilities** | | | |
| Deferred tax liability | 20 | 146,094 | - |
| | | 146,094 | - |
| **Current liabilities** | | | |
| Trade and other payables | 19 | 170,353 | 259,723 |
| | | 170,353 | 259,723 |
| **TOTAL EQUITY AND LIABILITIES** | | 14,340,470 | 11,837,778 |

The loss for the financial year in the financial statements of the parent Company was $759,209 (2018: loss $694,325), which related entirely to Plc costs.

The financial statements of Water Intelligence plc, company number 03923150, were approved by the Board of Directors and authorised for issue on 16 June 2020. They were signed on its behalf by:

**Patrick De Souza**
*Executive Chairman*

The accompanying notes on pages 35 to 68 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

| | Share Capital $ | Share Premium $ | Shares held in Treasury $ | Merger Reserve $ | Share based payment reserve $ | Foreign exchange reserve $ | Reverse Acquisition Reserve $ | Equity Investment Reserve $ | Retained (Losses)/ Earnings $ | Total $ | Non-controlling interest $ | Total Equity $ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2018** | **65,305** | **980,436** | **(210,150)** | **1,001,150** | **135,088** | **(303,681)** | **(27,758,088)** | **-** | **32,021,892** | **5,931,952** | **39,158** | **5,971,110** |
| Issue of Ordinary Shares | 36,610 | 5,907,303 | 210,150 | - | - | - | - | - | - | 6,154,064 | - | 6,154,064 |
| Purchase Non-controlling interest (NWAR) | - | - | - | - | - | - | - | - | (70,316) | (70,316) | (29,684) | (100,000) |
| Share-based payment expense | - | - | - | - | 104,652 | - | - | - | - | 104,652 | - | 104,652 |
| Capital Contribution by non-controlling interest | - | - | - | - | - | - | - | - | - | - | 100,000 | 100,000 |
| Profit for the year | - | - | - | - | - | - | - | - | 1,294,701 | 1,294,701 | (8,975) | 1,285,726 |
| Other comprehensive loss | - | - | - | - | - | (439,517) | - | - | - | (439,517) | - | (439,517) |
| **As at 31 December 2018** | **101,915** | **6,887,739** | **-** | **1,001,150** | **239,740** | **(743,198)** | **(27,758,088)** | **-** | **33,246,277** | **12,975,535** | **100,499** | **13,076,034** |
| **As at 1 January 2019** | **101,915** | **6,887,739** | **-** | **1,001,150** | **239,740** | **(743,198)** | **(27,758,088)** | **-** | **33,246,277** | **12,975,535** | **100,499** | **13,076,034** |
| IFRS 16 Adjustment | - | - | - | - | - | - | - | - | (44,869) | (44,869) | (99) | (44,968) |
| **Restated as at 1 January 2019** | **101,915** | **6,887,739** | **-** | **1,001,150** | **239,740** | **(743,198)** | **(27,758,088)** | **-** | **33,201,408** | **12,930,666** | **100,400** | **13,031,066** |
| Issue of Ordinary Shares | 11,237 | 2,714,604 | - | - | - | - | - | - | - | 2,725,841 | - | 2,725,841 |
| Options purchase | 515 | 115,006 | - | - | - | - | - | - | - | 115,521 | - | 115,521 |
| Share-based payment expense | - | - | - | - | 176,960 | - | - | - | - | 176,960 | - | 176,960 |
| Share buyback | 773 | - | (539,834) | - | - | - | - | - | (1,792) | (540,853) | - | (540,853) |
| Profit for the year | - | - | - | - | - | - | - | - | 1,695,033 | 1,695,033 | 393 | 1,695,426 |
| Other comprehensive income | - | - | - | - | - | (164,146) | - | 584,378 | - | 420,233 | - | 420,233 |
| **As at 31 December 2019** | **114,440** | **9,717,349** | **(539,834)** | **1,001,150** | **416,700** | **(907,344)** | **(27,758,088)** | **584,378** | **34,894,649** | **17,523,401** | **100,793** | **17,624,194** |

The accompanying notes on pages 35 to 68 are an integral part of these financial statements.

# Company Statement of Changes in Equity

for the year ended 31 December 2019

| | Share Capital $ | Share Premium $ | Shares held in Treasury $ | Merger Reserve $ | Share based payment reserve $ | Foreign exchange reserve $ | Equity Investment Reserve $ | Retained (Losses)/ Earnings $ | Total Equity $ |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2018** | **65,305** | **980,436** | **(210,150)** | **1,001,150** | **135,088** | **(1,472,274)** | **-** | **6,055,205** | **6,554,760** |
| Issue of Ordinary Shares | 36,610 | 5,907,303 | 210,150 | - | - | - | - | - | 6,154,063 |
| Share buyback | - | - | - | - | - | - | - | - | - |
| Share-based payment expense | - | - | - | - | 104,652 | - | - | - | 104,652 |
| Profit for the year | - | - | - | - | - | - | - | (694,325) | (694,325) |
| Other comprehensive loss | - | - | - | - | - | (541,095) | - | - | (541,095) |
| **As at 31 December 2018** | **101,915** | **6,887,739** | **-** | **1,001,150** | **239,740** | **(2,013,369)** | **-** | **5,360,880** | **11,578,055** |
| **As at 1 January 2019** | **101,915** | **6,887,739** | **-** | **1,001,150** | **239,740** | **(2,013,369)** | **-** | **5,360,880** | **11,578,055** |
| Issue of Ordinary Shares | 11,237 | 2,714,604 | - | - | - | - | - | - | 2,725,841 |
| Options purchases | 515 | 115,006 | - | - | - | - | - | - | 115,521 |
| Share-based payment expense | - | - | - | - | 176,960 | - | - | - | 176,960 |
| Share buyback | 773 | - | (539,834) | - | - | - | - | (1,792) | (540,853) |
| Profit for the year | - | - | - | - | - | - | - | (759,209) | (759,209) |
| Other comprehensive income | - | - | - | - | - | 143,331 | 584,378 | - | 727,708 |
| **As at 31 December 2019** | **114,440** | **9,717,349** | **(539,834)** | **1,001,150** | **416,700** | **(1,870,038)** | **584,378** | **4,599,878** | **14,024,022** |

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

| | |
|---|---|
| Share capital | Amount subscribed for share capital at nominal value. |
| Share premium | Amount subscribed for share capital in excess of nominal value. |
| Shares held in treasury | Amounts received for buyback of shares |
| Merger reserve | Non-distributable reserve arising on reverse acquisition. |
| Share based payment reserve | Amounts recognised for the fair value of share options granted in accordance with IFRS 2. |
| Foreign exchange reserve | Foreign exchange differences on re-translation. |
| Retained profits/(losses) | Cumulative net profits/(losses) recognised in the Financial Statements. |

The accompanying notes on pages 35 to 68 are an integral part of these financial statements.

# Consolidated Statement of Cash Flows

for the year ended 31 December 2019

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | 2,357,488 | 1,754,350 |
| Adjustments for non-cash/non-operating items: | | |
| Depreciation of plant and equipment | 1,268,463 | 355,897 |
| Amortisation of intangible assets | 319,041 | 327,201 |
| Share based payments | 176,960 | 104,652 |
| Interest paid | 400,241 | 235,957 |
| Interest received | (61,754) | (28,003) |
| **Operating cash flows before movements in working capital** | 4,460,439 | 2,750,054 |
| Decrease/(Increase) in inventories | 117,454 | (91,492) |
| Increase in trade and other receivables | (811,396) | (1,950,597) |
| (Decrease)/Increase in trade and other payables | 2,477,094 | 682,256 |
| **Cash generated by operations** | 6,243,591 | 1,390,221 |
| Income taxes | (535,693) | (267,636) |
| **Net cash generated from operating activities** | 5,707,898 | 1,122,585 |
| **Cash flows from investing activities** | | |
| Purchase of plant and equipment | (3,104,796) | (789,591) |
| Purchase of intangible assets | (200,000) | (352,574) |
| Purchase of listed equity investment | (1,201,780) | - |
| Acquisition of subsidiaries | (741,130) | (330,174) |
| Reacquisition of franchises | (2,480,417) | (1,762,917) |
| Interest received | 61,754 | 28,003 |
| **Net cash used in investing activities** | (7,666,369) | (3,207,253) |
| **Cash flows from financing activities** | | |
| Issue of ordinary share capital | 11,237 | 36,610 |
| Premium on issue of ordinary share capital | 2,714,604 | 5,907,302 |
| Share buyback | (540,853) | 210,150 |
| Options exercised | 115,521 | |
| Interest paid | (400,241) | (235,957) |
| Proceeds from borrowings | 1,854,936 | 926,472 |
| Repayment of borrowings | (808,520) | (518,270) |
| Repayment of lease liabilities | (723,812) | - |
| **Net cash (used by)/generated from financing activities** | 2,222,873 | 6,326,307 |
| **Net increase in cash and cash equivalents** | 264,402 | 4,241,639 |
| **Cash and cash equivalents at the beginning of year** | 5,016,406 | 774,767 |
| **Cash and cash equivalents at end of year** | 5,280,808 | 5,016,406 |

The accompanying notes on pages 35 to 68 are an integral part of these financial statements

# Company Statement of Cash Flows

for the year ended 31 December 2019

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before tax | (759,209) | (694,325) |
| Adjustments for non-cash/non-operating items: | | |
| Share based payment expense | 176,960 | 104,652 |
| **Operating cash flows before movements in working capital** | (582,249) | (589,673) |
| Increase in trade and other receivables | (187,842) | (3,067,445) |
| Decrease in trade and other payables | (181,053) | (2,448,857) |
| **Cash used by operations** | (951,144) | .(6,105,975) |
| Income taxes | - | - |
| **Net cash used by operating activities** | (951,144) | (6,105,975) |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of listed equity investment | (1,201,780) | - |
| **Net cash used in investing activities** | (1,201,780) | - |
| | | |
| **Cash flows from financing activities** | | |
| Issue of ordinary share capital | 11,237 | 36,610 |
| Premium on issue of ordinary share capital | 2,714,604 | 5,907,303 |
| Share buyback | (540,853) | 210,150 |
| Options exercised | 115,521 | - |
| **Net cash (used by)/generated from financing activities** | 2,300,508 | 6,154,063 |
| | | |
| **Increase in cash and cash equivalents** | 147,585 | 48,088 |
| **Cash and cash equivalents at the beginning of period** | 48,164 | 76 |
| **Cash and cash equivalents at end of period** | 195,750 | 48,164 |

The accompanying notes on pages 35 to 66 are an integral part of these 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 and repair solutions (services and products) for residential, commercial and municipal customers.

The Company is a public limited company limited by shares. Domiciled in the United Kingdom and incorporated under registered number 03923150 in England and Wales. The Company's registered office is 27-28 Eastcastle Street, London W1W 8DH.

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 June 2020..

## 2 Adoption of a new International Financial Reporting Standards

Commencing 1 January 2019, the Group and Company adopted IFRS 16, replacing IAS 17, in respect of its treatment of operating leases. On implementation of IFRS 16, the Group recognizes a right of use asset and corresponding liability in respect of its current lease obligations.

| | |
|---|---|
| Right of use asset | 2,415,643 |
| Accumulated Depreciation | (1,059,607) |
| Net Asset | 1,356,036 |
| Lease Liability | 1,427,080 |
| Retained Earnings | (44,968) |
| Deferred Rent/Taxes | (26,076) |

During 2019, $736,880 was recorded as interest and depreciation expense in regards to operating leases. Prior to the adoption of IFRS 16, this would have been recorded as rent expense in the amount of $723,812

## 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 June 2021. 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 on a mixture of cash generation by its profitable US-based, ALD business and its existing cash position, as well as available banking facilities. 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.

With respect to the Covid-19 pandemic of 2020, the Group has reviewed all applicable Shelter-in-Place Orders and have determined that our operations qualify as essential/critical infrastructure and that we are able to continue to operate under those Orders. Our service technicians are essential to the minimum basic operations of our business. All non-essential personnel have been notified to work remotely until further notice. Employees who are critical to the minimum basic operations of the business have been instructed to comply with social distancing rules/requirements in their jurisdictions, as well as other safety and health precautions. In view of the forgoing, operations may not be optimal, but management does not feel that there are any Going Concern issues concerning COVID-19 at the time of publication.

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 2019. 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 Group (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 2019 is $759,209 (2018: $624,009).

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

**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.

***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

***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.

***(ii) 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 other comprehensive income.

**Leases**

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right of use lease is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the useful life of the right-of-use asset or the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted using the Group incremental borrowing rate.

**Revenue recognition**

IFRS 15 (Revenue from Contracts with Customers) came into effect on 1 January 2018 replacing IAS 18 Revenue and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

**Nature of the Business**

Water Intelligence plc operates through two wholly-owned subsidiaries: American Leak Detection (ALD) and Water Intelligence International (WII). Both subsidiaries provide precision water leak detection and repair services. The services that are performed for various customers are discrete activities - locating a water leak or fixing a leak. The services are not bundled. Each service has a price established in a rate book. Depending on customer preference, a service technician may stop after locating the leak. The customer would pay a fee for that service. Or following the leak detection service, the technician may also provide repair services for separate fee depending on what is contracted for by the customer. Service jobs are typically short in duration, usually 1-2 hours for a leak detection service. ALD delivers these services through corporate locations and franchise locations across the United States and in Canada and Australia. WII operates outside the United States and delivers services only through corporate locations.

**Customers and Sources of Revenue**

**Residential**. Both ALD and WII provide services to residential customers. Service technicians, whether from franchise-operated locations or corporate-operated locations, provide services to homeowners. When the service is delivered, the homeowner is invoiced immediately upon completion of the service. The price of the service is a fixed call-out charge for the technician to come to the house and an hourly charge based on the time it takes to find the leak. Revenue is recognized upon completion of the service.

**Business-to-Business**. ALD has written national contracts with nationwide insurance companies. The insurance company, as ALD’s customer, receives claims from homeowners or property management for water-related damage. The insurance company contracts directly with ALD headquarters. ALD headquarters, as the principal, takes liability risk for performance of the service jobs and for providing to insurance companies certain management services. A national price book is established as part of the national contract. After the leak detection service is performed, report from ALD headquarters is delivered to the insurance company and the insurance company is also invoiced for the job. Service is deemed complete upon delivery of the report and invoice. Revenue is recognized upon delivery of the report and invoice.

**Municipal**. WII headquarters or ALD headquarters will contract with a municipality to provide leak detection services. Such leak detection services largely consist of surveying kilometers of pipe. During such surveys, a designated distance is covered each day with a daily rate per technician per kilometer covered. A report is prepared for the municipality weekly. When the report is delivered, the service is deemed complete with respect to the distance covered. The municipality will be billed for the week’s work when the report is conveyed. Revenue is recognized upon the delivery of the report.

**Franchise Sales, Equipment and On-going Royalty Payments**. ALD is a franchisor and leak detection services are delivered not only by corporate-operated locations but also by ALD's franchise System. Franchisees are independently owned and operated.

The franchise System has the following characteristics for revenue recognition. ALD sells franchises to third parties. A franchise is an exclusive territory in which a franchisee is authorized to deliver ALD services, mainly leak detection and repair. ALD headquarters provides training and advice to support the delivery of services by franchisees.

The franchise sale is documented by means of a ten-year license agreement that is renewable for ten-year increments based on certain conditions derived from franchisee performance. The agreement has three main components. First, the agreement provides for the payment of an upfront fee in exchange for the exclusive territory and training. The upfront fee is non-refundable. ALD revenue is recognized with respect to most of the upfront fee at the Closing of the franchise sale. The remaining portion of the upfront fee is recognized as revenue over time using a straight-line method to reflect the delivery of franchisor services over the ten-year period. Second, the franchise agreement provides that the franchisee may purchase proprietary equipment from ALD and more general equipment from ALD-approved third parties. There is a price book. ALD revenue is recognized upon the delivery of equipment to franchisees and an invoice for the equipment. Third, in accordance with the franchise license agreement, each franchise pays a royalty fee to ALD each month based on a percentage of the franchisee's gross sales for that month. Each month, a franchise files a royalty report and pays the royalty amount. ALD revenue is recognized upon the receipt of the royalty report.

In respect of the sale of franchise territories, the Group will monitor on an ongoing basis the correct apportionment for each such sale between recognition of upfront fees and fees which are deferred over the length of the franchise agreement. This year such sales were not a material part of the Group's revenue or income.

**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.

***Loans and receivables***

Trade receivables, loans, and other receivables held with the objective to collect the contractual cash flows are classified as subsequently measured at amortised cost. These are initially measured at fair value plus transaction costs. At each period end, there is an assessment of the expected credit loss in accordance with IFRS 9, with any increase or reduction in the credit loss provision charged or released to other selling and administrative expenses in the statement of comprehensive income. IFRS 9 was adopted as at 1 January 2018 and as permitted the prior year actuals comparatives were not restated.

***Cash and cash equivalents***

Cash and cash equivalents 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***

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group always recognises lifetime expected credit losses ("ECL") for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

***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 reporting 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.

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 estimated definite useful lives of the assets as follows:

| | Years |
|---|---|
| Covenants not to compete | 1-3 |
| Customer lists | 5 |
| Trademarks | 20 |
| Patents | 10 |
| Product development | 3 |

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.

**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 recognized 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 (see note 12), carrying value of the goodwill, the carrying value of the other intangibles (see note 13) and the carrying value of the investments. 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, business-to-business sales and sales of franchises), (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 especially Canada and Australia. No single customer accounts for more than 10% of the Group's total external revenue.

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

| **Revenue** | **Year ended 31 December 2019 $** | **Year ended 31 December 2018 $** |
|---|---|---|
| Franchise royalty income | 6,499,045 | 6,264,839 |
| Franchise related activities | 8,049,570 | 6,153,652 |
| US corporate operated locations | 14,446,286 | 10,140,892 |
| International corporate operated locations | 3,369,034 | 2,907,268 |
| **Total** | 32,363,935 | 25,466,651 |

# Notes to the Financial Statements

| Profit/(Loss) before tax | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Franchise royalty income | 1,603,149 | 1,447,989 |
| Franchise related activities | 601,281 | 484,036 |
| US corporate operated locations | 2,025,095 | 1,213,304 |
| International corporate operated locations | 226,215 | 31,219 |
| Unallocated head office costs | (1,605,252) | (1,135,435) |
| Non-core costs | (493,000) | (286,762) |
| **Total** | 2,357,488 | 1,754,350 |

| Assets | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Franchise royalty income | 9,412,402 | 8,946,370 |
| Franchise related activities | 1,862,887 | 1,764,171 |
| US corporate operated locations | 11,772,004 | 7,648,032 |
| International corporate operated locations | 5,079,827 | 2,350,344 |
| **Total** | 28,127,120 | 20,708,917 |

| Amortization | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| US corporate operated locations | 291,692 | 298,357 |
| International corporate operated locations | 27,350 | 28,844 |
| **Total** | 319,042 | 327,201 |

| Depreciation | Note | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|---|
| Franchise royalty income | | - | - |
| Franchise related activities | | - | - |
| US corporate operated locations | 2 | 1,092,312 | 278,884 |
| International corporate operated locations | | 176,151 | 77,013 |
| **Total** | | 1,268,463 | 355,897 |

| Finance Expense | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| US corporate operated locations | 81,608 | - |
| International corporate activities | 995 | 40 |
| Unallocated head office costs | 317,638 | 235,916 |
| **Total** | 400,241 | 235,957 |

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 US franchise-operated and corporate-operated locations and international franchises in Australia and Canada. Meanwhile, WII has corporate-operated activities outside the US. We may also regroup the same information into US and Outside the US to capture the Group's effort to be multinational company. As indicated herein, the Group has had strong balanced growth in the US and abroad and across ALD and WII. Between 2019 and 2018, Outside the US sales have grown 13% to $3.5 million (2018:$3.1 million). Sales in the US have grown 29% to $28.9 million (2018: $22.4 million). The percentage of International sales to Total sales has remained relatively constant at 11% (2018: 12%).

***Total Revenue***

| | Year ended 31 December 2019 | | | Year ended 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | US $ | International $ | Total $ | US $ | International $ | Total $ |
| Franchise royalty income | 6,355,811 | 143,234 | 6,499,045 | 6,087,083 | 177,756 | 6,264,839 |
| Franchise related activities | 8,049,570 | - | 8,049,570 | 6,153,652 | - | 6,153,652 |
| Corporate owned Stores | 14,446,286 | - | 14,446,286 | 10,140,892 | - | 10,140,892 |
| International corporate | - | 3,369,034 | 3,369,034 | - | 2,907,268 | 2,907,268 |
| **Total** | 28,851,667 | 3,512,268 | 32,363,935 | 22,381,627 | 3,085,024 | 25,466,651 |

## 5 Expenses by nature

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

| | Note | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|---|
| Raw materials and consumables used | | 820,885 | 661,264 |
| Employee costs | 6 | 12,965,317 | 9,579,521 |
| Operating lease rentals | 2 | 70,038 | 707,490 |
| Depreciation charge | 2 | 1,268,463 | 355,897 |
| Amortization charge | | 319,042 | 327,201 |
| Marketing costs | | 224,297 | 243,799 |
| R & D | | 10,152 | 4,285 |
| Foreign exchange (gain)/loss | | (34,805) | 5,131 |

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| **Auditors remuneration** | | |
| Fees payable to the Company's auditor for audit of Parent Company and Consolidated Financial Statements | 51,000 | 41,545 |
| Fees payables to the Company's auditor for other services (assurance related services) | - | - |

The Group auditors are not the auditors of the US subsidiary companies. The fees paid to the auditor of the US subsidiary companies were $121,009 (2018: $100,910) for the audit of these companies and $24,260 (2018: $48,582) 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 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| *Short-Term employee benefits* | | |
| Directors fees, salaries and benefits | 659,596 | 687,872 |
| Wages and Salaries | 11,392,014 | 8,203,268 |
| Social Security Costs | 736,748 | 583,729 |
| *Long-Term employee benefits* | | |
| Share based payments | 176,960 | 104,652 |
| | 12,965,317 | 9,579,521 |

Information regarding Directors emoluments are as follows:

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| *Short-Term employee benefits* | | |
| Directors' fees, salaries and benefits | 659,596 | 687,872 |
| Social Security Costs | 20,034 | 17,892 |
| | 679,630 | 705,764 |

The highest paid Director received emoluments of $537,380 (2018: $501,872).

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

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Directors (executive and non-executive) | 5 | 5 |
| Management | 23 | 22 |
| Field Services | 132 | 106 |
| Franchise Support | 22 | 20 |
| Administration | 34 | 20 |
| | 216 | 173 |

## 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 2019 | Weighted average exercise price ($) 2019 | Number of share options 2018 | Weighted average exercise price (£) 2018 |
|---|---|---|---|---|
| Outstanding at beginning of year | 1,535,000 | 1.43 | 1,685,000 | 1.02 |
| Granted during the year | 525,000 | 6.08 | 160,000 | 3.36 |
| Forfeited/lapsed during the year | (160,000) | 1.40 | - | - |
| Exercised during the year | (450,000) | 1.21 | (310,000) | 0.86 |
| Outstanding at end of the year | 1,450,000 | 3.01 | 1,535,000 | 1.43 |
| Exercisable at end of the year | 765,000 | 1.52 | 1,375,000 | 1.08 |

***Fair value of share options***

During the year, the Group granted 525,000 Share Options to certain Employees, with exercise prices ranging from of £3.48 to £4.75 ($4.59 to $6.24).

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 78.21p to 109.69p. This is based on risk-free rates of 0.84% and volatility of 59%.

The Black Scholes calculations for the options granted during the year resulted in a charge of $176,960 (2018: $104,652) which has been expensed in the year. As the options granted prior to 2016 had no vesting period, none of the charge expensed in 2018 related to options granted prior to 2016.

The weighted average remaining contractual life of the share options as at 31 December 2019 was 6.95 years (2018: 6.68 years).

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

| Grant | At report date | 2019 | 2018 | Date of Grant | Exercise price | Exercise period From | To |
|---|---|---|---|---|---|---|---|
| ALDHC Plan (1) | 142,500 | 142,500 | 317,500 | 01/12/2013 | $1.14 | 01/12/2013 | 01/12/2023 |
| 2013 Directors (2) | 100,000 | 100,000 | 250,000 | 01/08/2013 | $1.30 | 01/08/2013 | 01/08/2023 |
| 2015 Options (3) | 177,500 | 177,500 | 177,500 | 08/06/2015 | $0.67 | 08/06/2015 | 08/06/2025 |
| 2016 Directors (4) | 100,000 | 100,000 | 200,000 | 13/06/2016 | $1.26 | 13/06/2016 | 13/06/2026 |
| 2016 Employee (5) | 70,000 | 95,000 | 220,000 | 19/12/2016 | $1.24 | 19/12/2019 | 19/12/2026 |
| 2016 Employee (5) | 150,000 | 150,000 | 210,000 | 19/12/2016 | $1.56 | 19/12/2019 | 19/12/2026 |
| 2018 Acquisition (6) | 135,000 | 135,000 | 135,000 | 06/03/2018 | $3.15 | 06/03/2021 | 06/03/2028 |
| 2018 Acquisition (7) | 25,000 | 25,000 | 25,000 | 08/10/2018 | $4.52 | 08/10/2021 | 08/10/2028 |
| 2019 Employee (8) | 475,000 | 475,000 | - | 04/04/2019 | $6.24 | 04/04/2023 | 04/04/2029 |
| 2019 Acquisition (9) | 50,000 | 50,000 | - | 04/04/2019 | $4.59 | 04/04/2023 | 04/04/2029 |
| **Total** | **1,425,000** | **1,450,000** | **1,535,000** | | | | |

All share options are equity settled on exercise. The amounts at the Report Date reflect all share options that have been either exercised or forfeited.

(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 New Ordinary Shares with an exercise price of $1.14 per share.

(2) Each member of the Board received an option to purchase 50,000 New Ordinary Shares. The Director options have an exercise price of $1.30 per share or 67% above the highest share price for 2013.

(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.

(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. 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 personal guarantee of the loan with Liberty Bank in 2015.

(5) On 19 December 2016, certain employees were granted options 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. These options have a three-year vesting requirement.

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

(7) On 8 October 2018, certain vendors, retained as employees, were granted an option to purchase 25,000 New Ordinary Shares at a price of $4.52 pursuant to the acquisition of the territories around Portland, Oregon from a franchise. These options have a three-year vesting requirement.

(8) On 4 April 2019, certain employees were granted options to purchase 475,000 New Ordinary Shares at a price of $6.24. These options have a four-year vesting requirement.

(9) On 4 April 2019, certain vendors, retained as employees, were granted options to purchase 50,000 New Ordinary Shares at a price of $4.59 pursuant to the acquisition of franchises acquired in 2019. These options have a four-year vesting requirement.

Patrick DeSouza received (i) 600,000 Partly Paid Shares at an exercise price of $1.07 during 2016, (ii) 750,000 Partly Paid Shares at an exercise price of $2.71 in March 2018 and (iii) 850,000 Partly Paid Shares at an exercise price of $4.82, in May 2019 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 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Interest income | 61,754 | 28,003 |

## 9 Finance expense

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Interest expense | 400,241 | 235,957 |

## 10 Taxation

| **Group** | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Current tax: | | |
| Current tax on profits in the year | 535,692 | 267,636 |
| Prior year over provision | - | - |
| **Total current tax** | 535,692 | 267,636 |
| Deferred tax current year | 126,369 | 200,988 |
| Deferred tax prior year | - | - |
| **Deferred tax (credit)/expense** (note 20) | 126,369 | 200,988 |
| **Income tax expense** | 662,061 | 468,624 |

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 | 2,357,488 | 1,754,350 |
| Tax calculated at domestic rate applicable profits in respective countries (2019: 31.6% versus 2018: 26.7%) | 446,277 | 366,568 |
| Tax effects of: | | |
| Non-deductible expenses | 11,528 | 19,737 |
| GILTI Inclusion | 22,548 | |
| Other tax adjustments, reliefs and transfers | 38,314 | 11,946 |
| State taxes net of federal benefit | 110,772 | 69,988 |
| Adjustment in respect of prior year | 30,586 | (6,925) |
| Changes in rates | 2,036 | 7,310 |
| Taxation expense recognized in income statement | 662,061 | 468,624 |

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.

As also set forth, in Note 20, at the balance sheet date, the Group's UK trading operations had unused tax losses of £3,635,579 (2018: £4,276,906) available for offset against future profits. £690,760 (2018: £727,074) represents unrecognized deferred tax assets thereon at 19%. The deferred tax asset has not been recognized due to uncertainty over timing of utilization.

The effective rate for tax for 2019 is 31.6% (2018: 26.7%). It is anticipated that the Group will use this effective tax rate of 31.6% going forward.

## 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 2019** | **Year ended 31 December 2018** |
|---|---|---|
| Profit for the year attributable to equity holders of the Parent ($) | 1,695,033 | 1,294,701 |
| Weighted average number of ordinary shares | 14,426,694 | 13,401,624 |
| Diluted weighted average number of ordinary shares | 15,244,422 | 14,304,790 |
| **Profit per share (cents)** | 11.7 | 9.7 |
| **Diluted profit per share (cents)** | 11.1 | 9.1 |

## 12 Acquisitions

These can be summarised as follows:

On 5 February 2019, the Company announced a series of corporate activity, including the acquisition of Ontario (Niagara) franchise, expanding the Group's corporate presence into Canada and upstate New York;

On 7 March 2019, the Company announced the acquisition of its South Atlanta and Southern Georgia franchise. This territory will be used to create a regional corporate presence to help accelerate development of Southeastern franchises.

On 28 March 2019, the Company announced the acquisition of its Orlando, Florida franchise. The acquisition enables the Group to set up another regional office in Florida to support the growth of the ALD business throughout the southeast United States.

On 13 June 2019, the Company announced the reacquisition of its Tucson, Arizona franchise ("Tucson") within the Group's American Leak Detection subsidiary ("ALD"). The demographics and economy of Tucson are fast growing and a prime area for accelerated growth for both the Group's American Leak Detection and Water Intelligence International businesses. Water issues are proliferating throughout the southwest of the United States.

On 8 July 2019, the Company acquired territory (Halton) from ALD's Toronto franchise. The Toronto franchise will continue to execute its franchise operation with its remaining territory. The acquisition of territory provides ALD's new corporate location in Ontario (reacquisition of Ontario franchise in February 2019) more scope to grow.

| | **Ontario Canada** | **Atlanta** | **Orlando** | **Tucson** | **Halton Canada** | **Adjust-ments** | **Totals** |
|---|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| **Fair value of assets and liabilities acquired** | | | | | | | |
| Equipment | 53,170 | | 27,800 | 30,200 | | | 111,170 |
| Vehicles | 57,378 | | 46,300 | 34,500 | | | 138,178 |
| Other | 136,465 | | | | | | 136,465 |
| Net assets acquired | 247,013 | | 74,100 | 64,700 | | | 385,813 |
| **Consideration** | | | | | | | |
| Cash | 665,130 | 250,000 | 673,000 | 160,000 | 227,751 | | 1,975,881 |
| Note payable | 76,000 | 125,000 | 471,698 | 540,000 | | 32,968 | 1,245,666 |
| Total consideration | 741,130 | 375,000 | 1,144,698 | 700,000 | 227,751 | 32,968 | 3,221,547 |
| Intangible assets arising on acquisition (see note 13) | 494,117 | 375,000 | 1,070,598 | 635,300 | 227,751 | 32,968 | 2,835,734 |

The intangible assets arising on the above acquisitions of $2,835,734 is included in additions to goodwill and indefinite life intangible assets for owned & operated stores (see note 13).

Following acquisitions all Franchises are classed as one cash generating unit therefore cannot separately disclose revenue and profit for each individual franchise.

The amount of deferred consideration for 2019 acquisitions as well as the remaining deferred consideration for acquisitions made in 2015, 2016, 2017, 2018 and 2019 (after discounting anticipated cash flows to evaluate the fair value), can be summarized as follows:

| **Current** | **Year acquired** | **Year ended 31 December 2019 $** | **Year ended 31 December 2018 $** |
|---|---|---|---|
| T&M Tech LLC (South Michigan franchise) | 2015 | 75,473 | 74,282 |
| Cincinnati | 2016 | 56,604 | 55,712 |
| Sydney | 2016 | | 55,631 |
| Indianapolis | 2017 | | 102,073 |
| Kentucky | 2018 | 557,816 | 523,745 |
| South Florida | 2018 | 23,480 | 22,116 |
| Portland | 2018 | | 615,476 |
| Orlando | 2019 | 471,698 | |
| Tucson | 2019 | 92,434 | |
| Total current deferred consideration | | 1,277,505 | 1,449,035 |

| **Non-Current** | **Year acquired** | **Year ended 31 December 2019 $** | **Year ended 31 December 2018 $** |
|---|---|---|---|
| T&M Tech LLC (South Michigan franchise) | 2015 | | 72,389 |
| Cincinnati | 2016 | | 54,292 |
| Kentucky | 2018 | | 560,313 |
| South Florida | 2018 | 168,834 | 192,313 |
| Tucson | 2019 | 387,364 | |
| Total non-current deferred consideration | | 556,198 | 879,307 |

## 13 Intangible assets

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.

### Goodwill and other indefinite life intangible assets

| Group | Goodwill Acquisitions | Owned & Operated stores | Goodwill on franchisor activities | Totals |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Cost** | | | | |
| At 1 January 2018 | 2,325,109 | 1,911,415 | 636,711 | 4,873,235 |
| Additions (see note 12) | 220,025 | 2,742,936 | - | 2,962,961 |
| **At 31 December 2018** | 2,545,134 | 4,654,351 | 636,711 | 7,836,196 |
| Additions (see note 12) | 494,117 | 2,341,617 | - | 2,835,734 |
| **At 31 December 2019** | 3,039,251 | 6,995,968 | 636,711 | 10,671,930 |
| **Impairment** | | | | |
| At 1 January 2018 | 1,493,729 | 75,000 | - | 1,568,729 |
| Impairment in year | 12,500 | - | - | 12,500 |
| **At 31 December 2018** | 1,506,229 | 75,000 | - | 1,581,229 |
| Impairment in year | | - | - | |
| **At 31 December 2019** | 1,506,229 | 75,000 | - | 1,581,229 |
| **Carrying amount** | | | | |
| At 31 December 2018 | 1,038,905 | 4,579,351 | 636,711 | 6,254,967 |
| **At 31 December 2019** | 1,533,022 | 6,920,968 | 636,711 | 9,090,701 |

The increase in carrying value of Goodwill Acquisitions at 31 December 2019 relate to goodwill additions arising on the acquisition outlined in Note 12 above during 2019.

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, 2017, 2018 and 2019. Details on additions in 2019 can be found in note 12 above.

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 2019, 2018, 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.

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 on Acquisitions 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 2019 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 material impairment charge being required in 2019 (2018: $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 2018 | 164,880 | 290,000 | 350,357 | 5,293,817 | 23,692 | 90,000 | 107,000 | 6,319,746 |
| Additions | - | - | - | - | - | | 350,471 | 350,471 |
| **At 31 December 2018** | 164,880 | 290,000 | 350,357 | 5,293,817 | 23,692 | 90,000 | 457,471 | 6,670,217 |
| Additions | - | 200,000 | - | - | - | - | - | 200,000 |
| Disposals | - | - | - | - | - | - | (355,471) | (355,471) |
| **At 31 December 2019** | 164,880 | 490,000 | 350,357 | 5,293,817 | 23,692 | 90,000 | 102,000 | 6,514,746 |
| **Accumulated amortisation** | | | | | | | | |
| At 1 January 2018 | 164,880 | 283,334 | 270,472 | 3,156,676 | 23,692 | 22,500 | - | 3,921,554 |
| Amortisation expense | - | 6,666 | 28,844 | 261,691 | - | 30,000 | - | 327,201 |
| Exchange differences | - | - | (2,103) | - | - | - | - | (2,103) |
| **At 31 December 2018** | 164,880 | 290,000 | 297,213 | 3,418,367 | 23,692 | 52,500 | - | 4,246,652 |
| Amortisation expense | - | | 27,350 | 261,691 | - | 30,000 | - | 319,041 |
| Exchange differences | - | - | (779) | - | - | - | - | (779) |
| **At 31 December 2019** | 164,880 | 290,000 | 323,784 | 3,680,058 | 23,692 | 82,500 | - | 4,564,914 |
| **Carrying amount** | | | | | | | | |
| At 31 December 2018 | - | | 53,144 | 1,875,450 | - | 37,500 | 457,471 | 2,423,565 |
| **At 31 December 2019** | - | 200,000 | 26,573 | 1,613,759 | - | 7,500 | 102,000 | 1,949,832 |

All intangible assets have been acquired by the Group.

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.

## 14 Property, plant and equipment

| | Equipment & displays $ | Motor Vehicles $ | Leasehold Improvements $ | Buildings $ | Right of Use Vehicles $ | Right of Use Offices $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2018 | 713,862 | 311,457 | 15,000 | - | - | - | 1,040,319 |
| Acquired on acquisition of subsidiary | 50,875 | 71,774 | - | - | - | - | 122,649 |
| Additions | 666,251 | 542,711 | - | - | - | - | 1,208,962 |
| Exchange differences | (1,881) | (8,382) | - | - | - | - | (10,263) |
| Disposals | (703) | - | - | - | - | - | (703) |
| **At 31 December 2018** | **1,428,404** | **917,560** | **15,000** | **-** | **-** | **-** | **2,360,964** |
| Acquired on acquisition of subsidiary | 163,116 | 113,302 | - | 152,009 | - | - | 428,426 |
| Additions | 488,163 | 513,283 | 68,672 | - | 357,458 | 533,652 | 1,961,228 |
| IFRS 16 Adoption | - | - | - | - | 1,092,582 | 1,323,060 | 2,415,643 |
| Exchange differences | 4,682 | 1,848 | - | 1,382 | - | - | 7,912 |
| Disposals | (107,805) | (107,415) | - | - | (55,786) | (373,762) | (644,768) |
| **At 31 December 2019** | **1,976,560** | **1,438,578** | **83,672** | **153,391** | **1,394,255** | **1,482,950** | **6,529,404** |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2018 | 201,242 | 75,936 | 682 | - | - | - | 277,860 |
| Eliminated on disposals | (703) | - | - | - | - | - | (703) |
| Depreciation expense | 220,609 | 133,924 | 1,364 | - | - | - | 355,897 |
| Exchange differences | (537) | (4,079) | - | - | - | - | (4,616) |
| **At 31 December 2018** | **420,611** | **205,781** | **2,046** | **-** | **-** | **-** | **628,437** |
| Acquired on acquisition of subsidiary | 109,945 | 55,924 | - | 27,116 | - | - | 192,985 |
| Eliminated on disposals | (35,915) | (54,216) | - | - | (55,786) | (373,762) | (519,679) |
| IFRS 16 Adoption | - | - | - | - | 396,350 | 663,257 | 1,059,457 |
| Depreciation expense | 325,759 | 269,482 | 5,942 | 10,947 | 284,712 | 371,621 | 1,268,463 |
| Exchange differences | 955 | 495 | - | 9 | - | - | 1,458 |
| **At 31 December 2019** | **821,355** | **477,466** | **7,988** | **38,072** | **625,276** | **661,116** | **2,631,272** |
| **Carrying amount** | | | | | | | |
| At 31 December 2018 | 1,007,793 | 711,779 | 12,954 | - | - | - | 1,732,527 |
| **At 31 December 2019** | **1,155,204** | **961,112** | **75,684** | **115,319** | **768,978** | **821,835** | **3,898,132** |

The value of the assets charged as security for the bank debt is $1,426,896 (2018: $1,234,492).

## 15 Investment in subsidiary undertakings

| Company | Subsidiary Undertakings $ |
|---|---|
| **Cost** | |
| At 31 December 2018 | 13,372,288 |
| Exchange difference | 235,012 |
| **At 31 December 2019** | 13,607,300 |
| **Impairment** | |
| At 31 December 2018 | 6,400,906 |
| Exchange difference | - |
| **At 31 December 2019** | 6,400,906 |
| **Carrying amount** | |
| At 31 December 2018 | 6,971,382 |
| **At 31 December 2019** | 7,206,394 |

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) | 27-28 Eastcastle Street, London, United Kingdom, W1W 8DH | 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 US | US | 100% |
| American Leak Detection, Inc. (leak detection product and services) | 199 Whitney Avenue, New Haven, Connecticut 06511 US | US | 100% |
| Canadian Leak Detection, Inc. | 8-4696 Bartlette Rd. Beamsville, Ontario L0R 1B1 | Canada | 100% |
| Qonnectis Group Limited (dormant) | 27-28 Eastcastle Street, London, United Kingdom, W1W 8DH | England and Wales | |
| NRW Utilities Limited (Dormant) | 27-28 Eastcastle Street, London, United Kingdom, W1W 8DH | England and Wales | |

* Subsidiaries owned directly by the Parent Company. These subsidiaries – WII and ALDHC – represent the two principal business lines of the Parent Company. Water Intelligence Australia and American Leak Detection are also wholly-owned by the two principal subsidiaries and indirectly owned by the Parent.

The Company's strategy involves acquisitions, especially of franchisees. American Leak Detection has reacquired one franchise, Bakersfield on 15 March 2018, by purchasing 100% upfront and at the same time sold 40% of the franchise. American Leak Detection has an unrestricted option to acquire the remaining 40% at a pre-set price at any time in the future.

## 16 Inventories

| | Group | |
|---|---|---|
| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
| Group Inventories | 334,011 | 451,465 |

During the year ended 31 December 2019, an expense of $7,448,287 (2018: $5,446,010) was recognized in the Consolidated Statement of Comprehensive Income, including business to business expenses of $6,747,495 (2018: $4,806,466). There has been no write down of inventories during 2019.

## 17 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
| Trade notes receivable | 605,234 | 618,005 | - | - |

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

| | Group | | Company | |
|---|---|---|---|---|
| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
| Trade receivables | 2,796,536 | 2,209,382 | - | - |
| Prepayments | 659,539 | 697,123 | 16,393 | 4,735 |
| Due from Group undertakings | - | - | 4,906,216 | 4,660,040 |
| Accrued royalties receivable | 584,876 | 520,478 | - | - |
| Trade notes receivable | 223,706 | 191,988 | - | - |
| Other receivables | 389,701 | 357,487 | | 123,540 |
| Due from related party | 370,284 | 235,523 | 71,956 | 29,917 |
| **Current portion** | 5,024,642 | 4,211,982 | 4,994,565 | 4,818,232 |

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.

Accrued royalties receivable are never reclassified to trade receivables as, should any royalties be withheld or unpaid, the Group has the right to take back the relevant franchise.

The average credit period taken on sales is 39 days (2018: 39 days).

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

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| US Dollar | 4,133,093 | 3,534,868 |
| UK Pound | 647,220 | 558,450 |
| Australian Dollar | 208,592 | 118,663 |
| Canadian Dollar | 35,735 | |
| | 5,024,641 | 4,211,981 |

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 2019 $ | Year ended 31 December 2018 $ | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
| Cash at bank and in hand | 5,280,808 | 5,016,406 | 195,750 | 48,164 |

## 19 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
| Trade payables | 993,240 | 1,350,941 | 52,627 | 146,878 |
| Accruals and other payables (Note 2) | 3,602,845 | 1,199,339 | 117,725 | 112,845 |
| Due to Group undertakings | - | - | - | |
| | 4,596,085 | 2,550,280 | 170,353 | 259,723 |

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 (2018:16 days).

## 20 Deferred Tax

The analysis of deferred tax liabilities is as follows:

| Group | 2019 $ | 2018 $ |
|---|---|---|
| Deferred tax (liability)/assets | (588,684) | (316,221) |

The movement in deferred tax liabilities is as follows:

| **2019** | **Opening balance** $ | **Recognized in the income statement** $ | **Recognized in Other Comprehensive Income** $ | **Closing balance** $ |
|---|---|---|---|---|
| Temporary differences: | - | - | - | - |
| Net operating profit (loss) (non-current) | - | - | - | - |
| Short term temporary differences | (316,221) | (126,369) | (146,094) | (588,684) |
| | (316,221) | (126,369) | (146,094) | (588,684) |

| **2018** | **Opening balance** $ | **Recognized in the income statement** $ | **Recognized in Other Comprehensive Income** $ | **Closing balance** $ |
|---|---|---|---|---|
| Temporary differences: | - | - | - | - |
| Net operating profit (loss) (non-current) | - | - | - | - |
| Short term temporary differences | (115,233) | (200,988) | - | - |
| | (115,233) | (200,988) | - | (316,221) |

At the balance sheet date, the Group's UK trading subsidiaries had unused tax losses (as reported on the Group's tax returns) of £3,635,579 (2018: £4,276,906) available for offset against future profits. £690,760 (2018: £727,074) represents unrecognized deferred tax assets thereon at 19%. The deferred tax asset has not been recognized 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 2018** | 13,883,969 | | 13,883,969 |
| **At 31 December 2019** | 14,702,371 | 145,000 | 14,847,371 |

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**Group & Company**

| | **Share capital** $ | **Share premium** $ | **Shares in Treasury** $ |
|---|---|---|---|
| **At 31 December 2018** | 101,915 | 6,887,739 | |
| **At 31 December 2019** | 114,440 | 9,717,349 | (539,833) |

On 10 May 2019, the Company announced a capital raise, pursuant to which the Company sold 500,000 new Ordinary Shares to raise £1.85 million and a subscription of 363,402 Ordinary Shares to raise a total of approximately £1.3 million. In addition, Patrick DeSouza, executive chairman of the Company, and persons closely associated with him, to exercised 300,000 options over Ordinary Shares and David Silverstone to exercised 50,000 options over Ordinary Shares and sold these to incoming investors from the Subscription at the Issue Price. Michael Reisman and Laura Hills

purchased 4,153 and 24,919 newly issued Ordinary Shares through the Subscription. All of these shares were admitted to trading on AIM on 17 May 2019. In addition, Patrick DeSouza received 850,000 Partly Paid Shares (being ordinary shares with voting rights and no economic rights until fully paid) in exchange for increasing the guarantee he is providing over the Company's bank facilities.

At various times during 2019 the Company bought 145,000 shares into treasury at a purchase price range of 245p to 370p.

The Company bought another 25,000 shares into treasury on 5 January 2020 at a purchase price of 247p bringing the total number of shares in treasury to 170,000.

**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 Right of use liability

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| **Lease liabilities in statement of financial position** | | |
| Amounts due within one year | 587,674 | - |
| Amount due after more than one year | 1,116,132 | |
| | 1,703,806 | - |
| **Amount recognized in the statement of comprehensive income** | | |
| Interest on leasehold liabilities | 88,189 | - |
| **Amount recognized in the statement of cash flows** | | |
| Repayment of lease liabilities | 723,812 | - |

## 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 2019 no trading in financial instruments was undertaken (2018: 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, cash equivalents, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables and cash and cash equivalents. 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. As at 31 December 2019, 70.72% was held with one counterparty with a credit rating of Aaa and a further 13.32% was held with another counterparty with a credit rating of A1.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on the shared credit risk characteristics and the days past due. The expected loss rates are based on the historic payment profiles of sales and the credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information.

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of each reporting period.

As at 31 December 2019, trade receivables of $460,716 (2018: $470,976) 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 2019 $** | **Year ended 31 December 2018 $** |
|---|---|---|
| 60-90 days | 129,287 | 109,963 |
| 90+ days | 331,429 | 364,013 |
| | 460,716 | 470,976 |
| Average age (days) | 95 | 96 |

The Group believes that no impairment allowance is necessary in respect of trade receivables that are past due but not impaired. This is based on the Group's good historic track record of collection for all such receivables.

***Credit risk management***

Credit risk refers to the risk that a counterparty 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.

***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.

**Categories of financial instruments**

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 December 2019 $** | **Year ended 31 December 2018 $** | **Year ended 31 December 2019 $** | **Year ended 31 December 2018 $** |
| Loans and receivables | - | - | - | - |
| Cash and cash equivalents | 5,280,808 | 5,106,406 | 195,750 | 48,164 |
| Trade and other receivables – current | 5,024,641 | 4,211,982 | 4,994,565 | 4,818,232 |
| Trade and other receivables – non-current | 605,234 | 618,605 | - | - |
| **Financial Liabilities measured at amortised cost** | | | | |
| Trade and other payables | 4,596,085 | 2,550,283 | 170,353 | 259,724 |
| Borrowings – current | 1,163,055 | 989,736 | - | - |
| Borrowings – non-current | 2,321,400 | 1,448,303 | - | - |
| Deferred consideration – current | 1,277,505 | 1,449,035 | - | - |
| Deferred consideration – non-current | 556,198 | 879,307 | - | - |

## 23 Borrowings

***Bank Debt***

The Group has a commercial banking relationship with People's United Bank ("People's"). The relationship involves three facilities: (i) term loan that was a refinancing of a previous term loan with a different bank (2016 Term Loan); (ii) a working capital line of credit (WC Line) and (iii) an acquisition line of credit, primarily for franchise reacquisitions (ALOC 1 Line).

2016 Term Loan. The 2016 Term Loan was initiated on December 5, 2016 and is a four-year term loan amortizing through 2020. The principal amount outstanding at 31 December 2019 was $603,366 (2018: $838,196). Annual interest on the loan is fixed for the term at 4.78% and requires instalments of principal and interest amounting to $36,716 to be paid per month. People's requires PlainSight Systems (PSS), among others, to guarantee the loan.

WC Line. The WC Line was initiated on 5 December 2016 with $500,000 availability. The WC Line supports various short-term needs of the Group from support for our business-to-business insurance channel to fleet and inventory management. On March 6, 2018, to support the Group's growth, People's increased the WC Line from $500,000 to $2,000,000 with a maturity date of December 2019. The maturity date was extended to December 2020. The WC Line bears interest at LIBOR plus 3.00%. At 31 December 2018, the interest rate was 5.38%. The balance outstanding at 31 December 2019 was $228,133 (2018: $228,133). The WC Line is secured by substantially all of the assets of the Group and guarantees from other related parties including PSS.

ALOC 1. ALOC 1 supports the Group's growth strategy primarily with respect to franchise reacquisitions. ALOC 1 was initiated on 5 December 2016 with $1,500,000 of availability. ALOC 1 has annual draw periods that are interest only and convert into a four-year term loan at the end of the draw period. Upon conversion, the term loan would bear interest at a rate per annum equal to 3.00% 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.

In December 2017, the first draw period of ALOC 1 ended. $584,750 was converted into ALOC 1's first. term loan in accordance with the bank agreement (ALOC 1T1). ALOC 1T1 requires monthly amortization of $13,585 and carries an interest rate of 5.40% (as of 31 December 2017). The balance outstanding as of 31 December 2019 was $319,024 (2018: $460,974). The maturity date of ALOC 1T1 is 1 December 2021.

In December 2018, the second draw period of ALOC 1 ended. $926,472 was converted into ALOC 1's second term loan in accordance with the bank agreement (ALOC 1T2). ALOC 1T2 requires monthly amortization of $21,884 and carries an interest rate of 6.24% (as of 31 December 2018). The balance outstanding as of 31 December 2019 was $716,353 (2018: $926,472). The maturity date of ALOC 1T2 is 1 December 2022.

In May 2019, the draw period for ALOC 1 ended. $1,854,936 was converted into a third term loan bank agreement (ALOC 1T3). ALOC 1T3 requires monthly amortization of $35,524 and carries an interest rate of 5.57% (as of 31 December 2019). The balance outstanding as of 31 December 2019 was $1,662,660 (2018: $nil) The maturity date of ALOC 1T3 is 5 May 2024.

In connection with the People's banking facilities, the Group is required to comply with certain financial and non-financial covenants to be performed on a consolidated basis. These covenants include (i) a debt service coverage ratio to be tested quarterly and (ii) a minimal semi-annual increase in capital funds to be tested semi-annually. The Group was in compliance with those requirements at 31 December 2019.

| | **Current** | | **Non-Current** | |
|---|---|---|---|---|
| **Financial Instruments** | **Year ended 31 December 2019 $** | **Year ended 31 December 2018 $** | **Year ended 31 December 2019 $** | **Year ended 31 December 2018 $** |
| 2016 Term loan | 465,664 | 408,989 | 137,702 | 429,207 |
| Working Capital Line of Credit | | 228,133 | 228,133 | |
| Acquisition Line of Credit | 713,685 | 352,614 | 1,984,351 | 1,034,832 |
| - *ALOC1T1, converted into term loan* | *149,220* | *141,910* | *169,804* | *319,064* |
| - *ALOC1T2, converted into term loan* | *223,585* | *210,704* | *492,768* | *715,768* |
| - *ALOC1T3, converted into term loan* | *340,880* | | *1,321,780* | |
| Less: Loan Closing Costs | (16,294) | - | (28,787) | (15,736) |
| **Total** | 1,163,055 | 989,736 | 2,321,400 | 1,448,303 |

**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, short and medium term borrowings and equity comprising issued capital, reserves and retained earnings. Other than with respect to Bank Debt, the Group is not subject to any externally imposed capital requirements. See KPI on page 11

**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 outside US sources in 2019 were $143,234 (2018: $177,756). No foreign exchange contracts were in place at 31 December 2019 (2018: Nil).

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

| | Group | | Company | |
|---|---|---|---|---|
| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
| **Assets** | | | | |
| Sterling, Australian and Canadian Dollars | 1,546,648 | 945,987 | 5,190,315 | 4,866,396 |
| **Liabilities** | | | | |
| Sterling, Australian and Canadian Dollars | 604,422 | 529,081 | 170,353 | 259,724 |

As shown above, at 31 December 2019 the Group had Sterling denominated monetary net assets of $633,132 (2018: $416,006). If Sterling weakens by 10% against the US dollar, this would decrease net assets by $63,313 (2018: $41,601) with a corresponding impact on reported losses. Changes in exchange rate movements resulted in a loss from exchange differences on a translation of foreign exchange of $163,838 in 2018 (2018: loss of $439,573), resulting primarily from the share issuance during the year in Pound Sterling and subsequent intercompany transfer accounted in US Dollars.

**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. The fixed rate borrowings at the year end are $3,301,402 (2018:$1,615,579).

**Interest rate sensitivity analysis**

The losses recorded by both the Group and the Company for the year ended 31 December 2019 would not materially change if market interest rates had been 1% higher/lower throughout 2019 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 April 2021. 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 primarily 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 $ |
|---|---|---|---|---|
| **2019** | | | | |
| Payables | 2,892,280 | - | - | 2,892,280 |
| Lease liabilities | 327,253 | 260,420 | 1,116,132 | 1,703,805 |
| Borrowings | 563,143 | 599,912 | 2,321,400 | 3,484,455 |
| Deferred consideration | 1,214,019 | 63,486 | 556,198 | 1,833,703 |

| Group | 0-6 months $ | 6-12 months $ | >12 months $ | Total $ |
|---|---|---|---|---|
| **2018** | | | | |
| Payables | 2,550,283 | - | - | 2,550,283 |
| Borrowings | 272,182 | 717,554 | 1,448,303 | 2,438,039 |
| Deferred consideration | 764,396 | 684,639 | 879,307 | 2,328,342 |

Interest expected to be paid on liabilities are shown in the table below

| Group | 0-6 months $ | 6-12 months $ | >12 months $ | Total $ |
|---|---|---|---|---|
| **2019** | | | | |
| Payables | - | - | - | - |
| Lease liabilities | 39,262 | 32,344 | 76,603 | 148,209 |
| Borrowings | 92,289 | 76,521 | 204,952 | 373,763 |
| Deferred consideration | 83,521 | 12,581 | 56,451 | 152,553 |

The Company has no non-derivative financial liabilities.

**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.

**Reconciliation of liabilities arising from financing activities**
The changes in the Group's liabilities arising from financing activities can be classified as follows:

| | Long-term borrowings $ | Short-term borrowings $ | Lease Liabilities $ | Total $ |
|---|---|---|---|---|
| At 1 January 2019 | 1,448,303 | 989,736 | - | 2,438,039 |
| **Cash flows** | | | | |
| - Repayment | (808,520) | - | (635,623) | (1,444,141) |
| - Proceeds | 1,854,936 | - | - | 1,854,936 |
| **Non-cash** | | | | |
| - Acquisition | - | - | 2,339,428 | 2,339,428 |
| - Fair value | - | - | - | - |
| - Reclassification | (173,319) | 173,319 | - | |
| **As at 31 December 2019** | 2,321,400 | 1,163,055 | 1,703,805 | 5,188,261 |

| | Long-term borrowings $ | Short-term borrowings $ | Lease Liabilities $ | Total $ |
|---|---|---|---|---|
| At 1 January 2018 | 1,635,311 | 394,525 | - | 2,029,836 |
| **Cash flows** | | | | |
| - Repayment | (518,270) | - | - | (518,270) |
| - Proceeds | 926,472 | - | - | 926,472 |
| **Non-cash** | | | | |
| - Acquisition | - | - | - | - |
| - Fair value | - | - | - | - |
| - Reclassification | (595,211) | 595,211 | - | - |
| **As at 31 December 2018** | 1,448,303 | 989,736 | - | 2,438,039 |

## 24 Fair value measurement

The following table provides the fair value measurement hierarchy for assets measured at fair value

| | | | Fair value measurement using | | |
|---|---|---|---|---|---|
| | | Total | Quoted process in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| **Assets measured at fair value** | **Date of valuation** | **$000** | **$000** | **$000** | **$000** |
| Listed equity investments | | | | | |
| EAI investment | | 1,932 | 1,932 | - | - |

To estimate fair value, the lower end of the bid-offer spread as at 31 December 2019 was used to calculate the value of the holding. There is an active market for the Group's liquid equity investment.

## 25 Contingent liabilities

The Directors are not aware of any material contingent liabilities.

## 26 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 to the Company. 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. PSS also guarantees the bank debt of Water Intelligence as described below.

During the normal course of operations, there are intercompany transactions among PSS, Water Intelligence plc, ALDHC and ALD. In previous years, PSS charged administrative fees to the Company to cover activities taken on behalf of company business, including research. The financial results of these related party transactions are reviewed by an independent director of Water Intelligence plc, the parent of ALDHC and ALD.

As described in Note 7, the Company's parent (and the Company as co-borrower) have different credit facilities with Peoples. For the PSS guarantee, ALD pays 0.75% per annum based on the outstanding balance of the loan calculated at the end of each month. 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 the bank. Interest income related to the PSS receivable amounted to $15,185 and $13,686 for the years December 31, 2019 and 2018, respectively. The guarantee fee expense for the PSS guarantee amounted to $24,126 and $16,877 for the years ended December 31, 2019 and 2018, respectively. During 2019 the Company paid expenses on behalf of PSS in the amount of $101,662. The related receivable/prepaid balance remaining is $298,327 and $205,606 at December 31, 2019 and 2018, respectively.

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

**Water Intelligence International Limited**

| | $ |
|---|---|
| Balance at 31 December 2018 | 2,522,800 |
| Net loans to subsidiary | - |
| Other expenses recharged and exchange differences | 248,282 |
| Balance at 31 December 2019 | 2,771,082 |

| **ALDHC** | $ |
|---|---|
| Balance at 31 December 2018 | - |
| Loans prepaid by WI capital raise | - |
| Balance at 31 December 2019 | - |

| **ALD Inc.** | $ |
|---|---|
| Balance at 31 December 2018 | 2,137,240 |
| Loans repaid by WI capital raise | (2,155,035) |
| Loans to WI | 850,000 |
| Other expenses recharged and exchange differences | 1,302,929 |
| Balance at 31 December 2019 | 2,135,134 |

## 27 Subsequent events

On 15 June 2020, the Group announced that it has launched an implementation of Salesforce.com's customer relationship management software across its ALD corporate and franchise operations. The implementation will enable ALD to automate its entire workflow from customer leads to service dispatch of technicians anywhere in the US to customer reporting upon job completion to invoicing. The implementation will produce much greater efficiencies and capability to execute on a faster rate of growth. ALD's franchise System will share in the licensing and implementation investment.

On 1 June 2020, the Group completed the reacquisition of its San Jose, California franchise territory. San Jose is a strategic reacquisition because of its location in Silicon Valley. The Group plans to use this corporate base to advance its innovation roadmap and R&D. The reacquisition also enables the Group to add further scale to Water Intelligence financially and operationally. The purchase price was approximately $1.05 million. 2019 sales for San Jose franchise location were approximately $0.7 million and pre-tax profits were approximately $0.2 million. The reacquisition also reinforces growth in the Bay Area with its multimillion dollar franchises in the San Francisco and Berkeley territories.

On 30 April 2020, the Group completed the reacquisition of its Minneapolis, Minnesota franchise. Minneapolis is a significant reacquisition that enables the Group to add further scale to Water Intelligence. Franchise reacquisitions in strategic locations facilitate the Group's ability to grow regional geographies faster through more centralized marketing and management. Operationally, the reacquisition of Minneapolis creates a corporate base in the Upper Midwest region of the United States. During 2019, the Group executed several significant municipal contracts in the Upper Midwest.

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

| | Minneapolis $ | San Jose $ | Total $ |
|---|---|---|---|
| **Fair value of assets and liabilities acquired** | | | |
| Equipment | 64,730 | 69,397 | 132,127 |
| Vehicles | 40,922 | - | 40,922 |
| Other | 10,990 | 16,000 | 26,990 |
| Net assets acquired | 116,642 | 85,397 | 200,039 |
| **Consideration** | | | |
| Cash | 329,670 | 380,000 | 707,670 |
| Deferred consideration – discounted to present | 983,012 | 667,000 | 1,650,012 |
| Total consideration | 1,312,682 | 1,047,000 | 2,357,682 |
| Intangible asset arising on acquisition | 1,196,040 | 961,603 | 2,157,643 |

During 2019, a claim was brought against the Company by a former franchise owner which was settled subsequent to the end of the year in February 2020. The parties agreed to an adjustment to the original purchase price for the reacquisition for the franchise. In addition, among other items, the former franchise owner agreed to a covenant not to compete and an extension of confidentiality over intangible assets of the Company in perpetuity. As such, the Company accrued the settlement as of December 31, 2019 totalling a net amount of $200,000 and recorded a covenant not to compete asset in connection with the accrual. The covenant not to compete commences in February 2020 for a period of one year from that date.

PPP Program - The Paycheck Protection Program is bringing much needed relief to business owners affected by the coronavirus. Not only does this loan program provide funding to help cover payroll and other expenses, but if used for qualifying purposes, part or all of the loan can be forgiven. The company applied for and received funding ($1,869,800) under this program in April 2020.

COVID-19 - The company has reviewed all applicable Shelter-in-Place Orders and have determined that our operations qualify as essential/critical infrastructure and that we are able to continue to operate under those Orders. Our service technicians are essential to the minimum basic operations of our business. All non-essential personnel have been notified to work remotely until further notice. Employees who are critical to the minimum basic operations of the business have been instructed to comply with social distancing rules/requirements in their jurisdictions, as well as other safety and health precautions.

## 28 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.