# Water Intelligence plc

(formerly Qonnectis plc)

Group Annual Report and Financial Statements
for the Year Ended 31 December 2010

Company number 03923150

# Group Annual Report and Financial Statements

for the Year Ended 31 December 2010

## Contents

# Company Information

## Directors & Advisers

| | | |
|---|---|---|
| **Directors** | Patrick DeSouza | Executive Chairman |
| | Stephen Leeb | Non-Executive Director |
| | Harry Offer | Non-Executive Director |
| | Michael Reisman | Non-Executive Director |
| **Company Secretary and Registered Office** | Cambridge Financial Partners LLP<br>St John's Innovation Centre<br>Cowley Road<br>Cambridge<br>CB4 0WS | |
| **Company number** | Registered in England and Wales number 03923150 | |
| **Nominated adviser and broker** | Merchant Securities Limited<br>51-55 Gresham Street<br>London<br>EC2V 7HQ | |
| **Independent Auditor** | H W Fisher & Company<br>Acre House<br>11-15 William Road<br>London<br>NW1 3ER | |
| **Registrar** | Capita Registrars Limited<br>The Registry<br>34 Beckenham Road<br>Beckenham<br>Kent<br>BR3 4TU | |
| **Bankers** | HSBC Bank plc<br>2 London Road<br>Twickenham<br>Middlesex<br>TW1 3RY | The Bank of Southern Connecticut<br>215 Church Street<br>New Haven<br>CT 06510<br>USA |

## Company Definitions

| | | |
|---|---|---|
| Water Intelligence plc *(formerly Qonnectis plc)* | WI | Company or Group |
| American Leak Detection Holding Corp. *(holding company in US)* | ALDHC | |
| American Leak Detection, Inc. *(operational subsidiary in the US)* | ALD | |
| Qonnectis Networks Limited *(operational subsidiary in UK)* | QON | |
| Plain Sight Systems, Inc. *(related party)* | PSS | |

# Chairman's Statement

July marked the first anniversary of the creation of Water Intelligence plc (WI), through a reverse takeover of Qonnectis plc by American Leak Detection Holding Corp. (ALDHC). Publication of these Accounts for 2010 was unfortunately delayed, as integration of the two businesses took longer than expected. However, we have made changes to our accounting systems to ensure that no such delay happens again, and that future reporting is made in a timely manner.

The management team is now working in a disciplined way towards executing a strong growth profile for our shareholders in year two of our strategic plan. We have begun to see acceleration of revenue growth during the second half of 2010 and the first half of 2011, reaching approximately 14 per cent. when comparing 1H 2010 with revenue for 1H 2011 for the Group.

Our vision is to create a vertically-integrated "One Stop Shop" so that customers can find comprehensive solutions throughout the water value chain, from automated metering and alerts to non-invasive water leak detection and remediation. Water loss remains a big issue and we are at the beginning of long-term investment cycle, where the public and private sectors are spending significant sums in order to improve conservation of this precious resource, despite uneven global macroeconomic conditions.

The enlarged group is well-placed to take advantage of this trend by bringing together a suite of products and services through which we can reduce customer acquisition costs and scale operations rapidly. We are discussing with Qonnectis's water utility customers, such as Thames Water, ways to address their needs by bundling a next generation water monitoring product based on Qonnectis designs with non-invasive leak detection services whose proprietary methodology was pioneered at ALD. After launching in the UK, we plan to offer an adapted suite of products and services to the U.S. market through our well-developed franchisee network that already extends through 42 states of the U.S.

In the UK, Ofwat (the Water Services Regulatory Authority for England and Wales) seeks to aggressively reduce water loss from leakage requiring the utilities to find solutions promptly. Similar policies are emerging in the U.S. led by New York City's $250 million investment in smart metering solutions announced by Mayor Bloomberg in March 2011. We are well-positioned to sell solutions in both markets and, were pleased to announce in May 2011 the sale of the New York franchise to a business leader with significant experience in public-private partnerships.

Year-on-year our core ALD services business continued to grow and increased to 5 per cent. growth during the second half of 2010 reaching revenue of $5.7 million for the year and 6 per cent. growth during the first half of 2011. Further, we were pleasantly surprised in the last quarter of 2010 with the fresh start of the complementary QON product business through sale of *Leakfrogs* to Thames Water (mostly booked for 2011 as products were delivered).

Underlying operating profits, adjusted for non-recurring costs and net financing costs, are analysed in the Business Review section. Underlying operating profits were reduced from $1,375,000 in 2009 to $589,000 in 2010. During 2010, the Company increased its R&D expense to third parties to $155,883 in 2010 from $18,235 in 2009. This increased expense will help sustain growth via our product roadmap in years two and three of our strategic plan. On the other hand, certain losses for 2010 need to be remedied. We showed increased losses in our corporate-run stores, especially in California, reaching $140,000 in 2010 from a loss of $118,000 in 2009. We have now made a management change to focus on execution at our corporate-run stores. We will be monitoring our cost structure and already see improvement in profitability for these corporate-run stores for 2011. Through 1H 2011, the same corporate-run stores which showed losses in 2010 have now turned a small profit.

The underlying operating profits by geography make clear the strategic choice that the Board has made.

Underlying *US-based* adjusted operating profits during 2010 decreased to $1,152,000 from $1,375,000 in 2009. If we succeed in 2011 in addressing the 2010 negative contribution from Corporate-run stores, the underlying operating profit in the US would return to 2009 levels but with higher revenue growth achieved. These measures reflect the stable growth of the US franchise services business.

By comparison, *UK-based* operations, including the plc costs following Admission to AIM in July 2010, produced a loss of $563,000 during 2010. As noted above, we have increased our R&D expense with respect to a UK-based product roadmap to $155,883. As we discuss below, we have expressions of interest from UK water utilities, including existing QON customers, in the new products that we are developing. Our strategy is that with future product sales anticipated for 2012, the UK-based operations will produce significant positive contribution to operating profits that will form an important growth supplement to US-based operating profits. We have begun to see this prospect more clearly with the positive contribution of *Leakfrog* sales during 2011 H1.

In 2011 the Board is closely monitoring the products and services businesses in the UK and US respectively, within our overall "One Stop Shop" model. This approach is designed to better monitor and control operating costs and cashflow in our stable and growing US-based services business and in our potentially rapidly growing UK-based products business.

We expect strong follow-through performance in years two and three of our plan. Based on results for the first half of 2011 in both ALD's service business and QON's products business, we are expecting continued revenue growth for the full year. We look to sell more franchises in 2011 than in 2010, extending our anticipated royalty growth in the near term. Moreover, given our anticipated margins from our new smart water monitoring products, we expect that during 2012 our investment in the QON product portfolio will pay off, especially given the interest of sizeable customers such as South West Water and Thames Water.

In reviewing Year One in more detail, I am pleased to report that we have completed four major post-reverse takeover objectives, namely:

- Integration of WI and ALD;
- Maintaining steady royalty growth in our core Franchise Business;
- Building solid foundations for growth in our Products and Innovation Business; and
- Installing a scalable international business model of vertically-integrated Products and Services.

During the year ended 31 December 2010, 99 per cent. of our sales came from outside the UK, largely from the US but also from Commonwealth countries such as Canada and Australia. We expect this non-UK dominance to change over the course of the current year, with product sales to UK water utilities. We are on track in terms of our design and production cycle and plan to introduce such products at the end of 2011 / beginning of 2012.

Our existing franchise network, which services municipalities, businesses and residences across the US and seven other countries, forms a natural distribution system for QON's UK-developed products as they are adapted for local differences. Moreover, such wireless metering products should provide additional services opportunities for our franchise system to pinpoint and fix leaks once customers have been alerted to their presence.

We recognise that building a scalable business model of products and services comes in defined stages. Throughout the integration process, a second parallel objective was to ensure that our ALD franchise services business continued with stable growth, without unnecessary distractions arising from the merger and a choppy US economy. System-wide, sales for our franchises and corporate-run locations approached $50 million. Two performance indicators for management are noteworthy: (a) growth of royalty income; and (b) growth in corporate-run sales.

During 2010 royalty income grew modestly as follows but accelerated during 2H:

| **Franchisee locations** | **2010 US $'000** | **2009 US $'000** | **Change %** |
|---|---|---|---|
| California, Arizona & Nevada | 1,154 | 1,197 | – 4% |
| Rest of US | 2,484 | 2,406 | + 3% |
| Total US | 3,638 | 3,603 | + 1% |
| International | 238 | 214 | +11% |
| Group | 3,876 | 3,817 | +2% |

It is encouraging to note that our franchisees' businesses grew such that royalties in H2 2010 were 5 per cent. above the same period in 2009. This has continued, with royalties in H1 2011 being 5.5 per cent. above the same period in 2010.

Assisted by the arrival of the new ALD President, Bill Palmer, the ALD management team remains committed to helping franchisees build their businesses and generate a growing royalty base for the Group. The team has already started to introduce various systems to help make our franchisees' businesses more profitable.

In addition, the ALD management team is also focusing on significantly improving the performance of our Corporate-run stores, where the results were:

| | 2010<br>US$'000 | 2009<br>US$'000 |
|---|---|---|
| Revenue | 1,361 | 1,421 |
| Contribution | (140) | (118) |

On the East Coast of the US, our locations in total did produce a small positive contribution, averaging 3 per cent. of revenue, during each of 2010 and 2009. Our 2011 opening of locations in Connecticut (Corporate-run) and New York (Franchise sale) seek to take advantage of an improving economy in the northeast region of the US, where franchise royalties grew by 3 per cent. in 2010 compared with 2009.

Losses in our Palm Springs and San Bernadino Corporate-run Stores, we believe, stem largely from the Californian economy which has been slower to recover than the rest of the US. During 2011 we are focused on significantly reducing losses at our Californian Corporate-run Stores through a combination of new growth and improved cost controls. Since our management change, we do see improvement with California stores achieving a small profit for H1 2011.

Our third corporate objective in Year One was to start building on our solid services business by exploiting opportunities for additional growth from our innovation and products business.

QON's product business, including its relationship with Thames Water, has proven resilient. In September 2010, shortly after the reverse acquisition, QON announced a £177,000 order to Thames Water of the *Leakfrog* smart metering product. Having recognized £30,000 of revenue in 2010, we completed delivery in March 2011, recognizing £147,000 in revenue during Q1 2011.

We plan to continue to sell *Leakfrogs*, but increasingly we aim to supplement this product with our two next generation smart metering products – *Domestic Reporter* and *Commercial Reporter*. Our current timetable is to have production units of *Commercial Reporter* ready by the end of Q3 2011 and to introduce these products at the end of 2011/ beginning of 2012.

A final objective for Year One was to position the Group for a scalable products and services model for accelerated growth in Year Two of the strategic plan.

As noted below, the trends on both sides of the Atlantic encourage us to believe in the long-run synergies of our merger, where we can fully meet customer demand throughout the water value chain from providing smart meters that alert customers to the presence of a leak to pinpointing and remediating such leaks.

## Strategy

In general, we see the demand for water solutions remaining strong for the foreseeable future, despite global economic conditions. The "Green movement" for economies around the world is here to stay. As we observed at the time of the Admission to AIM in July 2010, and as we continue to appreciate today, water loss from leakage is an important issue for the commercial, municipal, and residential markets.

Our growth plans for both sides of the Atlantic seek to take advantage of market demand for integrated product and services solutions. In the UK, the Office of Water Services (Ofwat) has been assertive in demanding solutions from the water utilities to the problem of leakage.

In this context, we were pleased to announce in June 2011 that South West Water – a major UK water utility serving 1.6 million people – is backing our development and commercialization of *Domestic Reporter,* a new hi-tech device that will allow metered domestic water users to monitor their own water use and identify quickly when a leak has occurred. We expect additional support from other utilities. Moreover, we have begun to test the prototype for our *Commercial Reporter* product, which is geared for industrial monitoring of water flow.

We plan to complement such "water intelligence" derived from our smart meter products with a leak detection and remediation services capability. As previously announced, ALD appointed a UK Master Franchisee in October 2010; whilst not material to the Group's performance in 2010, initial progress in the UK has been slower than the Board's expectations. Accordingly, we are currently working on various actions to improve our service delivery so that we can link our UK services business to the smart meters that, as noted above, we plan to sell towards the end of 2011.

Strategically, we are also seeking to take advantage of similar market conditions in the US for deploying bundled solutions of smart metering and leak detection services. By comparison with the UK, the US franchise system is well-developed. We need to retrofit the products that we are initially developing for the UK markets; the timing for us to meet such market demand is good. In March 2011, New York Mayor Bloomberg announced a $250 million investment in smart, wireless metering for detecting water leaks. This programme is designed to be a model across the US and to create a "first responder" approach for leak remediation services after an alert has been provided.

Our 130 franchise locations across the US can be natural distribution points for our smart metering products as they service annually over 100,000 municipalities, businesses and residences. As noted above, during the second half of 2010 and the first half of 2011, our leak detection services business showed solid growth in most areas of the US. We expect that our services business will grow more strongly as it benefits from smart metering products and the wireless call for services upon being alerted to the presence of a water leak.

After roll-out of our integrated product and services model in the US and UK, we also have growth opportunities in other countries where American Leak has franchise operations, especially Commonwealth countries of Australia and Canada, which are showing rapid growth.

We see such integrated solutions as a long-term trend, reducing customer acquisition costs and increasing scalability of the business. Our vision for WI remains that we create a vertically-integrated "One Stop Shop" for customers to find comprehensive solutions.

## Business Review

Since Admission to AIM in July 2010, the Board's priority has been focused on integration, growing a profitable base business providing leak detection services and seeking to open up UK operations to accelerate growth in H2 2011 and 2012 in terms of both water monitoring products and leak detection services.

Under the International Financial Reporting Standards, the acquisition of ALDHC by the Company has been treated as a reverse acquisition. Accordingly, the Group results for the year ended 31 December 2010 constitute 12 months trading by ALD, the Group's principal and wholly-owned operating subsidiary, and five months trading from UK operations, including plc costs.

Certain costs will be non-recurring after 2010. Firstly, the non-recurring costs reflect the costs of the reverse takeover and Admission to AIM. Secondly, the non-recurring costs reflect an amended Commercial Agreement with PSS, a technology company and former majority owner of ALD. Prior to the transaction, the Commercial Agreement provided for a licence fee between $250,000 and $1,500,000. After Admission, the Amended Commercial Agreement provides for a technology license that is royalty-free for the first $5 million of sales and 3 per cent. thereafter. It is anticipated that for 2011 there will be no costs to Water Intelligence.

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Revenue | 5,698 | 5,545 |
| The profit after taxation for the year is as follows: | | |
| Underlying profit* | 589 | 1,375 |
| Non-recurring costs: | | |
| Reverse Takeover & Admission to AIM | (682) | – |
| Commercial agreement with PSS, the majority owner until Admission to AIM in July 2010 | (474) | (849) |
| (Loss)/Profit from operations | (567) | 526 |
| Finance expense (net) | (303) | (288) |
| (Loss)/Profit before taxation | (870) | 238 |
| Taxation | 1 | (95) |
| (Loss)/Profit after taxation of the Group | (869) | 143 |

Underlying profit from operations may be analysed geographically as follows:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| US based operations | 1,152 | 1,375 |
| UK based operations, including plc costs | (563) | – |
| | 589 | 1,375 |

* Underlying operating profits are before non-recurring costs and net financing costs.

99 per cent. of the Group's revenue in the year ended 31 December 2010 came from its wholly-owned subsidiary, ALD, with the remainder from UK operations. As noted above, the Board believes that this mix will change with sales from the Company's product business which is based in the UK.

## Revenue – ALD

ALD, with offices in Palm Springs and New Haven, provides, through a mix of franchisees and Corporate-run stores, non-invasive water leak detection and remediation services throughout the US, as well as in Australia, Belgium, Canada, Spain, United Kingdom and certain other countries.

| | 2010 US $'000 | 2009 US $'000 | Change % |
|---|---|---|---|
| Royalty income from franchisees | 3,876 | 3,817 | +2% |
| Company Stores and other income | 1,768 | 1,728 | +2% |
| | 5,644 | 5,545 | +2% |
| Royalty income from US franchisees | | | |
| H1 | 1,756 | 1,815 | –3% |
| H2 | 1,882 | 1,788 | +5% |
| Year | 3,638 | 3,603 | +1% |

It is encouraging to note that royalty income from US franchisees was up 5 per cent. in the second half of 2010 when compared to the same period in 2009 as the US economy began to recover from the aftermath of the global financial crisis. This followed a decrease of 3 per cent. during H1 2010 over the same period in 2009. Meanwhile, international growth remained robust, with royalty income increasing by 11 per cent. during 2010.

In the US royalties from franchisees in the southeast region rose by 12 per cent., while royalty income from franchisees in California, Nevada and Arizona decreased by 4 per cent., generally due to the slumping real estate market as well as higher than national average unemployment. As noted above, such localized market slump is one factor for negative contribution for our Corporate-run Stores. The remaining geographical areas in the US in aggregate were generally stable.

ALD has continued to experience regional differences across the US. In the second half of 2010 royalty income from franchisees located in the northeast and southeast of the US rose between 10 per cent. and 16 per cent. while the remaining areas in the US rose between 1 per cent. and 3 per cent.

Internationally, as noted above, there is strong growth. Approximately 7 per cent. of ALD's royalty income arose outside the US in H2 2010 and 6 per cent. for the year. Royalty income from outside the US grew at 11 per cent., with Australia up 26 per cent. for the full year. In light of trends in the global economy, we are comforted that water leakage is a global problem and that we are well-positioned to continue with international expansion to meet strong demand.

## Revenue – UK operations

Prior to the reverse takeover, QON had an interesting product portfolio and significant former customers, but lacked working capital to continue as a stand-alone business. ALD has provided QON a fresh start, with a critical mass of resources both financial and personnel. As stated above in September 2010, WI received a significant order for its *'Leakfrog'* product from Thames Water plc for an aggregate purchase price of £177,000 ($265,000 at $1.50: £1.00). There were no other material revenues from UK activities since the reverse takeover in July 2010.

## Net Debt – 31 December 2010 & 30 June 2011

The Group has a term loan with the Bank of Southern Connecticut. Originally $4.0m, the loan is being paid down based on a set amortization schedule. Our relationship with the Bank is strong and will be closely managed.

| | **31 December 2010 US$ '000 Audited** | **30 June 2011 US $'000 Unaudited** |
|---|---|---|
| 6 Year Term Loan* | 3,718 | 3,553 |
| Promissory Note | 102 | 59 |
| | 3,820 | 3,612 |
| Less: Cash | | |
| *Held in US Dollars* | 447 | 440 |
| *Held in £ Sterling* | 159 | 39 |
| | 606 | 479 |
| Total Net Debt * | 3,214 | 3,133 |

* excludes amortized Loan Fees

## Board and Management

As noted above, since year end we have made management and Board changes to position the Company for stronger growth in Year Two of our strategic plan.

Stan Berenbaum (formerly CEO) has stepped down from the Board. We are pleased to have Bill Palmer with his operating experience take responsibility since April 2011 for managing the Group's principal operating subsidiary, ALD, and for working with our UK team.

Ric Piper (formerly a non-executive director) has stepped down from the Board for personal reasons. However, I am pleased that he will remain as an adviser to WI, particularly to bridge any execution challenges and to help accelerate development of its business presence in the UK. Given the purchase of *Leakfrogs* by Thames Water, the positive reaction of South West Water to *Domestic Reporter* and the need to match a service capability to such product development, we value his continued contribution as we begin to scale the business.

Harry Offer, who was previously the Chairman of Qonnectis plc and has been a non-executive director of the Company since the reverse takeover, stepped down as a director with effect from the publication of these accounts, to pursue his other business interests. With integration now complete, I thank him for his efforts on behalf of the Company during this transitional period.

I am delighted to announce that Robert Mitchell, a highly experienced UK fund manager in the AIM Market, has been appointed a non-executive director of the Company, with immediate effect. He has a background in helping product innovation companies grow and scale. Given our corporate strategy, we look forward to his participation.

Robert Mitchell and Ric Piper have significant relevant experience to help us achieve our growth trajectory, and to provide support for the management team and our franchise system.

The Board intends to appoint a further non-executive director in the near future.

## Outlook

WI has experienced good growth in the royalty income in the first half of the current financial year, when compared to the corresponding period last year and the Board expects increasing levels of growth in its leak detection services business, especially as macro-economic conditions improve in the US and given the large addressable market and franchise revenue growth in international locations. We expect new franchise sales that broaden ALD's footprint both in the US and abroad.

On the product side, we are encouraged by the continued purchase of *Leakfrogs* and strong initial interest from certain UK water utilities for its next generation product suite. In particular, the new domestic monitoring device has drawn interest from both South West Water and Thames Water. These two utilities have a footprint in the millions of households as target end-users for the product. Whilst significant development and testing work remains to be done, the Board anticipates that the new products will deliver revenues by the end of 2011 and that growth should take effect during 2012.

There is still work to do. Progress needs to be made to significantly improve the performance of the Corporate-run Stores, especially the two in California, and develop the WI's UK services business. Steps continue to be taken to manage the Group's overheads now that integration is complete. Moreover, we have begun to develop channel partners in the UK to assist with service delivery.

In addition to sales opportunities in the UK, our well-developed franchisee base of some 130 locations across the US gives us a strong distribution platform for these smart metering products that we are developing with the assistance of UK water utilities such as South West Water. With vertical integration through smart metering products adapted for the US, we believe that there will be additional growth opportunities for our franchisees. After we roll-out the integrated suite of products and services in the UK and US, we plan to leverage our existing international footprint, especially Australia, to scale rapidly.

The Group has made considerable steps forward in the last year. I am confident that we can sustain that progress, and build a significant presence in the growing international market for comprehensive water infrastructure solutions, from monitoring of and alerts for leaks to non-invasive leak detection and remediation. Our strategic goal is to become a leading "One Stop Shop" for solutions to this global issue of water management.

**Patrick De Souza**
*Executive Chairman*

12 August 2011

# Director's Report

The Directors present their report on the affairs of Water Intelligence plc (the Company) and its subsidiaries, referred to as the Group, together with the audited Financial Statements and Independent Auditors' report for the year ended 31 December 2010.

These will be laid before shareholders at the Annual General Meeting (AGM) to be held at 3.00 p.m. on Monday 12 September 2011 at Merchant Securities Limited, 51-55 Gresham Street, London, EC2V 7HQ. Details of the business to be considered at the AGM, together with an explanation of all the resolutions, are set out in the separate Notice of Meeting.

## Principal Activities

The Group is a leading provider of water monitoring products, leak detection equipment and remediation services. The Group's strategy – which underpins the creation in July 2010 of Water Intelligence plc through the Reverse Acquisition of Qonnectis plc by American Leak Detection Holdings Corporation (ALDHC) – is to focus on providing a critical mass of water management products and services and to be a "one-stop" shop for leak alerts, precision, non-invasive leak detection and remediation.

Since Admission to AIM, management effort has been focused on integration, growing a profitable base business providing leak detection services and opening up UK operations to accelerate growth in 2011 H2 and 2012, especially in terms of water monitoring products and also leak detection services.

## Business Review

The Chairman's Statement, on pages 3 to 9, provides an overview of the past period, including key performance indicators (being growth in royalty income, contribution from Corporate-run stores and net debt) and the outlook for the Group.

## Results

As noted above, in July 2010 a Reverse Acquisition of Qonnectis plc took place by ALDHC of the US which has been reflected in the accounts for the year ended 31 December 2010.

Subsequent to the Reverse Acquisition the Board has decided that the presentational currency of the Company and the Group is the US Dollar ($) because that is the effective currency of the dominant entity being ALDHC. The functional currency of the Company is Sterling (£).

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 20 to 26.

99 per cent. of the Group's revenue in the year ended 31 December 2010 came from its wholly-owned subsidiary ALD, with the remainder from UK operations.

## Principal Risks and Uncertainties

The Group's objectives, policies and processes for measuring and managing risk are described in Note 25. The principal risks and uncertainties to which the Group is exposed include:

**Product Development Risk**

The products in development may cost more and/or take longer to develop than the current estimates. It is possible that commercially successful products may not be developed.

**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 and the Company had no material foreign exchange transactional exposure at 31 December 2010.

**Interest Rate Risk**
The Group's interest rate risk arises from its medium term borrowings. Borrowings issued at variable rates expose the Group to fair value interest rate risk. The company do 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. The Group is exploring opportunities to finance working capital through additional equity funding, when required.

**Other Risks**
There is a risk that existing and new customer relationships will not lead to the sales currently forecast (especially, as noted above, from new products currently in development). As with any technology business, the Group is reliant on a small number of highly skilled staff. Further, the Group is reliant on effective relationships with its Franchisees, especially in the US.

## Going Concern

The Directors have prepared a business plan and cash flow forecast for the period to 31 December 2012. The forecast contains certain assumptions about the level of future sales and the level of gross margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term trading is reliant on cash generation from both its predominantly US-based royalty income and from the achievement of a successful product development and subsequent sales initiative. The Directors have taken steps to satisfy themselves about the robustness of the forecasts. 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.

Further information on going concern is included in Note 3.

## Research Design & Development

The Group is committed to the research, design and development of product enhancements and additional features as required by the market.

Expenditure on research and development, all of which has been expensed, was:

| | **2010** **$** | **2009** **$** |
|---|---:|---:|
| PSS licence fees * | 474,026 | 572,952 |
| Third parties | 155,883 | 18,235 |
| | 629,909 | 591,187 |

* Amounts paid under a Commercial Agreement with PSS, the majority owner of ALD until the Admission to AIM in July 2010. The Commercial Agreement was amended on Admission to be royalty-free for the first $5 million of sales of products created with the technology. No royalties are expected for the near future.

## Dividends

The Directors do not recommend the payment of a dividend (2009: $nil).

## Share Price

On 31 December 2010, the closing market price of Water Intelligence plc ordinary shares was 57 pence. The highest and lowest prices of these shares during the period from Admission to 31 December 2010 were 77.5 pence and 56 pence.

## Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the period are shown in Note 23.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Details of the employee share scheme are set out in Note 8.

## Supplier Payment Policy

The average credit period for trade purchases is disclosed in Note 20.

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction.

## Subsequent Events

On 29 June 2011 the Company announced that it was unable to publish its audited results for the year ended 31 December 2010 in accordance with the AIM Rules. Accordingly, the Company's ordinary shares were suspended from trading on AIM with immediate effect.

Save for changes to the Board (detailed under Directors below), there are no other material post balance sheet events.

Current Trading is referred to in the Chairman's Statement.

## 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 | Appointed 8 January 2010 as a Non-Executive Director<br>Appointed 29 July 2010 as Executive Chairman |
| Stanford Berenbaum – Chief Executive Officer | Appointed 8 January 2010 as a Non-Executive Director<br>Appointed 29 July 2010 as Chief Executive Officer Executive<br>*Resigned 26 April 2011* |

**Non-Executive Directors**

| | |
|---|---|
| Stephen Leeb | Appointed 29 July 2010 |
| Harry Offer | Formerly Chairman of Qonnectis plc<br>Appointed 29 July 2010 as a Non-Executive Director<br>*Resigned 12 August 2011* |
| Ric Piper | Appointed 29 July 2010<br>*Resigned 22 June 2011* |
| Michael Reisman | Appointed 29 July 2010 |
| Robert Mitchell | Appointed 12 August 2011 |

Harry Offer, who was previously the Chairman of Qonnectis plc and has been a non-executive Director of the Company since the reverse acquisition, stepped down as a Director with effect from the publication of these accounts, to pursue his other business interests.

Robert Mitchell, a highly experienced UK fund manager in the AIM Market, has been appointed a non-executive Director of the Company with immediate effect. He has a background in helping product innovation companies grow.

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

## Directors' emoluments

| 2010 | Salary & Fees $ | Benefits $ | Bonus $ | Pension $ | Total $ |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| P DeSouza | 121,500 | – | – | – | 121,500 |
| S Beranbaum | 193,658 | 13,640 | – | – | 207,298 |
| B Spurrier | 5,364 | – | – | – | 5,364 |
| **Non Executive Directors** | | | | | |
| H Offer | 3,864 | | | | 3,864 |
| R Piper | 23,186 | | | | 23,186 |
| S Leeb | 3,864 | – | – | – | 3,864 |
| M Reisman | 3,864 | – | – | – | 3,864 |

| 2009 | Salary & Fees $ | Benefits $ | Bonus $ | Pension $ | Total $ |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| P DeSouza | – | – | – | – | – |
| S Beranbaum | 200,425 | 13,917 | – | 1,905 | 216,247 |
| B Spurrier | 124,807 | – | – | – | 124,807 |
| **Non Executive Directors** | | | | | |
| H Offer | 5,067 | – | – | – | 5,067 |
| R Piper | – | – | – | – | – |
| S Leeb | – | – | – | – | – |
| M Reisman | – | – | – | – | – |

## Directors' interests

The Directors who held office at 31 December 2010 had the following interests in the ordinary shares of the Company:

| | Number of shares at 31 December 2010 | % held at 31 December 2010 |
|---|---|---|
| Patrick DeSouza* | 2,840,718 | 29.58% |
| Stan Berenbaum** | 1,070,926 | 11.15% |
| Michael Reisman* | 147,378 | 1.53% |
| Stephen Leeb * | 73,689 | 0.77% |
| Harry Offer | 45,228 | 0.47% |

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

** Since 31 December 2010, as part of his resignation from the Board, Stan Berenbaum transferred 270,926 ordinary shares to Plain Sight Systems, Inc. reducing his interest to 800,000 shares, representing 8.33 per cent. of the issued share capital of the Company.

## Share option schemes

In order to provide incentive for the management and key employees of the Group the Directors announced at the time of the Reverse Acquisition that the share option scheme issued to ALD employees was to be replaced. This action has yet to be undertaken. It is currently expected to be completed by the end of 2011.

Details of the current scheme are set out in Note 8.

## Substantial Shareholders

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

| | Number of shares | % held |
|---|---|---|
| Plain Sight Systems, Inc. | 2,127,552 | 22.15% |
| Maven Capital Partners LLP | 519,758 | 5.41% |
| Terry Tyrell | 481,151 | 5.01% |

## 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. The Executive Directors have responsibility for these areas at Board level, ensuring that the Group's policies are upheld and providing the necessary resources.

## The Community including Charitable and Political Donations

During the year the Group made charitable donations of $4,249 in 2010 (2009: $3,160) in respect of diabetes, cancer and the Friends of the Arava Institute. The Group made no donations for political purposes either in the UK or overseas during the year. The Directors consider the impact on the community in making their decisions.

## 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 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

During the year, Mazars LLP resigned as auditors and H W Fisher & Company were appointed. H W Fisher & Company 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.

By order of the Board

**Patrick DeSouza**
*Executive Chairman*

Date:12 August 2011

## Cautionary Statement

Under the Companies Acts 2006, a company's Directors' Report is required, among other matters, to contain a fair review by the Directors of the Group's business, through a balanced and comprehensive analysis of the development and performance of the business of the Group and the position of the Group at the year-end, consistent with the size and complexity of the business. The Directors' Report set out above, including the Chairman's Statement incorporated into it by reference (together, the Directors' Report), has been prepared only for the shareholders of the Company as a whole, and its sole purpose and use is to assist shareholders to exercise their governance rights.

In particular, the Directors' Report has not been audited or otherwise independently verified. The Company and its Directors and employees are not responsible for any other purpose or use or to any other person in relation to the Directors' Report.

The Directors' Report contains indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. These factors include, but are not limited to, those discussed under Principal Risks. These and other factors could adversely affect the Group's results, strategy and prospects.

Forward-looking statements involve risks, uncertainties and assumptions. They relate to events and/or depend on circumstances in the future which could cause actual results and outcomes to differ materially from those currently anticipated. No obligation is assumed to update any forward-looking statements, whether as a result of new information, future events or otherwise.

# Corporate Governance Statement

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

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

In the context of the Group's strategy for growth, the Board will continue to actively review its Corporate Governance at regular intervals.

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

i) The safeguarding of assets against unauthorised use or disposal; and

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

In addition the key procedures on the internal financial control of the Group are as follows:

i) The Board reviews and approves budgets and monitors performance against those budgets regularly with any variance being fully investigated; and

ii) The Group has clearly defined reporting and authorisation procedures relating to the key financial areas.

The Annual General Meeting is the principal forum for dialogue with shareholders.

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

# 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 Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

## Statement of disclosure to the Independent Auditor

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's Independent Auditor for the purposes of their audit and to establish that the Independent Auditor is aware of that information. The Directors are not aware of any relevant audit information of which the Independent Auditor is unaware.

H W Fisher & Company, have expressed their willingness to continue in office as Independent Auditor and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board

**Patrick DeSouza**
*Executive Chairman*

12 August 2011

## Independent auditor's report to the members of Water Intelligence plc

We have audited the Group and Parent Company Financial Statements of Water Intelligence plc for the year ended 31 December 2010 (the "Financial Statements"), which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows, together with the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Group's members, as a body, in accordance with part 3 of Chapter 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Group'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 Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditors

As explained more fully under 'Statement of Directors' Responsibilities' on page 17 the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB) Ethical Standards for auditors.

### Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements.

### Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with the IFRS as adopted by the European Union and 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.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

**Matters on which we are required to report by exception**
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.

**Gary Miller (Senior Statutory Auditor)**

For and on behalf of H W Fisher & Company

Chartered Accountants
Statutory Auditor

Acre House
11-15 William Road
London
NW1 3ER
United Kingdom

12 August 2011

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

| | Notes | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|---|
| **Revenue** | 4 | 5,698,024 | 5,545,124 |
| **Cost of sales** | | (355,342) | (273,824) |
| **Gross profit** | | 5,342,682 | 5,271,300 |
| Administrative expenses | | | |
| – Share-based payments | 8 | (20,399) | (42,109) |
| – Reverse acquisition costs | | (681,893) | – |
| – Other administrative costs | | (5,207,688) | (4,702,702) |
| Total administrative expenses | | (5,909,980) | (4,744,811) |
| **Operating (loss)/profit** | 5 | (567,298) | 526,489 |
| Finance income | 9 | 19,103 | 77,032 |
| Finance expense | 10 | (322,631) | (365,159) |
| **(Loss)/profit before tax** | | (870,826) | 238,362 |
| Taxation credit/(expense) | 11 | 1,658 | (95,617) |
| **(Loss)/profit for the year** | | (869,168) | 142,745 |

| | | | |
|---|---|---|---|
| **Other Comprehensive Income** | | | |
| Exchange differences arising on translation of foreign operations | | (18,833) | – |
| **Total comprehensive (loss)/profit for the year** | | (888,001) | 142,745 |

| **(Loss)/earnings per share** | | **Cents** | **Cents** |
|---|---|---|---|
| Basic | 12 | (21.9) | 2.04 |
| Diluted | 12 | (21.9) | 1.84 |

The results reflected above relate to continuing activities. The (loss)/profit for the current and prior year and the total comprehensive (loss)/profit for the current and prior year are wholly attributable to equity holders of the Parent Company, Water Intelligence plc.

The accompanying notes on pages 27 to 55 are an integral part of these financial statements.

# Consolidated Statement of Financial Position

for the year ended 31 December 2010

| | Notes | 2010<br>$ | 2009<br>$ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 13 | 2,369,940 | 876,211 |
| Other intangible assets | 14 | 3,973,122 | 4,295,516 |
| Property, plant and equipment | 15 | 76,729 | 117,287 |
| Deferred tax asset | 22 | 186,895 | 271,501 |
| Trade and other receivables | 18 | 52,439 | 112,005 |
| | | 6,659,125 | 5,672,520 |
| **Current assets** | | | |
| Inventories | 17 | 242,049 | 100,702 |
| Deferred tax asset | 22 | 92,493 | 41,564 |
| Trade and other receivables | 18 | 860,822 | 987,864 |
| Cash and cash equivalents | 19 | 606,382 | 369,650 |
| | | 1,801,746 | 1,499,780 |
| **Total Assets** | | 8,460,871 | 7,172,300 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to holders of the parent** | | | |
| Share capital | 23 | 12,716,863 | 84 |
| Share premium | 23 | 4,203,812 | 1,924,895 |
| Capital redemption reserve | 23 | 6,517,644 | – |
| Merger reserve | | 8,501,150 | – |
| Other reserves | | 601 | – |
| Reverse acquisition reserve | | (27,758,088) | – |
| Retained (loss)/profit | | (706,177) | 162,991 |
| | | 3,475,805 | 2,087,970 |
| **Non-current liabilities** | | | |
| Borrowings | 25 | 3,086,408 | 33,202 |
| Promissory notes | 25 | 85,222 | 3,249,099 |
| Provision of onerous contracts | 21 | 193,218 | – |
| | | 3,364,848 | 3,282,301 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | 884,264 | 305,704 |
| Borrowings | 25 | 632,439 | 441,569 |
| Promissory notes | 25 | 16,880 | 1,054,756 |
| Provision of onerous contracts | 21 | 86,635 | – |
| | | 1,620,218 | 1,802,029 |
| **Total equity and liabilities** | | 8,460,871 | 7,172,300 |

These Financial Statements were approved and authorised for issue by the Board of Directors on 12 August 2011 and were signed on its behalf by:

**Patrick De Souza**
*Executive Chairman*

The accompanying notes on pages 27 to 55 are an integral part of these financial statements.

# Company Statement of Financial Position

for the year ended 31 December 2010

| | Notes | 2010 $ | 2009 $ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 16 | 8,544,065 | – |
| | | 8,544,065 | – |
| **Current assets** | | | |
| Trade and other receivables | 18 | 190,918 | 763,418 |
| Cash and cash equivalents | 19 | 173,844 | 155,641 |
| | | 364,762 | 919,059 |
| **Total assets** | | 8,908,827 | 919,059 |
| **Equity and liabilities** | | | |
| **Equity attributable to holders of the parent** | | | |
| Share capital | 23 | 12,716,863 | 18,853,090 |
| Share premium | 23 | 4,203,812 | 2,510,565 |
| Capital redemption reserve | 23 | 6,517,644 | – |
| Merger reserve | | 8,501,150 | – |
| Other reserves | | (19,186) | – |
| Retained losses | | (23,258,424) | (20,946,663) |
| | | 8,661,859 | 416,992 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | 246,968 | 246,592 |
| Borrowings | 25 | – | 255,475 |
| | | 246,968 | 502,067 |
| **Total equity and liabilities** | | 8,908,827 | 919,059 |

These Financial Statements were approved and authorised for issue by the Board of Directors on 12 August 2011 and were signed on its behalf by:

**Patrick De Souza**
*Executive Chairman*

The accompanying notes on pages 27 to 55 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

| | Share Capital $ | Share Premium $ | Capital Redemption Reserve $ | Reverse Acquisition Reserve $ | Merger Reserve $ | Other Reserve $ | Retained Profit/(Loss) $ | Total Equity $ |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2009** | **84** | **1,924,895** | **–** | **–** | **–** | **–** | **20,246** | **1,945,225** |
| Total Comprehensive Income | – | – | – | – | – | – | 142,745 | 142,745 |
| **As at 31 December 2009** | **84** | **1,924,895** | **–** | **–** | **–** | **–** | **162,991** | **2,087,970** |
| **As at 1 January 2010** | **84** | **1,924,895** | **–** | **–** | **–** | **–** | **162,991** | **2,087,970** |
| Parent company equity reflected on reverse acquisition | 18,853,090 | 2,510,565 | – | – | – | – | – | 21,363,655 |
| Issue of shares | 237,908 | – | – | – | – | – | – | 237,908 |
| Issue of consideration shares | 114,880 | – | – | (27,758,088) | 8,501,150 | – | – | (19,142,058) |
| Reverse acquisition adjustment | (84) | (1,924,895) | – | – | – | – | – | (1,924,979) |
| Issue of open offer shares | 3,525 | 260,857 | – | – | – | – | – | 264,382 |
| Issue of shares to advisers and creditors | 1,289 | 95,337 | – | – | – | – | – | 96,626 |
| Issue of re sub-underwriting shares | 13,748 | 1,017,341 | – | – | – | – | – | 1,031,089 |
| Conversion of loan notes | 10,067 | 583,972 | – | – | – | – | – | 594,039 |
| Cost of raising equity | – | (264,260) | – | – | – | – | – | (264,260) |
| Cancellation deferred shares | (6,517,644) | – | 6,517,644 | – | – | – | – | – |
| Share based payment expense | – | – | – | – | – | 19,434 | – | 19,434 |
| Total comprehensive loss | – | – | – | – | – | (18,833) | (869,168) | (888,001) |
| **As at 31 December 2010** | **12,716,863** | **4,203,812** | **6,517,644** | **(27,758,088)** | **8,501,150** | **601** | **(706,177)** | **3,475,805** |

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 |
| Capital redemption | Non-distributable reserve in relation to cancellation of deferred shares |
| Retained profit/(losses) | Cumulative net losses recognised in the Financial Statements |
| Reverse acquisition | Non-distributable amount arising on the reverse acquisition in accordance with IFRS 3 |
| Other reserves | Amounts recognised for the fair value of share options granted in accordance with IFRS 2 amounting to $19,434 and exchange differences on translating foreign operations amounting to ($18,833) |
| Merger reserve | Non-distributable reserve arising on reverse acquisition |

# Company Statement of Changes in Equity

for the year ended 31 December 2010

| | Share Capital $ | Share Premium $ | Capital Redemption Reserve $ | Merger Reserve $ | Other Reserve $ | Retained Losses $ | Total Equity $ |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2009** | **18,853,090** | **2,510,565** | **–** | **–** | **–** | **(20,552,487)** | **811,168** |
| Total comprehensive loss | – | – | – | – | – | (394,176) | (394,176) |
| **As at 31 December 2009** | **18,853,090** | **2,510,565** | **–** | **–** | **–** | **(20,946,663)** | **416,992** |
| **As at 1 January 2010** | **18,853,090** | **2,510,565** | **–** | **–** | **–** | **(20,946,663)** | **416,992** |
| Issue of shares | 237,908 | – | – | – | – | – | 237,908 |
| Issue of consideration shares | 114,880 | – | – | 8,501,150 | – | – | 8,616,030 |
| Issue of open offer shares | 3,525 | 260,857 | – | – | – | – | 264,382 |
| Issue of shares to advisers and creditors | 1,289 | 95,337 | – | – | – | – | 96,626 |
| Issue of re sub-underwriting shares | 13,748 | 1,017,341 | – | – | – | – | 1,031,089 |
| Conversion of loan notes | 10,067 | 583,972 | – | – | – | – | 594,039 |
| Costs of raising equity | – | (264,260) | – | – | – | – | (264,260) |
| Cancellation deferred shares | (6,517,644) | – | 6,517,644 | – | – | – | – |
| Share based payment expense | – | – | – | – | 86,162 | – | 86,162 |
| Foreign exchange | – | – | – | – | (71,965) | – | (71,695) |
| Total comprehensive loss | – | – | – | – | (33,383) | (2,311,761) | (2,345,144) |
| **As at 31 December 2010** | **12,716,863** | **4,203,812** | **6,517,644** | **8,501,150** | **(19,186)** | **(23,258,424)** | **8,661,859** |

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 |
| Capital redemption reserve | Non-distributable reserve in relation to cancellation of deferred shares |
| Retained losses | Cumulative net losses recognised in the Financial Statements |
| Other reserves | Amounts recognised for the fair value of share options granted in accordance with IFRS 2 amounting to $86,162 and foreign exchange differences on translation amounting to ($71,695) |
| Merger reserve | Non-distributable reserve arising on reverse acquisition |

# Consolidated Statement of Cash Flows

for the year ended 31 December 2010

| | Notes | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|---|
| **Net cash (used in)/generated from operating activities** | 26 | (315,010) | 864,182 |
| **Cash flows from investing activities** | | | |
| Interest received | | 19,103 | 77,032 |
| Interest paid | | (322,631) | (365,159) |
| Purchase of plant and equipment | | (7,124) | (1,682) |
| Sale of fixed assets | | 801 | |
| Capital contributed | | – | 180,000 |
| Issue of Convertible loan note | | – | (121,112) |
| Trade notes received | | 105,993 | 36,811 |
| **Net cash used in investing activities** | | (203,858) | (194,110) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 4,000,000 | – |
| Principal payments on long term debt | | (4,776,392) | (406,990) |
| Repayment of loan note funding | | – | (450,512) |
| Repayment of obligations under finance leases | | (16,617) | (21,947) |
| Proceeds from long term debt | | – | 199,401 |
| Proceeds from issue of shares | | 1,295,471 | – |
| Fees associated with share issue capitalised | | (264,260) | – |
| Proceeds from issue of convertible loan notes | | 452,883 | – |
| **Net cash (used in)/from financing activities** | | 691,085 | (680,048) |
| **Net decrease in cash and cash equivalents** | | 172,217 | (9,976) |
| **Cash and cash equivalents at the beginning of year** | | 369,650 | 379,626 |
| Cash acquired on Reverse acquisition | | 83,348 | – |
| Effect of foreign exchange rate changes | | (18,833) | – |
| **Cash and cash equivalents at end of year** | | 606,382 | 369,650 |

The accompanying notes on pages 27 to 55 are an integral part of these financial statements.

# Company Statement of Cash Flows

for the year ended 31 December 2010

| | Notes | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|---|
| **Net cash used in operating activities** | 26 | (784,046) | (580,251) |
| **Cash flows from investing activities** | | | |
| Interest received | | 15 | 13,937 |
| Interest paid | | (21,133) | (2,287) |
| **Net cash used in investing activities** | | (21,118) | 11,650 |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 1,533,379 | – |
| Expenses of share issue | | (264,260) | – |
| Proceeds from loan notes due to be issued (restricted cash) | | – | 141,156 |
| Proceeds from issue of convertible loans notes | | 452,883 | 114,319 |
| Amounts loaned to subsidiary | | (750,932) | – |
| Repayment of loan note | | (114,319) | – |
| **Net cash from financing activities** | | 856,751 | 255,475 |
| **Increase/(decrease) in cash and cash equivalents** | | 51,587 | (313,126) |
| **Cash and cash equivalents at the beginning of period** | | 155,640 | 468,766 |
| **Effect of foreign rate changes** | | (33,383) | – |
| **Cash and cash equivalents at end of period** | | 173,844 | 155,640 |

The accompanying notes on pages 27 to 55 are an integral part of these financial statements.

# Notes to the Financial Statements

for the period ended 31 December 2009

## 1 General information

The Group is a leading provider of water monitoring products, leak detection equipment and remediation services. The Group's strategy – which underpins the creation in July 2010 of Water Intelligence plc through the Reverse Acquisition of Qonnectis plc by ALDHC –is to focus on providing a critical mass of water management products and services and to be a "one-stop" shop for leak alerts, precision, non-invasive leak detection and remediation.

The Company is a public limited company domiciled in the United Kingdom and incorporated under registered number 03923150 in England and Wales. The Company's registered office is St Johns Innovation Centre, Cowley Road, Cambridge CB4 0WS, England.

The Company is listed on AIM of the London Stock Exchange. These Financial Statements were authorised for issue by the Board of Directors on the 12 August 2011.

## 2 Adoption of new and revised International Financial Reporting Standards

No new IFRS standards, amendments or interpretations became effective in 2010 which had a material effect on these Financial Statements.

At the date of approval of these Financial Statements, the following IFRS Standards and Interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective. These new Standards, Amendments and Interpretations are effective for accounting periods beginning on or after the dates shown below:

| **Standard** | **Description** | **Effective for annual periods beginning on or after:** |
|---|---|---|
| IAS 32 | Amendment – Classification of Right Issues | 1 Feb 2010 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 Jul 2010 |
| IFRS 1 | Amendment – First Time Adoption of IFRS | 1 Jul 2010 |
| IAS 24 | Revised – Related Party Disclosures | 1 Jan 2011 |
| IFRIC 14 | Amendment – IAS 19 Limit on a defined benefit asset | 1 Jan 2011 |
| IFRS 7 | Amendment – Transfer of financial assets | 1 Jul 2011 |
| IAS 12 | Deferred Tax: Recovery of Underlying Assets | 1 Jan 2012 |
| IFRS 9 | Financial instruments | 1 Jan 2013 |

The Group has not early adopted these amended standards and interpretations. The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's Financial Statements in the periods of initial application.

## 3 Significant accounting policies

**Basis of preparation**

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

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

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

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

**Basis of consolidation**
On 29 July 2010 the Company acquired via a share for share exchange 91.57 per cent. of the issued share capital of ALDHC and its wholly owned subsidiary ALD. On 27 August 2010 the Company acquired the remaining issued share capital of ALDHC.

Under IFRS 3 Business Combinations this ALDHC share exchange has been accounted for as a reverse acquisition.

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. The following accounting treatment has been applied in respect of the reverse acquisition:

- The assets and liabilities of the legal subsidiary, ALDHC are recognised and measured in the Consolidated Financial Statements at their pre combination carrying amounts, without restatement to their fair value;
- The comparative retained reserves recognised in the Consolidated Financial Statements reflect the retained reserves of ALDHC to 31 December 2009. However in accordance with IFRS 3 Business Combinations the equity structure appearing in the Consolidated Financial Statements reflects the equity structure of the legal parent WI, including the equity instruments issued under the share exchange to effect the business combination;
- A reverse acquisition reserve has been 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;
- Comparative numbers are based upon the Consolidated Financial Statements of the legal subsidiary, ALDHC for the year ended 31 December 2009; and
- ALDHC reported under US GAAP for the year ended 31 December 2009, these figures were adjusted to IFRS prior to the reverse acquisition taking place.
- The following accounting treatment has been applied in respect of the acquisition of WI:
  - The assets and liabilities of WI are recognised and measured in the Financial Statements at their fair value at the date of acquisition.
  - The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred at the date of the exchange, plus costs directly attributable to the acquisition.
  - Identifiable assets acquired and liabilities assumed in a business combination are initially measured at their fair values, irrespective of the extent of any minority interest. The excess of the cost of the acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

    If the costs of the acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is recognised directly in the income statement.

**Parent Company income statement**
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 for the year ended 31 December 2010 of $2,311,761 (2009: $435,923), including $1,338,371 (2009: $ Nil) for provisions against inter-company balances and $291,472 (2009: $ Nil) for reverse acquisition expenses, and is included within the Consolidated Statement of Comprehensive Income.

**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 and the Chairman's Statement.

The Directors have prepared a business plan and cash flow forecast for the period to 31 December 2012. The forecast contains certain assumptions about the level of future sales and the level of gross margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term trading is reliant on cash generation from both its predominantly US-based royalty income and from the achievement of a successful product development and subsequent sales initiative.

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.

**Investments in subsidiaries**
A subsidiary is an entity whose operating and financing policies are controlled by the Group. Subsidiaries are consolidated from the date on which control was transferred to the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

As a result of applying reverse acquisition accounting, the consolidated IFRS financial information on WI is a continuation of the financial information of ALDHC. The retained earnings shown on the Consolidated Statement of Financial Position are those for ALDHC, together with the post acquisition reserves of the Company.

The cost of acquisitions of subsidiaries is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by WI in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

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

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

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

**Onerous contracts**
An onerous contract is defined as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit by it, this being the unavoidable net loss arising from the contract. The lower of the net cost to fulfil the contact or any penalties and compensation payable from failure to fulfil the contract shall be recognised as a provision against such a contract.

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

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

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

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

**Foreign currencies**

***(i) Functional and presentational currency***
Items included in the Financial Statements are measured using the currency of the primary economic environment in which each entity operates ("the functional currency") which is considered by the Directors to be the Pounds Sterling (£) for the Parent Company and US Dollars ($) for ALDHC. The Financial Statements have been presented in US Dollars which represents the dominant economic environment in which the Group operates. The effective exchange rate at 31 December 2010 was £1 = US$1.5553 (2009: £1 = US$ 1.60).

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

Transactions in the accounts of individual Group companies are recorded at the rate of exchange ruling on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the year end. All differences are taken to the Statement of Comprehensive Income.

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

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

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

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

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

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

**Borrowing costs**
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

**Revenue recognition**
Revenue is recognised at the fair value of the consideration received or receivable.

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

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

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

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

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

**Financial liabilities and equity**
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

**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.

**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.

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

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

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

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

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

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. When revalued assets are sold, the amounts included are transferred to retained earnings.

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

Under IFRS 3 Business Combinations 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 useful economic lives on the straight-line method with the charge included in administrative expenses in the Consolidated Statement of Comprehensive Income.

Other intangible assets are stated at cost less accumulated amortisation.

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

| | **Years** |
|---|---|
| Covenants not to compete | 3 |
| Customer lists | 5 |
| Trademarks | 20 |
| Patents | 10 |

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 income statement. When revalued assets are sold, the amounts included are transferred to retained earnings.

**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 used 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 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 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, a geographical segment is engaged in providing products or services within a particular environment that subject to risks and returns that are different from those of segments operating in other economic environments.

**Pension contributions**
There are no pension schemes in the Group.

**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 and lenders 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 judgments**
The preparation of Financial Statements in conformity with International Financial Reporting Standards requires the use of 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 estimates are based on management's best knowledge of current events and actions, the resulting accounting estimates will, by definition, seldom equal the related actual results. 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 discussed in the relevant notes.

## 4 Revenues

In the opinion of the Directors, the operations of the Group currently comprise three operating segments, being the franchises, corporate owned stores and other activities.

The Group mainly operates in the US, with nascent operations in the UK and certain other countries. In 2010 94 per cent. of its revenue came from the US based operations, the remaining 6 per cent. of its revenue came from either UK or overseas based operations.

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

**Segment information**
The Group adopted IFRS 8 Operating Segments with effect from 1 July 2008. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group. Prior to the Reverse Acquisition on 29 July 2010, IFRS 8 was applied retrospectively to the comparative figures of ALDHC as of 1 January 2009.

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 separated into three segments

- Franchisor royalties
- Corporate-operated stores
- Other activities including product and equipment sales

The following is an analysis of the Group's revenues, results from operations and assets:

**Revenue**

| | **Year ended 31 December 2010 $** | **Year ended 31 December 2009 $** |
|---|---|---|
| Royalties from franchisees | 3,876,047 | 3,817,071 |
| Corporate-operated Stores | 1,361,324 | 1,421,579 |
| Other activities | 460,653 | 306,474 |
| **Total** | 5,698,024 | 5,545,124 |

**Profit/(loss) before tax**

| | **Year ended 31 December 2010 $** | **Year ended 31 December 2009 $** |
|---|---|---|
| Royalties from franchisees | 585,242 | 356,500 |
| Corporate-operated Stores | (139,679) | (118,138) |
| Other activities | (1,316,389) | – |
| **Total** | (870,826) | 238,362 |

**Assets**

| | **Year ended 31 December 2010 $** | **Year ended 31 December 2009 $** |
|---|---|---|
| Royalties from franchisees | 5,315,158 | 6,772,904 |
| Corporate-operated Stores | 431,631 | 399,396 |
| Other activities | 2,714,082 | – |
| **Total** | 8,460,871 | 7,172,300 |

Information is also provided to the Group's Chief Operating Decision Maker on the Corporate–operated Stores' performance:

**Corporate-operated Stores**

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| Revenue | 1,361,324 | 1,421,579 |
| Contribution | (139,679) | (118,136) |

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

***Geographic information***

***Total revenue***
Total revenue from activities by geographical area is detailed below:

Revenue by geography

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| US | 5,367,232 | 5,332,548 |
| International | 330,792 | 212,576 |
| **Total** | 5,698,024 | 5,545,124 |

Revenue from franchisor activities by geographical area is detailed below.

Royalties from franchisees

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| US | 3,638,047 | 3,603,000 |
| International | 238,000 | 214,071 |
| **Total** | 3,876,047 | 3,817,071 |

## 5 Expenses by nature

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

| | Note | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|---|
| Raw materials and consumables used | | 355,341 | 273,824 |
| Employee costs | 6 | 2,486,529 | 2,303,834 |
| Operating lease rentals | | 21,521 | 17,755 |
| Finance lease rentals | | 5,511 | 5,222 |
| Legal and professional fees | | 283,122 | 83,474 |
| Amortisation of intangibles | | 322,395 | 334,394 |
| Depreciation charge | | 68,392 | 89,738 |
| Distribution costs | | 14,371 | 20,904 |
| Marketing costs | | 549,990 | 406,759 |
| Administration expenses PSS | | – | 276,515 |
| R & D | | 629,909 | 591,187 |
| Plain Sight Systems licence fees | | 474,026 | 572,952 |
| Third parties | | 155,883 | 18,235 |
| Reverse acquisition costs | | 681,893 | – |

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| **Auditors remuneration** | | |
| Fees payable to the Company's auditor for audit of Parent Company and Consolidated Financial Statements | 90,000 | 18,524 |

Fees payables to the Company's auditor for other services:

The 2010 Financial Statements of the US based subsidiaries were audited by Marcum LLP. The US auditors charged $35,500 (2009: $29,000) in respect of the audit and $31,821 ($20,118) for tax services provided.

## 6 Employees and Directors

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| Director's fees | 34,457 | – |
| Wages and Salaries | 2,241,011 | 2,108,319 |
| Social Security Costs | 190,662 | 153,406 |
| Share based payments | 20,399 | 42,109 |
| | 2,486,529 | 2,303,834 |

Information regarding Director's emoluments are as follows:

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| Director's fees | 34,457 | – |
| Salaries | 297,887 | 206,387 |
| Social Security Costs | 30,922 | 9,860 |
| | 363,266 | 216,247 |

The highest paid Director received emoluments of $207,308 (2009: $216,247).

The average number of employees (including Executive Directors) in the Group during the year was 39 (2009: 38).

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Directors (executive and non executive) | 6 | 2 |
| Management | 7 | 6 |
| Field Services | 14 | 14 |
| Franchise Support | 7 | 7 |
| Administration | 5 | 4 |
| | 39 | 38 |

## 7 Directors' share options

None of the Directors had options in WI at 31 December 2010 and at the date of this report.

## 8 Share options

The Group has a number of share options schemes.

The Company grants share options at its discretion to Directors, management, advisors and lenders. In 2010 share options were granted with vesting periods of between one and three years from the date of grant. Should the options remain unexercised after a period of ten years from the date of grant the options will expire. Options are exercisable at a price equal to the Company's quoted market price on the date of grant.

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

| | Number of share options 2010 | Weighted average exercise price ($) 2010 | Number of share options 2009 | Weighted average exercise price ($) 2009 |
|---|---|---|---|---|
| Outstanding at beginning of year | 18,366 | 36.07 | 23,826 | 44.57 |
| Granted during the year | 287,526 | 1.41 | 3,333 | 29.77 |
| Forfeited/lapsed during the year | (3,935) | 51.03 | (8,793) | 56.72 |
| Exercised during the year | – | – | – | – |
| Outstanding at end of the year | 301,957 | 2.81 | 18,366 | 36.07 |
| Exercisable at end of the year | 301,957 | 2.81 | 18,366 | 36.07 |

Upon admission to AIM on 30 July 2010, the ordinary shares in WI were consolidated on the basis of 1200:1. As a result, the share options for the comparative period have been shown as if they were consolidated on the same basis.

*Fair value of share options*

The weighted average fair value of the exercise price of the share options granted in the financial year was $1.41 (£0.75).

The calculation of the fair value of options issued requires the use of estimates. Expected volatility has been estimated based on similar sized companies listed on the AIM market of the London Stock Exchange. It is assumed that all options will be exercised.

| | Weighted average exercise price ($) 2010 | Weighted average exercise price ($) 2009 |
|---|---|---|
| Weighted average share price | 1.0433 | 0.0024 |
| Weighted average exercise price | 1.1544 | 0.0157 |
| Expected volatility | 35% | 99% |
| Expected life | 3 years | 5 years |
| Risk free rate | 2.08% | 1.50% |
| Expected dividend yields | Nil | Nil |

A charge of $20,399 (2009: $42,109) relating to share-based payments has been recognised in the year and is included in the Consolidated Statement of Comprehensive Income. The Company has recognised a charge of $86,162 for 2010 relating to share-based payments in the year.

On 31 December 2010, the closing market price of Water Intelligence plc ordinary shares was 57 pence. The highest and lowest prices of these shares during the period from Admission to 31 December 2010 were 77.5 pence and 56 pence.

The following options arrangements exist over the Company's shares:

| Scheme | 2010 | 2009 | Date of Grant | Exercise price | Exercise period From | To |
|---|---|---|---|---|---|---|
| EMI | 185 | 185 | 18/02/2005 | $51.00 | 18/02/2005 | 30/01/2011 |
| | 417 | 417 | 29/05/2007 | $34.08 | 29/05/2007 | 30/01/2011 |
| | 833 | 833 | 29/01/2009 | $22.68 | 29/01/2009 | 30/01/2011 |
| Unapproved | 3,333 | 3,333 | 18/02/2005 | $51.03 | 18/02/2005 | 30/01/2011 |
| | – | 3,935 | 18/02/2005 | $51.03 | 18/02/2005 | 23/02/2010 |
| | 1,020 | 1,020 | 29/05/2007 | $34.02 | 29/05/007 | 30/01/2011 |
| | 6,143 | 6,143 | 23/04/2008 | $22.68 | 23/04/2008 | 22/04/2013 |
| | 2,500 | 2,500 | 29/01/2009 | $22.68 | 29/01/2009 | 30/01/2011 |
| | 70,000 | – | 16/07/2010 | $0.99 | 16/07/2010 | 16/07/2014 |
| | 187,526 | – | 28/07/2010 | $1.18 | 28/07/2010 | 28/07/2014 |
| | 30,000 | – | 05/10/2010 | $1.60 | 05/10/2010 | 04/10/2012 |
| **Total** | 301,957 | 18,366 | | | | |

All share options are equity settled on exercise.

Under ALDHC's 2006 Employee, Director and Consultant Stock Plan ("ALDHC Option Plan"), certain directors and employees of ALD, were granted an aggregate of 738,750 options to acquire stock in ALDHC with an exercise price of $1.14 per share. Following Admission, all options under the ALDHC Option Plan were to be cancelled or waived in return for the grant of options over New Ordinary Shares with the same economic value as existing options under the ALDHC Option Plan. Therefore, it is intended that before 31 December 2011, 738,750 options over new ordinary shares will be granted to certain eligible US employees of the Enlarged Group with an exercise price of 72p per share.

## 9 Finance income

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| Interest income | 19,103 | 77,032 |

## 10 Finance expense

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| Interest payable | (322,631) | (365,159) |

## 11 Taxation

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| **Group** | | |
| Current tax: | | |
| Current tax on (losses)/profits in the year | (35,335) | 18,927 |
| Total current tax | (35,335) | 18,927 |
| Deferred tax (note 22) | 33,677 | 76,690 |
| Income tax (credit)/expense | (1,658) | 95,617 |

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:

| | | |
|---|---|---|
| (Loss)/profit before tax on ordinary activities | (870,826) | 238,362 |
| Tax calculated at domestic rate applicable profits in respective countries | (463,601) | 81,043 |
| Tax effects of: | | |
| Non deductible expenses | 160,496 | 2,323 |
| State taxes net of federal benefit | 1,000 | 12,251 |
| Depreciation in excess of capital allowances | 1,199 | |
| Deduction for research and development | (30,515) | |
| Tax losses unrelieved | 329,763 | |
| Taxation (credit)/expense recognised in income statement | (1,658) | 95,617 |

The Group is subject to income taxes in two 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. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

## 12 Loss per share

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

**Basic**

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| (Loss)/earnings attributable to shareholders of the Company ($) | (869,168) | 142,745 |
| Weighted average number of ordinary shares | 3,962,211 | 7,000,000 |
| **(Loss)/earnings per share (cents)** | (21.9) | 2.04 |
| **Diluted (loss)/earnings per share (cents)** | (21.9) | 1.84 |

The Company issued share options in 2010. The diluted loss per share has been kept the same as the basic loss per share as the conversion of share options decreases the basis loss per share, thus being anti-dilutive.

## 13 Goodwill

**Group**

| | Goodwill $ | Owned and Operated stores $ | Franchisor activities $ | Totals $ |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2009 | – | 239,500 | 636,711 | 876,211 |
| Additions | – | – | – | – |
| **At 31 December 2009** | – | 239,500 | 636,711 | 876,211 |
| Additions | 1,493,729 | – | – | 1,493,729 |
| **At 31 December 2010** | 1,493,729 | 239,500 | 636,711 | 2,369,940 |
| **Carrying amount** | | | | |
| At 31 December 2009 | – | 239,500 | 636,711 | 876,211 |
| **At 31 December 2010** | 1,493,729 | 239,500 | 636,711 | 2,369,940 |

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 is allocated to each of the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has 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.

Calculation of each cash generating units' recoverable amount requires the use of estimates, with regards to forecast cash flows and discount rates. No impairment charge was recognised in the year to 31 December 2010 as the recoverable amount of the cash generating units exceeded the carrying amount. If the estimated cost of capital used in determining the discount rate used in these calculations had been 3 per cent. higher than management's estimates, the Group would still not have incurred any impairment.

On 29 July 2010 the controlling interest in the parent Company was exchanged for 91.57 per cent. of the issued share capital of ALDHC a Company registered in the United States of America, under the rules of a reverse acquisition and prescribed by IFRS 3 Business Combinations. On 27 August 2010 the Company acquired the remaining issued share capital of ALDHC.

Under this standard and for accounting purposes the subsidiary ALDHC (the legal parent) has been deemed to have acquired the parent, Water Intelligence plc (formerly Qonnectis plc). The net assets of Water Intelligence plc have been recognised at their pre acquisition carrying amounts and the goodwill arising has been recognised.

The net assets of the acquired company and the goodwill are as follows:

**Group**

| | $ |
|---|---|
| Purchase consideration as fair value of the shares issued | 534,527 |
| Fair value of net liabilities acquired | 959,202 |
| **Goodwill acquired** | 1,493,729 |

The fair value of assets and liabilities as of 29 July 2010 arising from the acquisition are as follows:

| | Book and fair value $ |
|---|---|
| Property, plant and equipment | 20,891 |
| Trade and other receivables | 718,574 |
| Cash and cash equivalents | 83,348 |
| Trade and other payables | (936,672) |
| Provision for onerous contracts | (323,240) |
| Borrowings | (522,103) |
| **Net liabilities acquired** | (959,202) |

The loss of Water Intelligence plc since the date of acquisition recognised in the Consolidated Statement of Comprehensive Income is $765,038.

## 14 Other intangible assets

| | Covenants not to compete $ | Customer Lists $ | Trademarks $ | Patents $ | Total $ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2009 | 270,000 | 217,500 | 5,293,817 | 23,692 | 5,805,009 |
| Additions | – | – | – | – | – |
| **At 31 December 2009** | 270,000 | 217,500 | 5,293,817 | 23,692 | 5,805,009 |
| Additions | – | – | – | – | – |
| **At 31 December 2010** | 270,000 | 217,500 | 5,293,817 | 23,692 | 5,805,009 |
| **Accumulated amortisation** | | | | | |
| At 1 January 2009 | 253,333 | 117,500 | 789,458 | 14,808 | 1,175,099 |
| Amortisation expense | 8,333 | 50,000 | 273,691 | 2,370 | 334,394 |
| **At 31 December 2009** | 261,666 | 167,500 | 1,063,149 | 17,178 | 1,509,493 |
| Amortisation expense | 8,334 | 50,000 | 261,690 | 2,370 | 322,394 |
| **At 31 December 2010** | 270,000 | 217,500 | 1,324,839 | 19,548 | 1,831,887 |
| **Carrying amount** | | | | | |
| At 31 December 2009 | 8,334 | 50,000 | 4,230,668 | 6,514 | 4,295,516 |
| **At 31 December 2010** | – | – | 3,968,978 | 4,144 | 3,973,122 |

All intangible assets have been acquired by the Group.

The calculation of amortisation on intangible assets requires the use of estimates and judgement, related to the expected useful lives of the assets. If the useful lives of the trademarks were decreased by 10 per cent., this would have resulted in an additional amortisation charge of $32,000.

## 15 Property, plant and equipment

| | Equipment & displays $ | Motor vehicles $ | Leasehold improvements $ | Total $ |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2009 | 543,888 | 350,933 | 123,418 | 1,018,239 |
| Additions | 1,682 | | | 1,682 |
| **At 31 December 2009** | 545,570 | 350,933 | 123,418 | 1,019,921 |
| Additions | 7,123 | – | – | 7,123 |
| Company assets consolidated on reverse acquisition | 140,270 | – | – | 140,270 |
| Exchange differences | (1,171) | – | – | (1,171) |
| Disposals | – | (5,500) | – | (5,500) |
| **At 31 December 2010** | 691,792 | 345,433 | 123,418 | 1,160,643 |
| **Accumulated depreciation** | | | | |
| At 1 January 2009 | 443,032 | 290,568 | 79,296 | 812,896 |
| Depreciation expense | 40,865 | 26,614 | 22,259 | 89,738 |
| **At 31 December 2009** | 483,897 | 317,182 | 101,555 | 902,634 |
| Eliminated on disposals | – | (5,500) | – | (5,500) |
| Company assets consolidated on reverse acquisition | 119,380 | – | – | 119,380 |
| Depreciation expense | 28,087 | 18,422 | 21,863 | 68,372 |
| Exchange differences | (972) | – | – | (972) |
| **At 31 December 2010** | 630,392 | 330,104 | 123,418 | 1,083,914 |
| **Carrying amount** | | | | |
| At 31 December 2009 | 61,673 | 33,751 | 21,863 | 117,287 |
| **At 31 December 2010** | 61,400 | 15,329 | – | 76,729 |

At the date of the reverse acquisition (29 July 2010), the property, plant and equipment held by QON and acquired at that date had a carrying value of $20,891.

The calculation of depreciation on property, plant and equipment requires the use of estimates and judgement, related to the expected useful lives of the assets. The depreciation expense in the year to 31 December 2010 is not material to the accounts, and therefore any change in estimate related to expected useful lives would not have a material effect on the Financial Statements.

## 16 Investment in subsidiary undertaking

| Company | Subsidiary undertaking $ |
|---|---|
| At 31 December 2009 | – |
| Additions | 8,616,030 |
| Exchange difference | (71,965) |
| **At 31 December 2010** | 8,544,065 |

Included in the above is the following investment undertaken:

At the 31 December 2009 WI consisted of Qonnectis plc and 4 wholly owned subsidiaries.

On 29 July 2010 WI acquired via a share for share exchange 91.57 per cent. of the issued share capital of ALDHC, a Company registered in the United States. On 27 August 2010 WI acquired the remaining issued share capital of ALDHC. 100 per cent. of the ordinary share capital and voting rights is held by the Company.

Details of the purchase consideration and fair values of the assets acquired are outlined in note 13 and have been calculated using the Group's accounting policies. Goodwill of $1,493,729 arose on acquisition of ALDHC.

| Company | Consideration value $ |
|---|---|
| Value of equity released in exchange for the entire equity of ALDHC | 8,616,030 |

The Directors have assessed the carrying value of the investment in the subsidiary and in their opinion no impairment provision is currently necessary. A further assessment will be undertaken in 2011.

The principal subsidiary undertakings during the year were as follows:

| | | County of incorporation | Interest held % |
|---|---|---|---|
| MyUtility Limited (business to business internet – dormant in the year) | * | England and Wales | 100% |
| Qonnectis Group Limited (intermediate holding company) | * | England and Wales | 100% |
| Qonnectis Networks Limited (remote data communications) | | England and Wales | 100% |
| Qonnectis Technologies Limited (dormant) | | England and Wales | 100% |
| American Leak Detection Holding Corp. (holding company) | * | US | 100% |
| American Leak Detection, Inc (leak detection services) | | US | 100% |

* Subsidiaries owned directly by the Parent Company.

## 17 Inventories

| | Group 31 December 2010 $ | 31 December 2009 $ |
|---|---|---|
| Group inventories | 242,049 | 100,702 |

The Company does not hold inventory. During the year ended 31 December 2010 an expense of $14,862 (2009: $nil) was recognised in the Consolidated Statement of Comprehensive Income related to a write down of inventories.

## 18 Trade and other receivables

**Non current**

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2010 $ | 31 December 2009 $ | 31 December 2010 $ | 31 December 2009 $ |
| Trade notes receivable | 52,439 | 112,005 | – | – |

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

**Current**

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2010 $ | 31 December 2009 $ | 31 December 2010 $ | 31 December 2009 $ |
| Trade receivables | 163,684 | 100,036 | 15,753 | 2,177 |
| Prepayments | 89,067 | 53,463 | 1,594 | 232 |
| Due from Group undertakings | | | 173,571 | 761,009 |
| Accrued royalties receivable | 303,826 | 320,198 | – | – |
| Loans receivable | 80,119 | 121,112 | – | – |
| Trade notes receivable | 27,680 | 33,024 | – | – |
| Other receivables | | | | |
| Due from related party | 145,805 | 360,031 | – | – |
| R & D Tax Credit due | 35,335 | – | – | – |
| VAT debtor | 15,306 | – | – | – |
| **Current portion** | 860,822 | 987,864 | 190,918 | 763,418 |

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The average credit period taken on sales is 26 days (2009: 26 days).

All trade sales are made through the Group's subsidiaries.

As at the 31 December 2010, trade receivables of $12,800 (2009: $8,920) were past due but not impaired. These relate to a number of customers for whom there is no history of default. The aging analysis of these trade receivables is as follows:

**Ageing of past due but not impaired receivables**

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| 60–90 days | 7,563 | 1,940 |
| 90+ days | 5,237 | 6,980 |
| | 12,800 | 8,920 |
| Average age (days) | 112 | 385 |

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

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| US Dollar | 637,166 | 973,231 |
| UK Pound | 223,656 | – |
| | 860,822 | 973,231 |

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.

## 19 Cash and cash equivalents

| | Group 31 December 2010 $ | Group 31 December 2009 $ | Company 31 December 2010 $ | Company 31 December 2009 $ |
|---|---|---|---|---|
| Cash at bank and in hand | 606,382 | 369,650 | 173,844 | 151,016 |
| Short term bank deposits | – | – | – | 4,625 |
| | 606,382 | 369,650 | 173,844 | 155,641 |

## 20 Trade and other payables

| | Group 31 December 2010 $ | Group 31 December 2009 $ | Company 31 December 2010 $ | Company 31 December 2009 $ |
|---|---|---|---|---|
| Trade payables | 194,157 | 70,527 | 80,010 | 136,922 |
| Other payables | 4,638 | 16,617 | – | – |
| Accruals | 447,790 | 218,560 | 166,803 | 109,670 |
| Due to Group undertakings | – | – | 155 | – |
| Deferred Income | 237,679 | – | – | – |
| | 884,264 | 305,704 | 246,968 | 246,592 |

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 30 days (2009: 30 days).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

## 21 Provision for Onerous Contracts

| | $ |
|---|---|
| Balance at date of reverse acquisition on 29 July 2010 | 323,240 |
| Provisions utilised | (43,387) |
| Balance at 31 December 2010 | 279,853 |
| Current | 86,635 |
| Between two and five years | 193,218 |
| Balance at 31 December 2010 | 279,853 |

## 22 Deferred Tax

The analysis of deferred tax assets is as follows:

**Group**

| | 2010 $ | 2009 $ |
|---|---|---|
| Deferred tax assets | | |
| To be recovered after more than 12 months | 186,895 | 271,501 |
| To be recovered within 12 months | 92,493 | 41,564 |
| | 279,388 | 313,065 |

The movement in deferred tax assets is as follows:

**2010**

| | Opening balance $ | Recognised in the income statement $ | Closing balance $ |
|---|---|---|---|
| Temporary differences: | | | |
| Net operating loss (non-current) | 271,501 | (84,606) | 186,895 |
| Property, plant and equipment | 280 | (8,849) | (8,569) |
| Intangible assets | (22,544) | (50,801) | (73,345) |
| Doubtful debts | 11,550 | 1,925 | 13,475 |
| Other - vacation accrual | 52,278 | 23,954 | 76,232 |
| Research and development | – | 84,700 | 84,700 |
| | 313,065 | (33,677) | 279,388 |

**2009**

| | Opening balance $ | Recognised in the income statement $ | Closing balance $ |
|---|---|---|---|
| Temporary differences: | | | |
| Net operating loss (non-current) | 320,871 | (49,370) | 271,501 |
| Property, plant and equipment | (2,687) | 2,967 | 280 |
| Intangible assets | 23,637 | (46,181) | (22,544) |
| Doubtful debts | 11,550 | – | 11,550 |
| Other - vacation accrual | 36,384 | 15,894 | 52,278 |
| | 389,755 | (76,690) | 313,065 |

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The group did not recognise deferred income tax assets of $6,500,000 (2009: $5,550,000) relating to carried forward tax losses arising in the UK as there is insufficient evidence that the asset will be recovered.

## 23 Share capital

The issued share capital in the year was as follows:

**Company**

| | Ordinary Shares Number | Deferred Shares Number | A Deferred Shares Number | B Deferred Shares Number |
|---|---|---|---|---|
| At 1 January 2009 | 393,608,023 | 808,450,760 | – | – |
| Subdivision of ordinary shares | 3,542,472,207 | | | – |
| Deferment 10:9 ordinary shares | (3,542,472,207) | | 3,542,472,207 | – |
| **At 31 December 2009** | 393,608,023 | 808,450,760 | 3,542,472,207 | – |
| Issue of share capital | 151,688,080 | – | – | – |
| Subdivision of ordinary shares | (544,841,689) | – | – | – |
| Deferment 1:1 ordinary shares | – | – | – | 454,414 |
| Issue of share capital | 9,150,003 | – | – | – |
| Cancellation deferred shares | – | – | (3,542,472,207) | (454,414) |
| **At 31 December 2010** | 9,604,417 | 808,450,760 | – | – |

**Company**

| | Share Capital $ | Share Premium $ | Capital Redemption $ |
|---|---|---|---|
| At 1 January 2009 | 18,853,090 | 2,510,565 | – |
| Subdivision of ordinary shares | – | – | – |
| Deferment 10:9 ordinary shares | – | – | – |
| **At 31 December 2009** | 18,853,090 | 2,510,565 | – |
| Issue of share capital | 237,908 | – | – |
| Subdivision of ordinary shares | – | – | – |
| Deferment 1:1 ordinary shares | – | – | – |
| Issue of share capital | 143,509 | 1,957,508 | – |
| Cost of raising equity | – | (264,261) | – |
| Cancellation deferred shares | (6,517,644) | – | 6,517,644 |
| **At 31 December 2010** | 12,716,863 | 4,203,812 | 6,517,644 |

On 8 January 2010 the Company allotted 151,688,080 Ordinary Shares of 0.001p each.

At the date of the readmission a share reorganisation was effected on the basis of one New Ordinary Share and one B Deferred Share for every 1,200 Existing Ordinary Shares. The B Deferred Shares and A Deferred Shares were cancelled on 19 October 2010.

The Deferred Shares, the A Deferred Shares and the B Deferred Shares carry the right to repayment of 1p, 0.1p and 1p each respectively on a winding up or repayment of capital of the Company after repayment of £100,000 on each of the Ordinary Shares in issue in the capital of the Company and after payment of the amount due (if any) on any other classes of share capital of the Company in order of first paying the holders of the Deferred Shares followed by holders of the A Deferred Shares followed by holders of the B Deferred Shares.

The Deferred Shares, A Deferred Shares and B Deferred Shares carry no other right to participate in the capital or income of the Company and carry no right to vote.

The Company can at any time cancel, by way of application to Court, the Deferred Shares, A Deferred Shares and/or B Deferred Shares with or without consideration upon such terms as the Directors think fit.

The par values of Ordinary Shares and Deferred Shares, denominated in Sterling, are 0.1p and 0.1p respectively.

## 24 Obligations under operating leases

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

**2010**

| | Land & Buildings $ | Other $ | Total $ |
|---|---|---|---|
| No later than one year | 7,380 | 14,141 | 21,521 |
| Later than one year, and not later than five years | 3,336 | 27,382 | 30,718 |
| **Total** | 10,716 | 41,523 | 52,239 |

**2009**

| | Land & Buildings $ | Other $ | Total $ |
|---|---|---|---|
| No later than one year | 4,044 | 13,711 | 17,755 |
| Later than one year, and not later than five years | 10,716 | 41,523 | 52,239 |
| **Total** | 14,760 | 55,234 | 69,994 |

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

## 25 Financial instruments

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

i. Market risk
ii. Foreign currency risk
iii. Interest rate risk
iv. Credit risk
v. 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 2010 no trading in financial instruments was undertaken (2009: 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.

In particular the Group does not employ forward foreign currency contracts. The Disclosures given below do not include short-term debtors and creditors.

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

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

*Exposure to credit risk*
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the year end was:

**Ageing of past due but not impaired receivables**

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| 60–90 days | 7,563 | 1,940 |
| 90+ days | 5,237 | 6,980 |
| | 12,800 | 8,920 |
| Average age (days) | 112 | 385 |

**Categories of financial instruments**

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.

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2010 $ | 31 December 2009 $ | 31 December 2010 $ | 31 December 2009 $ |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 606,382 | 369,650 | 173,844 | 155,641 |
| Trade and other receivables – current | 860,822 | 987,864 | 190,918 | 763,418 |
| Trade and other receivables – non-current | 52,439 | 112,005 | – | – |
| **Financial Liabilities** | | | | |
| Trade and other payables | 884,264 | 305,704 | 246,968 | 246,592 |
| Borrowings – current | 632,439 | 441,569 | – | 255,475 |
| Borrowings – non-current | 3,086,408 | 33,202 | – | – |
| Promissory notes – current | 16,880 | 1,054,756 | – | – |
| Promissory notes – non-current | 85,222 | 3,249,099 | – | – |

**Borrowings**

***Bank Loan***

On the 7 June 2010, ALDHC entered into a binding commitment letter with The Bank of Southern Connecticut, under which the Promissory Notes are to be refinanced and replaced with bank debt over a six-year term at an initial rate of 8 per cent. per annum. On 16 July 2010 ALDHC drew down a loan of US$4.0 million from the Bank of Southern Connecticut. The proceeds were used by ALDHC to repay loan notes originally issued in connection with ALDHC's purchase of ALD in 2006.

The Bank Loan will be repayable in full on or before 16 July 2016 with monthly repayments of principal and interest at 8 per cent. per annum until the principal balance is reduced to US$2.0 million when the interest rate becomes 2 per cent. above "Wall Street Journal Prime" adjusted annually. At that point, the Group has the option of pre-payment without penalty.

The Bank Loan is currently secured by substantially all of the assets of ALDHC and its principal operating subsidiary ALD and guaranteed by PSS plus one significant shareholder, being the Executive Chairman.

***Promissory Notes***

In addition to the Bank Loan, there are two Promissory Notes in place at 31 December 2010 to finance the acquisition of trade assets. The Promissory Notes to CSC Ops LLC and to Dewayne Reynolds will be repaid in full by 31 December 2011 and 1 April 2012 respectively.

**Group**

| Financial Instruments | Year ended 31 December 2010 Current $ | Year ended 31 December 2009 $ | Year ended 31 December 2010 Non-current $ | Year ended 31 December 2009 $ |
|---|---|---|---|---|
| Borrowings | 632,439 | 441,569 | 3,086,408 | 33,202 |
| Promissory notes | 16,880 | 1,054,756 | 85,222 | 3,249,099 |
| **Total current liabilities** | 649,319 | 1,496,325 | 3,171,630 | 3,282,301 |

**Company**

| Financial Instruments | Year ended 31 December 2010 Current $ | Year ended 31 December 2009 $ |
|---|---|---|
| Liabilities | | |
| Convertible loan notes in favour of ALD | – | 114,319 |
| Loan Notes | – | 141,156 |
| **Total** | – | 255,475 |

**Capital risk management**

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

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

**Significant accounting policies**

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

**Market risk**

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

**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 relate predominately to royalties receivable in the US denominated in currencies other than US $; royalties from such sources in 2010 were $238,000 (2009: $214,000) .No foreign exchange contracts were in place at 31 December 2010 (2009: Nil).

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

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2010 $ | 31 December 2009 $ | 31 December 2010 $ | 31 December 2009 $ |
| **Assets** | | | | |
| Sterling | 382,056 | – | 52,123 | 919,059 |
| US Dollars | 1,137,587 | 1,342,881 | 312,639 | – |
| | 1,519,643 | 1,342,881 | 364,762 | 919,059 |
| **Liabilities** | | | | |
| Sterling | 911,910 | – | 246,968 | 385,255 |
| US Dollars | 4,071,156 | 5,067,713 | – | – |
| | 4,985,066 | 5,067,713 | 246,968 | 502,067 |

As shown above, at 31 December 2010 the Group had Sterling denominated monetary net liabilities of $483,395. If Sterling strengthens by 10 per cent. against the US dollar, this would increase liabilities by $48,339 with a corresponding impact on reported losses.

**Interest rate risk management**
The Group is exposed to interest rate risk because the Group borrows and deposits funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate cash deposits and borrowings.

**Interest rate sensitivity analysis**
The Group's borrowings are at fixed rates. Approximately 97 per cent. of the borrowings at 31 December 2010 were a Bank Loan of $3,718,847. The Bank Loan will be repayable in full on or before 16 July 2016 with monthly repayments of principal and interest at 8 per cent. per annum until the principal balance is reduced to US$2.0 million when the interest rate becomes 2 per cent. above "Wall Street Journal Prime" adjusted annually.

The losses recorded by both the Group and the Company for the year ended 31 December 2010 would not materially change if market interest rates had been 1 per cent. higher/lower throughout 2010 and all other variables were held constant.

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

Disclosures related to credit risk associated with trade receivables is presented in Note 18.

**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 31 December 2012. The forecast contains certain assumptions about the level of future sales and the level of gross margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term trading is reliant on cash generation from both its predominantly US-based royalty income and from the achievement of a successful product development and subsequent sales initiative.

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 includes both interest and principal cash flows.

**Group**

| | 0-6 months $ | 6-12 months $ | >12 months $ | Total $ |
|---|---|---|---|---|
| **2010** | | | | |
| Non interest bearing | – | – | – | – |
| Fixed interest rate instruments | 458,205 | 474,164 | 3,949,932 | 4,882,301 |
| **2009** | | | | |
| Non interest bearing | – | – | – | – |
| Fixed interest rate instruments | 531,873 | 955,268 | 3,678,868 | 5,166,009 |

**Company**

| | 0-6 months $ | 6-12 months $ | >12 months $ | Total $ |
|---|---|---|---|---|
| **2010** | | | | |
| Non interest bearing | – | – | – | – |
| Fixed interest rate instruments | – | – | – | – |
| **2009** | | | | |
| Non interest bearing | 141,156 | – | – | 141,156 |
| Fixed interest rate instruments | – | 114,319 | – | 114,319 |

**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.

## 26 Notes to the statement of cash flows

**Cash flows from operating activities**

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| **Group** | | |
| Profit/(Loss) before interest and taxation | (567,298) | 526,489 |
| Adjustments for: | | |
| Depreciation of plant and equipment | 68,373 | 88,056 |
| Amortisation of intangible assets | 322,394 | 303,207 |
| Impairment | – | 32,869 |
| Gain on disposal of fixed asset | (600) | – |
| Share based payments | 20,399 | 42,109 |
| Provision for bad debts | 19,491 | – |
| **Operating cash flows before movements in working capital** | (137,241) | 992,730 |
| (Increase)/decrease in inventories | (141,348) | 6,026 |
| (Increase)/decrease in trade and other receivables | 702,025 | (31,935) |
| Increase/(decrease) in trade and other payables | (791,436) | (97,639) |
| **Cash generated by operations** | (368,000) | 869,182 |
| Income taxes | 52,990 | (5,000) |
| **Net cash (used in)/generated from operating activities** | (315,010) | 864,182 |

**Cash flows from operating activities**

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| **Company** | | |
| (Loss) from operations | (2,290,643) | (437,740) |
| Adjustments for: | | |
| Write off of intercompany balances | 1,338,370 | |
| Share based payment expense | 86,162 | 42,501 |
| **Operating cash flows before movements in working capital** | (866,111) | (395,239) |
| (Increase) in trade and other receivables | (14,977) | (329,728) |
| Increase in trade and other payables | 97,042 | 144,716 |
| **Cash generated by operations** | (784,046) | (580,251) |
| Income taxes | – | – |
| **Net cash used in operating activities** | (784,046) | (580,251) |

## 27 Contingent liabilities

The Directors are not aware of any material contingent liabilities.

## 28 Related party transactions

Under the terms of a Letter Agreement on Commercial Relations dated 28 February 2006 ("the Commercial Relations Agreement"), PSS licensed to ALD the patent portfolio owned by PSS. The Commercial Relations Agreement contained provisions for licence fees payable at a minimum of $250,000 but not to exceed $1,500,000 per annum, royalties from future development of PSS products sold by ALD payable quarterly at an amount to be determined, and professional fees for PSS personnel payable monthly. During the year ended 31 December 2010, PSS charged fees pursuant to the Commercial Relations Agreement amounting to $474,026 (2009: $572,950) which have been included under research and development expenses.

Fees charged by PSS under the Letter of Agreement were:

| | Year ended 31 December 2010 $ | Year ended 31 December 2009 $ |
|---|---|---|
| **R&D licence fees** | 474,026 | 572,950 |
| **Other administrative fees** | – | 276,515 |
| **Total** | 474,026 | 849,465 |

The Commercial Relations Agreement was amended on 4 April 2010 by a letter agreement under which PSS provided ALD with an exclusive right to use the patents in the field of water supply and water metering. The license is worldwide in scope and was in perpetuity from the date of the letter agreement. The license is royalty-free for the first $5,000,000 of any product sales which include intellectual property under license and a fee of 3 per cent. is paid on any further sales.

As set forth in Note 25, on 7 June 2010, the Bank of Southern Connecticut ("the Bank") agreed to lend ALDHC $4.0 million to pay off financing associated with ALDHC's purchase of ALD in 2006. The loan is secured over, inter alia, all of ALD's plant and machinery, inventory and accounts receivable. In addition, PSS, inter alia, granted assignments over contents and intellectual property and entered into agreements of guarantee and surety ship with the Bank guaranteeing the obligations of ALDHC under the loan agreement. The guarantee has been joined by a significant shareholder, the Executive Chairman. Subsequent to the year end, on 1 July 2011, ALDHC agreed to pay a guarantee fee to PSS of 0.75 per cent. per annum on the outstanding balance on the loan, calculated at the end of each month.

During the normal course of operations there are inter-company transactions with PSS; since 30 July 2010 being the date of Admission to AIM, all such transactions have been on arm's length terms and approved by the independent Directors. At 31 December 2009, the inter-company balance due by PSS to the ALDHC Group was $360,031. Primarily due to payments received from PSS during the year ended 31 December 2010, the balance due from PSS to ALD at 31 December 2010 was $145,776.

Subsequent to the year end, under the terms of an agreement dated 11 August 2011 the parties have agreed that any outstanding balance shall be due by 31 January 2014 after the adjusting for any amounts detailed in the next paragraph. With effect from 1 July 2011 the outstanding balance will incur monthly interest at the same rate as that charged by the Bank (currently 8 per cent. per annum).

To the extent that any amount is payable by ALD pursuant to the Commercial Relations Agreement or for any services (for example, technology and innovation) provided by PSS to ALD or for the guarantee provided by PSS, then such amounts will be deducted from the outstanding balance due by PSS. In addition, PSS has agreed that if it sells any shares in the Company before 31 December 2013, then 50 per cent. of the net proceeds will be utilised to reduce the balance due by PSS to the ALDHC Group.

ALD and PSS have agreed that if any outstanding balance remains at 31 December 2013 it shall be repayable by 31 January 2014 in cash.

During the period WI purchased services from Restoration Partners Limited relating to Ric Piper, a non-executive director of WI from 29 July 2010 to 22 June 2011, totalling $46,371 (2009: nil).

In January 2010, Harry Offer converted the balance due to him for unpaid directors' fees totalling $7,878 into ordinary shares.

During the period WI purchased financial services from Cambridge Financial Partners LLP, a company of which Barbara Spurrier, a director of Qonnectis plc until 29 July 2010, is a partner. The cost of services provided to WI during the period to 29 July 2010 was $26,560 (2009: $164,663). In January 2010 Barbara Spurrier converted $40,065 of the outstanding amount owed to Cambridge Financial Partners LLP into ordinary shares. At the 29 July 2010 the balance owing to Cambridge Financial Partners LLP was $43,399 (2009: $134,335).

## 29 Subsequent events

On 29 June 2011 the Company announced that it was unable to publish its audited results for the year ended 31 December 2010 in accordance with the AIM Rules. Accordingly, the Company's ordinary shares were suspended from trading on AIM with immediate effect.

Save for the changes in Directors reported in the Directors' Report on page 10, there have been no other subsequent events.

Current trading is referred to in the Chairman's Statement.

## 30 Control

The Company is under the control of its shareholders and not any one party.

# Notice of Annual General Meeting

**Water Intelligence plc**

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("AGM") of the Company will be held at:

Merchant Securities Limited, 51–55 Gresham Street, London, EC2V 7HQ at 3.00 p.m. on Monday 12 September 2011.

The AGM will be held in order to consider and if thought fit, pass resolutions 1 to 8 below as ordinary resolutions and resolution 9 below as a special resolution.

**Ordinary resolutions**

1. THAT the Company's annual accounts for the financial year ended 31 December 2010 together with the last directors' report and the auditor's report on those accounts and the directors' report, be received and adopted.

2. To reappoint H W Fisher & Co as the Company's auditors to hold office from the conclusion of this meeting until the conclusion of the next meeting at which accounts are laid before the Company.

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

4. To re-appoint the following director who retires by rotation as an executive director:

   Dr. Patrick Jude DeSouza

5. To re-appoint as a director William Michael Reisman, who was appointed by the board on 30 July 2010.

6. To re-appoint as a director Dr Stephen Lee Leeb, who was appointed by the board on 30 July 2010.

7. To re-appoint as a director Robert James Grenville Mitchell who was appointed by the board on 11 August 2011.

8. THAT, in substitution for any existing and unexercised authorities, the Directors be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "**Act**") to exercise all the powers of the Company to allot equity securities (as defined in section 560(1) of the Act) provided that this authority shall be limited to the allotment of equity securities to any person or persons up to an aggregate nominal amount of £50,000.

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

**Special resolution**

9. THAT, subject to and conditional upon the passing of Resolution 5, in substitution for any existing and unexercised authorities, the Directors be and they are hereby empowered pursuant to section 570 of the Act to allot equity securities wholly for cash, within the meaning of section 560(1) of the Act, pursuant to the general authority conferred by Resolution 5 above as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

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

b. the allotment of equity securities (otherwise than in sub-paragraph a above) to any person or persons up to an aggregate nominal amount of £20,000,

provided that the authorities conferred by this resolution shall expire at the conclusion of the next annual general meeting of the Company (unless previously renewed, varied or revoked by the Company), save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred hereby has expired and that all previous authorities under section 570 of the Act be and they are hereby revoked (and in this resolution the expression "equity securities" and references to the "allotment of equity securities" shall bear the same respective meaning as in section 560 of the Act).

**BY ORDER OF THE BOARD**

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

*Registered Office:*
St Johns Innovation Centre, Cowley Road, Cambridge, Cambridgeshire CB4 0WS, United Kingdom.

Dated: 15 August 2011

**Notes:**

1. Shareholders entitled to attend and vote at the AGM ("Shareholders") may appoint a proxy or proxies to attend and speak and, on a poll, vote on their behalf. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form enclosed. A proxy need not be a member of the Company. A Shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that Shareholder. Investors who hold their shares through a nominee may wish to attend the AGM as a proxy, or to arrange for someone else to do so for them, in which case they should discuss this with their nominee or stockbroker. Shareholders are invited to complete and return the enclosed proxy form. To appoint more than one proxy you may photocopy the proxy form. Completion of the proxy form will not prevent a Shareholder from attending and voting at the AGM if subsequently he/she finds they are able to do so. To be valid, completed proxy forms must be received at the offices of the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by not later than 3pm on Thursday 8 September 2011 (being 48 hours prior to the time fixed for the AGM, excluding weekends and public holidays) or, in the case of an adjournment, as at 48 hours prior to the time of the adjourned AGM (weekends and public holidays excluded).

2. Representatives of Shareholders which are corporations attending the AGM should produce evidence of their appointment by an instrument executed in accordance with section 44 of the Companies Act 2006 or signed on behalf of the corporation by a duly authorised officer or agent.

3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares in the capital of the Company registered in the register of members of the Company at 6pm on Thursday 8 September 2011 (being 48 hours prior to the time fixed for the AGM, excluding weekends and public holidays) or, in the case of an adjournment, as at 48 hours prior to the time of the adjourned AGM (weekends and public holidays excluded).

4. The Register of Directors' Interests, together with the Directors' service agreements, the letters of appointment of non-executive directors and a copy of the Company's Articles of Association, will be available for inspection at the Company's registered office during usual business hours on any weekday (weekends and public holidays excluded) until the date of the AGM and also at the AGM from 9.30am on the day of the AGM until the conclusion of the AGM.

# Shareholder Notes

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