Water Intelligence plc

# Water Intelligence plc

Group Annual Report and Financial Statements
for the Year Ended 31 December 2012

Company number 03923150

# Group Annual Report and Financial Statements

for the year ended 31 December 2012

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# Company Information

## Directors & Advisers

| | | |
|---|---|---|
| **Directors** | Patrick DeSouza | Executive Chairman |
| | Stephen Leeb | Non-Executive Director |
| | Robert Mitchell | Non-Executive Director |
| | David Silverstone | Non-Executive Director |
| | Michael Reisman | Non-Executive Director |

**Company Secretary and Registered Office**
Simon Barrell
Hexagon Business Centre
Hexagon House
Station Lane
Witney
Oxfordshire
OX28 4BN

**Company number**
Registered in England and Wales number 03923150

**Nominated adviser and broker**
Sanlam Securities UK Limited
10 King William Street
London
EC4N 7TW

**Independent Auditor**
Crowe Clark Whitehill LLP
St Brides House
10 Salisbury Square
London
EC4Y 8EH

**Registrar**
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

**Bankers**

| HSBC Bank plc | The Bank of Southern Connecticut |
|---|---|
| 2 London Road | 215 Church Street |
| Twickenham | New Haven |
| Middlesex | CT 06510 |
| TW1 3RY | USA |

# Chairman's Statement

## Overview

During 2012 we followed a consistent course towards building sustainable shareholder value. Prudence was the watchword. As I indicated in the Outlook section to last year's Chairman's Statement, increasing profitability was the prerequisite so that we would not be held captive to market volatility. We would manage working capital expenses in a risk-adjusted way so that we could advance the Company from a position of strength. Our operating goal was to increase profitability *while* maintaining sales growth; we would do this by increasing the revenue yield on each dollar of incremental spend, not simply cutting costs. In this way, we could have the flexibility for the long-term to either reinvest the cushion of operating profits for faster growth or to provide dividends for shareholders.

I am pleased to report that we were successful in achieving this operating goal and today the Directors are more confident about proceeding in 2013 and 2014 from a position of operating strength. Operating profits for 2012 jumped to $762,093 from $98,727 in 2011. Profit before tax turned positive to $530,515 from a loss of ($197,043) in 2011. Earnings per share were 2.8 cents from a loss per share in 2011 of 4.8 cents. Operating cash flow in 2012 grew to $823,760 from $653,231 in 2011. Our operating success also translated into a stronger balance sheet. Net debt was steadily reduced to $2.54 million at 31 December 2012 from $2.83 million at 31 December 2011. In 2013, we have continued to reduce our debt through monthly repayments and in May 2013, the revolving credit facility was repaid. We are now in position to take advantage of a favourable interest rate environment and free-up additional cash for reinvestment in growth by looking into refinancing our credit facilities during 2013. And to reiterate, we achieved these profitability results while maintaining overall sales growth at 6% to $6.74 million.

## Operations

Our focus on building from a position of operating strength has led us to prioritize our American Leak Detection ("ALD") business. In all key operational areas, ALD has continued to grow in terms of both revenue and earnings. We are investing in the growth of ALD by developing an insurance and loss adjuster sales channel that adds recurring revenue and leverages our competitive advantage of having an established nationwide brand. Meanwhile, UK water utilities continue to test *Domestic Reporter and Commercial Reporter* and we were pleased with $450,849 of *Leakfrog* sales during 2012. We recognize that the UK product business has proceeded more slowly than we would have hoped, but we chose not to sacrifice ALD growth to push the matter. Our choice of operating priorities for 2012 now provide us the flexibility to continue to add spend to our profitable ALD business and to revamp our UK product sales and marketing effort. In the latter case, our priority will be to adapt the UK products for the US market so that we are building onto a strong ALD distribution network.

## American Leak Detection

Our franchise system continues to grow as public and private concern over water loss strengthens demand for our services. During March 2013, the US Environmental Protection Agency (EPA) expanded its Fifth Annual "Fix a Leak Week" to create *Water Sense* public-private partnerships in local communities across the U.S.. This would enable homeowners to appreciate how much water they were using and how to reduce inefficiencies. The EPA has communicated the stark reality that American families use approximately 300 gallons of water per day at home and that approximately 14% of usage is lost through leakage. The EPA's community focus is an ideal fit for our nation-wide franchise business given our capability to touch over 100,000 homes annually across the U.S. This residential focus is also interesting for the adaptability of our UK products. While our focus during 2012 has been on selling to UK water utilities, now that we have increased operating profits, we will begin to look for ways to adapt the UK products business for the US. *Domestic Reporter* is particularly attractive for the *Water Sense* program.

ALD is well-positioned to take advantage of today's demand in the U.S. System-wide sales are above $50 million reflecting critical mass. Royalty income from system-wide sales grew by 5% to $4.35 million. ALD grew in all regions of the U.S. Our international territories, especially Australia, also experienced sales growth. During 2012 we began to focus budgetary spend on developing a nationwide sales channel with insurance companies and loss adjusters that leverages our ALD brand. Our most successful franchises already draw a significant part of their sales from insurance loss adjusters. We have stepped-up this effort in 2013 with the hire of a manager with significant experience in this area. In addition to growth via our franchise system, corporate store sales grew at 6% to $1.45 million. Importantly, we returned corporate stores to profitability at $65,000 or a 4.5% margin. We should note that

while our UK product business has taken longer to develop, during 2012 we created a product in the U.S. – *Leakfinder* – that we have begun to sell to our franchisees at the end of 2012 to enhance their competitive advantage in pin-pointing leaks. While we do not intend to sell *Leakfinder* to third-parties, because of its success, there will be more products originated in the US for our franchisees and for both direct sales and distribution through our nationwide system.

## Qonnectis

Our UK products business is housed in our wholly-owned subsidiary Qonnectis Networks Limited. In 2012 turnover increased to $450,849 from $252,903 in 2011. We have also taken action to reduce costs in the UK. Our product business losses were reduced to $125,746 from $218,491 in 2011. While this is a positive direction in balancing the books, the pace of the product business is an opportunity that we continue to assess. Water utilities continue to test our product gathering data with respect to various deployments. During the second half of 2013, we will consider various ways to maximise our position.

## Outlook

We are fortunate that the addressable market for our products and services is world-wide and growing. Our company achieved its 2012 operating goal of increasing profitability *while* increasing sales. We plan to continue this direction for 2013 and we believe there is still room to improve our earnings margins given that PLC costs are still too high. We will continue to lower overheads and finance costs. As noted above, our stronger balance sheet will enable us to look into refinancing our credit facilities. We expect incremental sales growth from the development of our insurance channel, enabling growth to proceed while we are increasing profitability. Now that we have returned to profitability at our corporate stores, we can focus on opening new locations to further add to top-line growth.

All of the above lines of growth are achievable apart from the pace of our UK products business. We are encouraged with our anticipated sales of *Leakfinder* and believe that the strategy of developing products to complement our services business adds value to the company, whether we use them internally for a competitive edge or whether we sell them to third parties. We believe in the value proposition of *Domestic Reporter* and *Commercial Reporter* and look forward to revamping our sales approach for the second half of 2013 now that we have achieved a measure of operating strength. Increasing overall corporate profitability and growing our $50+ million franchise system will continue to dominate our mind-set. As we communicate this to the market, we believe that it will reflect well on shareholder value as growing royalty income differentiates us from various other companies.

**Dr. Patrick DeSouza**

27 June 2013

# Directors' Report

The Directors present their report on the affairs of Water Intelligence plc (the Company) and its subsidiaries, referred to as the Group, together with the audited Financial Statements and Independent Auditors' report for the year ended 31 December 2012.

## Principal Activities

The Group is a leading provider of water monitoring products, leak detection equipment and remediation services. The Group's strategy 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.

## Business Review and Key Performance Indicators

The Chairman's Statement, on pages 2 and 3, provides an overview of the year and the outlook for the Group. The key performance indicators used by the board to monitor the business are the growth in royalty income, the contribution from Corporate run stores and net debt. These three indicators are reported to the board on a monthly basis and used to assist the board in the management of the business.

Royalty income has grown in all regions compared to 2011 as follows:

| | **Year ended 31 December 2012 $'000** | **Year ended 31 December 2011 $'000** | **Change %** |
|---|---|---|---|
| California, Arizona & Nevada | 1,258 | 1,217 | 3.4 |
| Rest of USA | 2,828 | 2,665 | 6.1 |
| Total USA | 4,086 | 3,882 | 5.3 |
| International | 259 | 249 | 4.0 |
| Total Group Royalty Income | 4,345 | 4,131 | 5.2 |

Performance of the Corporate run stores for the year was as follows:

| | **Year ended 31 December 2012 $'000** | **Year ended 31 December 2011 $'000** |
|---|---|---|
| Revenue | 1,453 | 1,367 |
| Contribution | 65 | (105) |

The board is pleased to see that performance of the corporate stores has improved in the year to give a positive contribution.

Net debt has reduced over the year by the continuing scheduled repayments of the term loan from the Bank of Southern Connecticut. Based on its repayment schedule the loan will be repaid in 2016. The short term line of credit is repayable annually and was repaid in May 2013.

| **Group** | **Year ended 31 December 2012 $'000** | **Year ended 31 December 2011 $'000** |
|---|---|---|
| 6 Year term loan | 2,671 | 3,183 |
| Short term line of credit | 249 | – |
| Promissory notes | – | 7 |
| | 2,920 | 3,190 |
| Less: Cash | | |
| *Held in US Dollars* | 307 | 323 |
| *Held in £ Sterling* | 76 | 41 |
| | 383 | 364 |
| Total Net Debt | 2,537 | 2,826 |

The Directors consider that the key non-financial key performance indicator for the Group is the number of franchises operating in the year. The Group had 100 franchises at the end of 2012 (2011: 106)

## Results

The financial performance for the year, including the Group's Statement of Comprehensive Income and the Group's financial position at the end of the year, is shown in the Financial Statements on pages 14 to 20.

93% of the Group's revenue in the year ended 31 December 2012 (2011: 96%) came from its wholly owned subsidiary American Leak Detection, Inc. ("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 across the Group may cost more and/or take longer to develop into commercial products than the current estimates within the groups plan. It is possible that once these products have been successfully developed they may not be commercially successful, In addition products being developed may not be successful for their anticipated use.

**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 2012.

**Interest Rate Risk**
The Group's interest rate risk arises from its short and term loan borrowings. Borrowings issued at variable rates expose the Group to fair value interest rate risk. The Company does not have any variable rate borrowings.

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

**Liquidity Risk**

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

**Other Risks**

There is a risk that existing and new customer relationships 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 June 2014. 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 is funded entirely on cash generation by its profitable US-based franchise business, ALD. The achievement of a successful product development and subsequent sales initiative will require additional working capital finance to be put in place. The Directors believe that the funding will be able to be made available on a case by case basis such that the Group will have adequate cash resources. The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly, continue to adopt the going concern basis in preparing the financial statements.

## Research Design & Development

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 was:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Third parties | 76,167 | 79,434 |

## Dividends

The Directors do not recommend the payment of a dividend (2011: $nil).

## Share Price

On 31 December 2012, the closing market price of Water Intelligence plc ordinary shares was 29.5 pence. The highest and lowest prices of these shares during the year to 31 December 2012 were 34 pence and 29.5 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 share option 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.

## Prior year adjustment

During the year the Board reviewed the accounting policy in respect of the goodwill created at the time of the reverse acquisition in 2010 which arose on the UK business (principally Water Intelligence Plc (then Qonnectis Plc) and its wholly owned trading subsidiary Qonnectis Networks Limited) and not as part of the cash generating unit of the US business (American Leak Detection Holding Corp and its trading subsidiary American Leak Detection Inc), as previously interpreted. Accordingly, as the UK business was loss making, had net liabilities and negligible trading activities at the time of the reverse acquisition in 2010, the Board have come to the conclusion that the goodwill created at the time should have been immediately impaired. As such a prior year adjustment to write-off the goodwill acquired at the date of acquisition in 2010 has been made as described in Note 5.

## Subsequent Events

There are no 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

**Non-Executive Directors**
Stephen Leeb

Michael Reisman

Robert Mitchell

David Silverstone

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

## Directors' emoluments

| **2012** | **Salary & Fees $** | **Benefits $** | **Redundancy $** | **Total $** |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| P DeSouza | 243,000 | 44,572 | – | 287,572 |
| **Non-Executive Directors** | | | | |
| S Leeb | 20,604 | – | – | 20,604 |
| M Reisman | 20,604 | – | – | 20,604 |
| R Mitchell | 20,604 | – | – | 20,604 |
| D Silverstone | 20,604 | – | – | 20,604 |
| | **325,416** | **44,572** | **–** | **369,988** |

| 2011 | Salary & Fees $ | Benefits $ | Redundancy $ | Total $ |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| P DeSouza | 243,000 | 41,004 | – | 284,004 |
| S Berenbaum | 83,592 | 5,116 | 143,869 | 232,577 |
| **Non-Executive Directors** | | | | |
| H Offer | 3,208 | – | – | 3,208 |
| R Piper | 27,430 | – | – | 27,430 |
| S Leeb | 20,853 | – | – | 20,853 |
| M Reisman | 20,853 | – | – | 20,853 |
| R Mitchell | 8,488 | – | – | 8,488 |
| D Silverstone | 3,208 | – | – | 3,208 |
| | **410,632** | **46,120** | **143,869** | **600,621** |

The remuneration for Mr DeSouza, other than $42,000 paid direct to Mr DeSouza (2011- $nil,) was paid to Plain Sight Systems Inc. (PSS). Of the directors' remuneration for $19,425 (2011 $41,425) of Mr DeSouza's remuneration has been accrued and not yet paid.

Messrs Leeb, Reisman, Mitchell and Silverstone's fees have been accrued for the year. Payments made in respect of their accrued fees for 2011 were made during the year as follows; Leeb $5,425, Reisman $5,425, Mitchell $Nil and Silverstone $13,208. The total amount outstanding to the non-executive directors at the year end was $120,060 (2011: $57,827).

## Directors' interests

The Directors who held office at 31 December 2012 had the following interests in the ordinary shares of the Company:

| | Number of shares at 31 December 2012 | % held at 31 December 2012 |
|---|---|---|
| Patrick DeSouza* | 2,840,718 | 29.58% |
| Michael Reisman* | 147,378 | 1.53% |
| Stephen Leeb * | 73,689 | 0.77% |

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

## Share option schemes

In order to provide incentive for the management and key employees of the Group the Directors announced at the time of the Reverse Acquisition that the share option scheme issued to ALD employees was to be replaced. This action has been completed in 2013.

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% and above as at the date of this report were as follows:

| | Number of shares | % held |
|---|---|---|
| Plain Sight Systems, Inc. | 2,377,383 | 24.75% |
| Stanford Berenbaum | 800,000 | 8.33% |
| Maven Capital Partners LLP | 519,758 | 5.41% |
| Terry Tyrell | 592,137 | 6.17% |

## 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 Director has 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 $1,011 (2011: $1,155). 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 relevant anti-discrimination legislation. It is established Group policy to offer employees and job applicants the opportunity to benefit from fair employment, without regard to their sex, sexual orientation, marital status, race, religion or belief, age or disability. Employees are encouraged to train and develop their careers.

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

## Independent Auditors

During the year H W Fisher & Company resigned as Auditors and Crowe Clark Whitehill LLP were appointed in their place. Crowe Clark Whitehill LLP have 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.

**Patrick DeSouza**
*Executive Chairman*

27 June 2013

# 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' Reponsibilities

## 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.

By order of the Board

**Patrick DeSouza**
*Executive Chairman*

27 June 2013

# Report of the Independent Auditor

## 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 2012 (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 11 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's and the 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. In addition we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication for our report.

**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 2012 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with the IFRSs 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.

**Nigel Bostock**
Senior Statutory Auditor

For and on behalf of

Crowe Clark Whitehill LLP
Chartered Accountants
Statutory Auditor

St Brides House
10 Salisbury Square
London
EC4Y 8EH

27 June 2013

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 20122

| | Notes | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|---|
| **Revenue** | 4 | 6,740,567 | 6,358,272 |
| **Cost of sales** | | (611,084) | (498,704) |
| **Gross profit** | | 6,129,483 | 5,859,568 |
| Administrative expenses | | | |
| – Share-based payments | 8 | (30,632) | (36,643) |
| – Impairment of goodwill | 13 | – | (75,000) |
| – Amortisation of intangibles | 14 | (279,313) | (264,062) |
| – Other administrative costs | | (5,057,445) | (5,385,136) |
| Total administrative expenses | | (5,367,390) | (5,760,841) |
| **Operating profit** | 6 | 762,093 | 98,727 |
| Finance income | 9 | 28,093 | 22,808 |
| Finance expense | 10 | (259,671) | (318,578) |
| **Profit/(loss) before tax** | | 530,515 | (197,043) |
| Taxation expense | 11 | (265,039) | (264,145) |
| **Profit/(loss) for the year** | | 265,476 | (461,188) |

| | | | |
|---|---|---|---|
| **Other Comprehensive Income** | | | |
| Exchange differences arising on translation of foreign operations | | (52,716) | 34,031 |
| **Total comprehensive profit/(loss) for the year** | | 212,760 | (427,157) |

| **Profit/(loss) per share** | | **Cents** | **Cents** |
|---|---|---|---|
| Basic | 12 | 2.8 | (4.8) |
| Diluted | 12 | 2.7 | (4.8) |

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

The accompanying notes on pages 21 to 51 are an integral part of these financial statements.

# Consolidated Statement of Financial Position

as at 31 December 2012

| | Notes | 2012<br>$ | 2011<br>$<br>(Restated) | 2010<br>$<br>(Restated) |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Goodwill | 13 | 801,211 | 801,211 | 876,211 |
| Other intangible assets | 14 | 3,590,976 | 3,709,060 | 3,973,122 |
| Property, plant and equipment | 15 | 16,896 | 35,692 | 76,729 |
| Deferred tax asset | 22 | – | 55,218 | 279,388 |
| Trade and other receivables | 18 | 39,640 | 44,839 | 52,439 |
| | | 4,448,723 | 4,646,020 | 5,257,889 |
| **Current assets** | | | | |
| Inventories | 17 | 194,007 | 91,270 | 242,049 |
| Trade and other receivables | 18 | 812,445 | 779,840 | 825,487 |
| Corporation tax | | 29,433 | 62,724 | 35,335 |
| Cash and cash equivalents | 19 | 382,525 | 364,099 | 606,382 |
| | | 1,418,410 | 1,297,933 | 1,709,253 |
| **TOTAL ASSETS** | | 5,867,133 | 5,943,953 | 6,967,142 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to holders of the parent** | | | | |
| Share capital | 23 | 12,716,863 | 12,716,863 | 12,716,863 |
| Share premium | 23 | 4,203,812 | 4,203,812 | 4,203,812 |
| Capital redemption reserve | 23 | 6,517,644 | 6,517,644 | 6,517,644 |
| Merger reserve | | 8,501,150 | 8,501,150 | 8,501,150 |
| Share based payment reserve | | 89,493 | 54,728 | 19,435 |
| Other reserves | | (41,652) | 15,197 | (18,834) |
| Reverse acquisition reserve | | (27,758,088) | (27,758,088) | (27,758,088) |
| Retained loss | | (2,395,618) | (2,661,094) | (2,199,906) |
| | | 1,833,604 | 1,590,212 | 1,982,076 |
| **Non-current liabilities** | | | | |
| Borrowings | 25 | 1,950,489 | 2,582,964 | 3,086,408 |
| Promissory notes | 25 | – | – | 85,222 |
| Provision for onerous contracts | 21 | 58,655 | 72,359 | 193,218 |
| Deferred tax liability | 22 | 149,794 | – | – |
| | | 2,158,938 | 2,655,323 | 3,364,848 |
| **Current liabilities** | | | | |
| Trade and other payables | 20 | 908,224 | 970,984 | 884,264 |
| Borrowings | 25 | 900,275 | 600,521 | 632,439 |
| Promissory notes | 25 | – | 7,272 | 16,880 |
| Provision for onerous contracts | 21 | 66,092 | 119,641 | 86,635 |
| | | 1,874,591 | 1,698,418 | 1,620,218 |
| **TOTAL EQUITY AND LIABILITIES** | | 5,867,133 | 5,943,953 | 6,967,142 |

These Financial Statements were approved and authorised for issue by the Board of Directors on 27 June 2013 and were signed on its behalf by:

**Patrick DeSouza**
*Executive Chairman*

The accompanying notes on pages 21 to 51 are an integral part of these financial statements.

# Company Statement of Financial Position

as at 31 December 2012

| | Notes | 2012<br>$ | 2011<br>$ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 16 | 8,873,680 | 8,490,074 |
| | | 8,873,680 | 8,490,074 |
| **Current assets** | | | |
| Trade and other receivables | 18 | 538,063 | 206,067 |
| Cash and cash equivalents | 19 | 56,465 | 29,677 |
| | | 594,528 | 235,744 |
| **TOTAL ASSETS** | | 9,468,208 | 8,725,818 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to holders of the parent** | | | |
| Share capital | 23 | 12,716,863 | 12,716,863 |
| Share premium | 23 | 4,203,812 | 4,203,812 |
| Capital redemption reserve | 23 | 6,517,644 | 6,517,644 |
| Merger reserve | | 8,501,150 | 8,501,150 |
| Share based payment reserve | | 158,162 | 121,454 |
| Other reserves | | 190,573 | (159,913) |
| Retained losses | | (24,101,006) | (23,964,476) |
| | | 8,187,198 | 7,936,534 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | 1,281,010 | 789,284 |
| | | 1,281,010 | 789,284 |
| **TOTAL EQUITY AND LIABILITIES** | | 9,468,208 | 8,725,818 |

These Financial Statements were approved and authorised for issue by the Board of Directors on 27 June 2013 and were signed on its behalf by:

**Patrick DeSouza**
*Executive Chairman*

The accompanying notes on pages 21 to 51 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

| | Share Capital $ | Share Premium $ | Capital Redemption Reserve $ | Reverse Acquisition Reserve $ | Merger Reserve $ | Share based payment reserve $ | Other Reserves $ | Retained Profit/(Loss) $ | Total Equity $ |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2011 as previously reported** | **12,716,863** | **4,203,812** | **6,517,644** | **(27,758,088)** | **8,501,150** | **19,435** | **(18,834)** | **(706,177)** | **3,475,805** |
| Prior period adjustment* | – | – | – | – | – | – | – | (1,493,729) | (1,493,729) |
| **As at 1 January 2011 as restated** | **12,716,863** | **4,203,812** | **6,517,644** | **(27,758,088)** | **8,501,150** | **19,435** | **(18,834)** | **(2,199,906)** | **1,982,076** |
| Share-based payment expense | – | – | – | – | – | 36,643 | – | – | 36,643 |
| Foreign exchange | – | – | – | – | – | (1,350) | – | – | (1,350) |
| Total comprehensive profit/(loss) | – | – | – | – | – | – | 34,031 | (461,188) | (427,157) |
| **As at 31 December 2011** | **12,716,863** | **4,203,812** | **6,517,644** | **(27,758,088)** | **8,501,150** | **54,728** | **15,197** | **(2,661,094)** | **1,590,212** |
| **As at 1 January 2012 as previously reported** | **12,716,863** | **4,203,812** | **6,517,644** | **(27,758,088)** | **8,501,150** | **54,728** | **15,197** | **(1,167,365)** | **3,083,941** |
| Prior period adjustment* | – | – | – | – | – | – | – | (1,493,729) | (1,493,729) |
| **As at 1 January 2012 as restated** | **12,716,863** | **4,203,812** | **6,517,644** | **(27,758,088)** | **8,501,150** | **54,728** | **15,197** | **(2,661,094)** | **1,590,212** |
| Share-based payment expense | – | – | – | – | – | 30,632 | – | – | 30,632 |
| Foreign exchange | – | – | – | – | – | 4,133 | (4,133) | – | – |
| Total comprehensive profit/( loss) | – | – | – | – | – | – | (52,716) | 265,476 | 212,760 |
| **As at 31 December 2012** | **12,716,863** | **4,203,812** | **6,517,644** | **(27,758,088)** | **8,501,150** | **89,493** | **(41,652)** | **(2,395,618)** | **1,833,604** |

* Prior year adjustment see note 5

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 losses | Cumulative net losses recognised in the Financial Statements. |
| Reverse acquisition | Non-distributable amount arising on the reverse acquisition. |
| Other reserves | Amounts recognised for the fair value of share options granted in accordance with IFRS 2 and exchange differences on translating foreign operations. |
| Merger reserve | Non-distributable reserve arising on reverse acquisition. |

The accompanying notes on pages 21 to 51 are an integral part of these financial statements.

# Company Statement of Changes in Equity

for the year ended 31 December 2012

| | Share Capital $ | Share Premium $ | Capital Redemption Reserve $ | Merger Reserve $ | Share Based Payment Reserve $ | Other Reserves $ | Retained Losses $ | Total Equity $ |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2011** | **12,716,863** | **4,203,812** | **6,517,644** | **8,501,150** | **113,950** | **(133,136)** | **(23,258,424)** | **8,661,859** |
| Share-based payment expense | – | – | – | – | 36,643 | – | – | 36,643 |
| Foreign exchange | – | – | – | – | (29,139) | – | – | (29,139) |
| Total comprehensive loss | – | – | – | – | – | (26,777) | (706,052) | (732,829) |
| **As at 31 December 2011** | **12,716,863** | **4,203,812** | **6,517,644** | **8,501,150** | **121,454** | **(159,913)** | **(23,964,476)** | **7,936,534** |
| **As at 1 January 2012** | **12,716,863** | **4,203,812** | **6,517,644** | **8,501,150** | **121,454** | **(159,913)** | **(23,964,476)** | **7,936,534** |
| Share-based payment expense | – | – | – | – | 30,632 | – | – | 30,632 |
| Foreign exchange | – | – | – | – | 6,076 | – | – | 6,076 |
| Total comprehensive profit/(loss) | – | – | – | – | – | 350,486 | (136,530) | 213,956 |
| **As at 31 December 2011** | **12,716,863** | **4,203,812** | **6,517,644** | **8,501,150** | **158,162** | **190,573** | **(24,101,006)** | **8,187,198** |

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 and foreign exchange differences on re-translation. |
| Merger reserve | Non-distributable reserve arising on reverse acquisition. |

The accompanying notes on pages 21 to 51 are an integral part of these financial statements.

# Consolidated Statement of Cash Flows

for the year ended 31 December 2012

| | Notes | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|---|
| **Net cash generated from operating activities** | 26 | 832,760 | 653,231 |
| **Cash flows from investing activities** | | | |
| Interest received | | 28,093 | 22,808 |
| Interest paid | | (259,671) | (318,578) |
| Purchase of plant and equipment | | (750) | (3,883) |
| Purchase of intangible assets | | (157,095) | – |
| Sale of fixed assets | | – | 300 |
| **Net cash used in investing activities** | | (389,423) | (299,353) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 412,380 | – |
| Principal payments on long term debt and promissory notes | | (771,442) | (630,192) |
| **Net cash used in financing activities** | | (359,062) | (630,192) |
| **Net increase/(decrease) in cash and cash equivalents** | | 75,275 | (276,314) |
| **Cash and cash equivalents at the beginning of year** | | 364,099 | 606,382 |
| Effect of foreign exchange rate changes | | (56,849) | 34,031 |
| **Cash and cash equivalents at end of year** | | 382,525 | 364,099 |

The accompanying notes on pages 21 to 51 are an integral part of these financial statements.

# Company Statement of Cash Flows

for the year ended 31 December 2012

| | Notes | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|---|
| **Net cash used in operating activities** | 26 | (335,912) | (165,827) |
| **Cash flows from investing activities** | | | |
| Interest received | | – | 4 |
| Interest paid | | (10,256) | (5,121) |
| **Net cash used in investing activities** | | (10,256) | (5,117) |
| **Cash flows from financing activities** | | | |
| Dividends received | | 400,000 | – |
| **Net cash from financing activities** | | 400,000 | – |
| **Increase/(Decrease) in cash and cash equivalents** | | 53,832 | (170,944) |
| **Cash and cash equivalents at the beginning of period** | | 29,677 | 173,844 |
| Effect of foreign exchange rate changes | | (27,044) | 26,777 |
| **Cash and cash equivalents at end of period** | | 56,465 | 29,677 |

The accompanying notes on pages 21 to 51 are an integral part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 December 2012

## 1 General information

The Group is a leading provider of water monitoring products, leak detection equipment and remediation services. The Group's strategy 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 Hexagon Business Centre, Hexagon House, Station Lane, Witney, Oxfordshire, OX28 4BN.

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 27 June 2013.

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

No new IFRS standards, amendments or interpretations became effective in 2012 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:** |
|---|---|---|
| IFRS 7 | Amendment – Transfer of financial assets | 1 Jul 2011 |
| IFRS 9 | Financial instruments not EU Adopted | 1 Jan 2015 |
| IFRS 10 | Consolidated Financial Statements | 1 Jan 2014 |
| IFRS 11 | Joint Arrangements | 1 Jan 2013 |
| IFRS 12 | Disclosure of interests in other entities | 1 Jan 2014 |
| IFRS 13 | Fair value measurement | 1 Jan 2013 |
| IAS 12 | Deferred Tax: Recovery of Underlying Assets | 1 Jan 2012 |
| IAS 19 | Employee benefits | 1 Jan 2013 |
| IAS 27 (Revised) | Separate Financial Statements | 1 Jan 2013 |

There have been various amendments made to existing standards and interpretations as a result of the May 2010 improvements to IFRSs, which provide clarifications to existing requirements. Amendments have been made to the following standards:

IFRS 3 'Business Combinations' – transition requirements for contingent consideration; measurement of non-controlling interest; and unreplaced and voluntary replaced share-based payment awards.

IFRS 7 'Financial Instruments' – increased emphasis on the interaction between qualitative and quantitative disclosures.

IAS 1 'Presentation of Financial Statements' – clarification of the presentation of the statement of changes in equity.

IAS 27 'Consolidated and Separate Financial Statements' – transition requirements for amendments made as a result of IAS 27 (revised).

IAS 34 'Interim Financial Reporting' – accounting for significant events and transactions

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.

**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 June 2014. 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 is funded entirely on cash generation by its profitable US-based franchise business, ALD. The achievement of a successful product development and subsequent sales initiative will require additional working capital finance to be put in place. The Directors believe that the funding will be able to be made available on a case by case basis such that the Group will have adequate cash resources.

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

**Basis of consolidation**

The Group financial statements consolidate the accounts of Water Intelligence plc and all of its subsidiary undertakings made up to 31 December 2012. The Consolidated Statement of Comprehensive Income includes the results of all subsidiary undertakings for the period from the date on which control passes. Control is achieved where the Company (or one of its subsidiary undertakings) obtains the power to govern the financial and operating policies of an investee entity so as to derive benefits from its activities.

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

The prior year acquisition of ALDHC was, under IFRS3, accounted for as a reverse acquisition. The assets and liabilities revalued at their fair value on acquisition therefore related to the Company. A reverse acquisition reserve was created to enable the presentation of a consolidated statement of financial position which combines the equity structure of the legal parent with the reserves of the legal subsidiary.

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

## 3 Significant accounting policies continued

**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 2012 of $136,530 (2011: $706,052). The loss is included within the Consolidated Statement of Comprehensive Income.

**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.

## 3 Significant accounting policies continued

**Foreign currencies**

***(i) Functional and presentational currency***
Items included in the Financial Statements are measured using the currency of the primary economic environment in which each entity operates ("the functional currency") which is considered by the Directors to be Pounds Sterling (£) for the Parent Company and US Dollars ($) for ALDHC. The Financial Statements have been presented in US Dollars which represents the dominant economic environment in which the Group operates and is considered to be the functional currency of the Group. The effective exchange rate at 31 December 2012 was £1 = US$1.6163 (2011: £1 = US$1.5455).

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

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

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

b) the income and expenses are translated at average exchange rates for period; and

c) all resulting exchange differences are recognised in equity.

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

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

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

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

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

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

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

## 3 Significant accounting policies continued

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. Sales of other goods and products sold by the Group are recognised at fair value of the consideration received or receivable following delivery of the goods or services.

**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 |

## 3 Significant accounting policies continued

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

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

**Goodwill**

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

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.

**Prior year adjustment**

During the year the Board reviewed the accounting policy in respect of the goodwill created at the time of the reverse acquisition in 2010 which arose on the UK business (principally Water Intelligence Plc (then Qonnectis Plc) and its wholly owned trading subsidiary Qonnectis Networks Limited) and not as part of the cash generating unit of the US business (American Leak Detection Holding Corp and its trading subsidiary American Leak Detection Inc), as previously interpreted. Accordingly, as the UK business was loss making, had net liabilities and negligible trading activities at the time of the reverse acquisition in 2010, the Board have come to the conclusion that the goodwill created at the time should have been immediately impaired. As such a prior year adjustment to write-off the goodwill acquired at the date of acquisition in 2010 has been made as described in Note 5.

**Other intangible assets**

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

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

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

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

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

## 3 Significant accounting policies continued

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

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

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

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

## 3 Significant accounting policies continued

**Critical accounting estimates and judgements**

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 the carrying value of the goodwill, the carrying value of the intangibles, the carrying value of the investments, the deferred taxation provision and the prior year adjustment.

## 4 Segmental Information

In the opinion of the Directors, the operations of the Group currently comprise four operating segments, being the franchises, corporate owned stores, other activities including product and equipment sales and head office costs.

The Group mainly operates in the US, with operations in the UK and certain other countries. In 2012 89% (2011 96%) of its revenue came from the US based operations, the remaining 11% (2011 4%) of its revenue came from either UK or overseas based operations.

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

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 revenue less US head office costs
- Corporate-operated stores revenues less direct stores costs
- Other activities including product and equipment sales

Items that do not fall into the three segments have been categorised as unallocated head office costs.

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

**Revenue**

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| Royalties from franchisees | 4,345,615 | 4,131,459 |
| Corporate-operated Stores | 1,453,188 | 1,367,645 |
| Other activities | 941,764 | 859,168 |
| **Total** | 6,740,567 | 6,358,272 |

**Profit/(Loss) before tax**

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 restated $ |
|---|---|---|
| Royalties from franchisees | 1,113,604 | 883,051 |
| Corporate-operated Stores | 65,527 | (105,164) |
| Other activities | (135,783) | (243,785) |
| Unallocated head office costs | (512,833) | (731,145) |
| **Total** | 530,515 | (197,043) |

## 4 Segmental Information continued

**Assets**

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 restated $ |
|---|---|---|
| Royalties from franchisees | 5,659,959 | 5,157,602 |
| Corporate-operated Stores | 301,355 | 300,424 |
| Other activities | (243,926) | 485,927 |
| **Total** | 5,717,388 | 5,943,953 |

**Amortisation/impairment**

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 restated $ |
|---|---|---|
| Royalties from franchisees | 263,464 | 264,062 |
| Corporate-operated Stores | – | 75,000 |
| Other activities | 15,849 | – |
| **Total** | 279,313 | 339,062 |

**Depreciation**

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 restated $ |
|---|---|---|
| Royalties from franchisees | 17,225 | 28,811 |
| Other activities | 2,136 | 16,603 |
| **Total** | 19,361 | 45,414 |

**Finance Expense**

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 restated $ |
|---|---|---|
| Royalties from franchisees | 249,846 | 318,578 |
| Other activities | 9,825 | – |
| **Total** | 259,671 | 318,578 |

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

## 4 Segmental Information continued

***Geographic information***

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

Revenue by geography

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| US | 6,007,175 | 5,856,369 |
| International | 733,392 | 501,903 |
| **Total** | 6,740,567 | 6,358,272 |

Revenue from franchisor activities by geographical area is detailed below.

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| US | 4,085,147 | 3,882,459 |
| International | 260,468 | 249,000 |
| **Total** | 4,345,615 | 4,131,459 |

## 5 Prior year adjustment

On 29 July 2010 the controlling interest in the parent Company was exchanged for 91.57% 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 as part of the same transaction.

Under IFRS3, 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 were as follows:

| | $ |
|---|---|
| Purchase consideration as fair value of the shares issued | 534,527 |
| Fair value of the 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) |

## 5 Prior year adjustment continued

The Board previously erroneously recognised and supported the non-impairment of goodwill of $1,493,729, arising on the reverse acquisition as it was believed to be assessed as part of the cash generating unit of the US Business (American Leak Detection Holding Corp and its trading subsidiary American Leak Detection Inc). In this year the Board has reviewed this transaction and recognised that the goodwill arose on the UK business (principally Water Intelligence Plc (then Qonnectis Plc) and its wholly owned trading subsidiary Qonnectis Networks Limited), which was recognised in 2010 as having no ongoing value. Accordingly, the goodwill arising on the reverse acquisition should have been impaired in the statement of comprehensive income at the time in which it arose, as no lasting economic benefits could be attributed to the goodwill. This position is supported by the above net liabilities in 2010 together with the fact that the UK business was loss making and had negligible trading activity at the time at which the reverse acquisition arose. A prior year adjustment has been made to amend this error and reflect that a charge for the impairment of this goodwill of $1,493,729 should have been made in the consolidated income statement for the year ended 31 December 2010. This would have resulted in an amended basic and diluted loss per share for the year ended 31 December 2010 of 59.6 cents, previously reported as basic and diluted loss per share of 21.9 cents.

## 6 Expenses by nature

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

| | Note | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|---|
| Raw materials and consumables used | | 632,787 | 539,171 |
| Employee costs | 6 | 2,895,149 | 2,802,231 |
| Legal costs in respect of termination of Chief Executive Officer | | – | 77,479 |
| Operating lease rentals | | 14,429 | 17,393 |
| Depreciation charge | | 19,361 | 45,414 |
| Marketing costs | | 510,384 | 476,439 |
| R & D | | 76,167 | 79,434 |

The total cost to the Group in respect of the termination of the Chief Executive Officer in 2011 was $221,348.

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| **Auditors remuneration** | | |
| Fees payable to the Company's auditor for audit of Parent Company and Consolidated Financial Statements | 39,622 | 50,000 |
| Fees payables to the Company's auditor for other services: | – | 15,000 |

The Group Auditors are not the auditors of the US subsidiary companies. The fees paid to the auditor of the US subsidiary companies were $59,725 (2011: $ 63,475) for the audit of these companies and $30,000 (2011: $33,880) for other services.

## 7 Employees and Directors

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

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| Directors fees, salaries and benefits | 369,988 | 456,752 |
| Wages and Salaries | 2,313,299 | 1,996,902 |
| Redundancy | – | 143,869 |
| Social Security Costs | 181,230 | 168,065 |
| Share based payments | 30,632 | 36,643 |
| | 2,895,149 | 2,802,231 |

Information regarding Directors emoluments are as follows:

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| Directors' fees | 82,416 | 84,040 |
| Salaries and benefits | 287,572 | 372,712 |
| Redundancy | – | 143,869 |
| Social Security Costs | 10,902 | 15,307 |
| | 380,890 | 615,928 |

The highest paid Director received emoluments of $287,572 (2011: $284,004). Of the amounts above directors fees of $120,060 for both 2012 and 2011 (2011: $53,402) and salaries of $19,425 (2011: $41,425) have been accrued and not yet paid.

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Directors (executive and non-executive) | 5 | 5 |
| Management | 7 | 8 |
| Field Services | 15 | 14 |
| Franchise Support | 9 | 8 |
| Administration | 4 | 5 |
| | 40 | 40 |

## 8 Share options

The Group has a number of share options schemes as shown in the tables below.

The Company grants share options at its discretion to Directors, management, advisors and lenders. Share options are 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.

None of the Directors had options in the Company at 31 December 2012 (2011: nil) and at the date of this report.

## 8 Share options continued

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

| | Number of share options 2012 | Weighted average exercise price ($) 2012 | Number of share options 2011 | Weighted average exercise price ($) 2011 |
|---|---|---|---|---|
| Outstanding at beginning of year | 293,669 | 1.86 | 301,957 | 2.81 |
| Granted during the year | – | – | – | – |
| Forfeited/lapsed during the year | (30,000) | (1.89) | (8,288) | (36.68) |
| Exercised during the year | – | – | – | – |
| Outstanding at end of the year | 263,669 | 1.85 | 293,669 | 1.86 |
| Exercisable at end of the year | 263,669 | 1.85 | 293,669 | 1.86 |

***Fair value of share options***

The weighted average fair value of the exercise price of the share options granted in the financial year was nil (2011: $nil).

The calculation of the fair value of options issued in 2010 required the use of estimates as outlined in the table below. 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 ($) |
|---|---|
| Weighted average share price | 1.0433 |
| Weighted average exercise price | 1.1544 |
| Expected volatility | 35% |
| Expected life | 3 years |
| Risk free rate | 2.08% |
| Expected dividend yields | Nil |

There were no share options issued during 2012 and therefore no Black Scholes calculation has been performed.

A charge of $30,632 (2011: $36,643) 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 $30,623 (2011: $36,643) relating to share-based payments in the year.

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

| Scheme | 2012 | 2011 | Date of Grant | Exercise price | Exercise period From | To |
|---|---|---|---|---|---|---|
| Unapproved | 6,143 | 6,143 | 23/04/2008 | $22.68 | 23/04/2008 | 22/04/2013 |
| | 70,000 | 70,000 | 16/07/2010 | $0.99 | 16/07/2010 | 16/07/2014 |
| | 187,526 | 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** | 263,669 | 293,669 | | | | |

All share options are equity settled on exercise.

## 8 Share options continued

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. The conversion to options over 434,500 New Ordinary Shares in respect of these options has been completed in 2013, the balance being attributable to leavers between 2010 and 2013 or options that have not been taken up.

## 9 Finance income

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| Interest income | 28,093 | 22,808 |

## 10 Finance expense

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| Bank loans | 249,846 | 318,578 |
| Other interest | 9,825 | – |
| Interest payable | 259,671 | 318,578 |

## 11 Taxation

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| **Group** | | |
| Current tax: | | |
| Current tax on profits in the year | 60,386 | 39,975 |
| Prior year over provision | (359) | – |
| **Total current tax** | 60,027 | 39,975 |
| Deferred tax current year | 260,551 | 281,821 |
| Deferred tax prior year | (55,539) | (57,651) |
| **Deferred tax charge** (note 22) | 205,012 | 224,170 |
| **Income tax expense** | 265,039 | 264,145 |

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:

| | 2012 $ | 2011 $ |
|---|---|---|
| Profit/(Loss) before tax on ordinary activities | 530,515 | (197,043) |
| Tax calculated at domestic rate applicable profits in respective countries | 242,421 | 4,228 |
| Tax effects of: | | |
| Non-deductible expenses | 22,404 | 111,837 |
| State taxes net of federal benefit | 77,229 | 44,931 |
| Depreciation less than capital allowances | (12,072) | (152,465) |
| Short term timing differences | 4,433 | – |
| Other differences | 2,372 | – |
| Addition for research and development | – | 2,339 |
| Tax losses (relieved)/unrelieved | (15,850) | 195,624 |
| Prior year taxation | (55,898) | 57,651 |
| Taxation expense recognised in income statement | 265,039 | 264,145 |

The Group is subject to income taxes in two jurisdictions. Significant judgement 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 Earnings per share

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

**Basic**

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Profit/(loss) for the year attributable to shareholders of the Company ($) | 265,476 | (461,188) |
| Weighted average number of ordinary shares | 9,604,417 | 9,604,417 |
| Diluted weighted average number of ordinary shares | 9,890,922 | – |
| **Profit/(loss) per share (cents)** | 2.8 | (4.8) |
| **Diluted profit/(loss) per share (cents)** | 2.7 | (4.8) |

The diluted loss per share for 2011 is 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

| | Goodwill $ | Owned and Operated stores $ | Franchisor activities $ | Totals $ |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2011 | 1,493,729 | 239,500 | 636,711 | 2,369,940 |
| Additions | – | – | – | – |
| **At 31 December 2011** | 1,493,729 | 239,500 | 636,711 | 2,369,940 |
| Additions | – | – | – | – |
| **At 31 December 2012** | 1,493,729 | 239,500 | 636,711 | 2,369,940 |
| **Impairment** | | | | |
| At 1 January 2011 as previously reported | – | – | – | – |
| Prior year adjustment | 1,493,729 | – | | 1,493,729 |
| At 1 January 2011 as restated | 1,493,729 | – | – | 1,493,729 |
| Impairment in year | – | 75,000 | – | 75,000 |
| **At 31 December 2011 as restated** | 1,493,729 | 75,000 | – | 1,568,729 |
| Impairment in year | – | – | – | – |
| **At 31 December 2012** | 1,493,729 | 75,000 | – | 1,568,729 |
| **Carrying amount** | | | | |
| At 31 December 2011 as restated | – | 164,500 | 636,711 | 801,211 |
| **At 31 December 2012** | – | 164,500 | 636,711 | 801,211 |

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 three cash generating units expected to benefit from the synergies of the combination, the Group goodwill, corporate owned and operated stores and franchisor activities. The 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. As noted in note 5, prior year adjustment, the Group goodwill has been written off at the time of the reverse acquisition.

## 13 Goodwill continued

Calculation of the corporate owned and operated stores and the franchisor activities cash generating unit's recoverable amount requires the use of estimates, with regards to forecast cash flows and discount rates.

The assumptions used for the corporate owned and operated stores are based on the forecast cash flows for 2013 and that cash flows thereafter are assumed to increase by 2% per annum and a discount rate of 10% has been used to value the future cash flows. A terminal value has been estimated after 5 years of discounted cash flows. This has resulted in no impairment charge being required in 2012 (2011: $75,000).

The assumptions used for the franchisor activities are based on the forecast cash flows for 2013 and that cash flows thereafter are assumed to increase by 2% per annum and a discount rate of 10% has been used to value the future cash flows. A terminal value has been estimated after 5 years of discounted cash flows. This has resulted in no impairment charge being required in 2012 or in prior years.

Had the estimated cost of capital used in determining the discount rate used in these calculations been 5% higher than management's estimates, the Group would still not have incurred any impairment for either the corporate owned and operated stores or the franchisor activities.

Had the estimated revenues used in these calculations been 5% lower than management's estimates, the Group would still not have incurred any impairment for either the corporate owned and operated stores or the franchisor activities.

## 14 Other intangible assets

| | Product development | Covenants not to compete $ | Customer Lists $ | Trademarks $ | Patents $ | Total $ |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2011 | – | 270,000 | 217,500 | 5,293,817 | 23,692 | 5,805,009 |
| Additions | – | – | – | – | – | – |
| **At 31 December 2011** | – | 270,000 | 217,500 | 5,293,817 | 23,692 | 5,805,009 |
| Additions | 157,095 | – | – | – | – | 157,095 |
| Exchange differences | 4,438 | – | – | – | – | 4,438 |
| **At 31 December 2012** | 161,533 | 270,000 | 217,500 | 5,293,817 | 23,692 | 5,966,542 |
| **Accumulated amortisation** | | | | | | |
| At 1 January 2011 | – | 270,000 | 217,500 | 1,324,839 | 19,548 | 1,831,887 |
| Amortisation expense | – | – | – | 261,691 | 2,371 | 264,062 |
| **At 31 December 2011** | – | 270,000 | 217,500 | 1,586,530 | 21,919 | 2,095,949 |
| Amortisation expense | 15,849 | – | – | 261,691 | 1,773 | 279,313 |
| Exchange differences | 304 | – | – | – | – | 304 |
| **At 31 December 2012** | 16,153 | 270,000 | 217,500 | 1,848,221 | 23,692 | 2,375,566 |
| **Carrying amount** | | | | | | |
| **At 31 December 2011** | – | – | – | 3,707,287 | 1,773 | 3,709,060 |
| **At 31 December 2012** | 145,380 | – | – | 3,445,596 | – | 3,590,976 |

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.

## 14 Other intangible assets continued

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, the intangible assets are reviewed against the entire business of ALD as they support the whole business. The cash generating units to which intangible assets have been allocated are tested for impairment annually. If the recoverable amount carrying value of the ALD business were to be less than its carrying amount, the impairment loss would be allocated first to the carrying amount of any trademarks. An impairment loss recognised for other intangible assets is not recovered in a subsequent period.

The assumptions used for ALD is based on the forecast cash flows for 2013 and that cash flows thereafter are assumed to increase by 2% per annum and a discount rate of 10% has been used to value the future cash flows. A terminal value has been estimated after 5 years of discounted cash flows. This has resulted in no impairment charge being required in 2012, or in prior years.

Had the estimated cost of capital used in determining the discount rate been 5% higher than management's estimates, the Group would still not have incurred any impairment.

In addition had the estimated revenues been 5% lower than management's estimates, the Group would still not have incurred any impairment on the intangible assets.

During the year the Qonnectis Networks Limited paid $157,095 as a contribution for product development of Domestic Reporter, a leak detection product for the UK market.

## 15 Property, plant and equipment

| | Equipment & displays $ | Motor vehicles $ | Leasehold improvements $ | Total $ |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2011 | 691,792 | 345,433 | 123,418 | 1,160,643 |
| Additions | 3,883 | – | – | 3,883 |
| Fully depreciated assets written off | (220,776) | – | – | (220,776) |
| Exchange differences | (1,451) | – | – | (1,451) |
| Disposals | – | (20,533) | – | (20,533) |
| **At 31 December 2011** | 473,448 | 324,900 | 123,418 | 921,766 |
| Additions | 750 | – | – | 750 |
| Exchange differences | 318 | – | – | 318 |
| Disposals | (636) | (60,622) | – | (61,258) |
| **At 31 December 2012** | 473,880 | 264,278 | 123,418 | 861,576 |
| **Accumulated depreciation** | | | | |
| At 1 January 2011 | 630,392 | 330,104 | 123,418 | 1,083,914 |
| Eliminated on disposals | – | (20,533) | – | (20,533) |
| Fully depreciated assets written off | (220,776) | – | – | (220,776) |
| Depreciation expense | 35,855 | 9,559 | – | 45,414 |
| Exchange differences | (1,945) | – | – | (1,945) |
| **At 31 December 2011** | 443,526 | 319,130 | 123,418 | 886,074 |
| Eliminated on disposals | (423) | (60,622) | – | (61,045) |
| Depreciation expense | 13,591 | 5,770 | – | 19,361 |
| Exchange differences | 290 | – | – | 290 |
| **At 31 December 2012** | 456,984 | 264,278 | 123,418 | 844,680 |
| **Carrying amount** | | | | |
| At 31 December 2011 | 29,922 | 5,770 | – | 35,692 |
| **At 31 December 2012** | 16,896 | – | – | 16,896 |

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 2012 is not material to the accounts, and therefore any change in estimate related to expected useful lives would not have a material effect on the Financial Statements.

The value of the assets charged as security for the bank debt is $16,895 (2011: $35,102).

## 16 Investment in subsidiary undertakings

| Company | Subsidiary undertaking $ |
|---|---|
| **Cost** | |
| At 31 December 2011 | 14,614,273 |
| Exchange difference | 660,313 |
| **At 31 December 2012** | 15,274,586 |
| **Impairment** | |
| At 31 December 2011 | 6,124,199 |
| Exchange difference | 276,707 |
| **At 31 December 2012** | 6,400,906 |
| **Carrying amount** | |
| At 31 December 2011 | 8,490,074 |
| **At 31 December 2012** | 8,873,680 |

The Directors annually assess the carrying value of the investment in the subsidiary and in their opinion no impairment provision is currently necessary. See notes 14 and 15 for the assumptions and sensitivities in assessing the carrying value of the investment.

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 2012 $ | 31 December 2011 $ |
|---|---|---|
| Group inventories | 194,007 | 91,270 |

The Company does not hold inventory. During the year ended 31 December 2012 an expense of $nil (2011: $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 2012 $** | **31 December 2011 $** | **31 December 2012 $** | **31 December 2011 $** |
| Trade notes receivable | 39,640 | 44,839 | – | – |

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

**Current**

| | Group | | Company | |
|---|---|---|---|---|
| | **31 December 2012 $** | **31 December 2011 $** | **31 December 2012 $** | **31 December 2011 $** |
| Trade receivables | 69,926 | 165,127 | – | – |
| Prepayments | 422,200 | 104,192 | 10,960 | 33,453 |
| Due from Group undertakings | – | – | 522,257 | 172,614 |
| Accrued royalties receivable | 125,595 | 305,282 | – | – |
| Trade notes receivable | 49,185 | 44,896 | – | – |
| Other receivables | | | | |
| Due from related party | 131,913 | 138,806 | – | – |
| VAT debtor | 13,626 | 21,537 | 4,846 | – |
| **Current portion** | 812,445 | 779,840 | 538,063 | 206,067 |

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 38 days (2011: 39 days).

As at the 31 December 2012, trade receivables of $36,270 (2011: $19,328) were past due but not impaired. These relate to a number of customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

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

| | **Year ended 31 December 2012 $** | **Year ended 31 December 2011 $** |
|---|---|---|
| 60-90 days | 19,390 | 8,343 |
| 90+ days | 16,880 | 10,984 |
| | 36,270 | 19,327 |
| Average age (days) | 105 | 141 |

## 18 Trade and other receivables continued

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

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| US Dollar | 763,837 | 695,097 |
| UK Pound | 48,608 | 84,743 |
| | 812,445 | 779,840 |

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 | | Company | |
|---|---|---|---|---|
| | 31 December 2012 $ | 31 December 2011 $ | 31 December 2012 $ | 31 December 2011 $ |
| Cash at bank and in hand | 382,525 | 364,099 | 56,465 | 29,677 |

The Company has a debenture including a fixed charge over all the present freehold and leasehold property, a first fixed charge over book and other debts, chattels, goodwill, and uncalled capital, both present and future and a first floating charge over all assets and undertakings both present and future.

## 20 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2012 $ | 31 December 2011 $ | 31 December 2012 $ | 31 December 2011 $ |
| Trade payables | 331,520 | 461,342 | 189,756 | 291,932 |
| Other payables | 33,046 | 4,074 | – | 7,068 |
| Accruals | 543,658 | 468,787 | 172,286 | 237,326 |
| Due to Group undertakings | – | – | 918,968 | 252,958 |
| Deferred Income | – | 36,781 | – | – |
| | 908,224 | 970,984 | 1,281,010 | 789,284 |

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 71 days (2011: 41 days).

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

## 21 Provision for Onerous Contracts

| | $ |
|---|---|
| Balance at 31 December 2011 | 192,000 |
| Provisions utilised | (67,253) |
| Balance at 31 December 2012 | 124,747 |
| Current | 58,655 |
| Between two and five years | 66,092 |
| Balance at 31 December 2011 | 124,747 |

The provision for onerous contracts relates to the provision for ongoing services under 5 year contracts where the costs of providing those services outweighs the revenue generated. The last of the contracts will expire in March 2015. The onerous contact provision has not been discounted, as in the opinion of the directors, this would not be material.

## 22 Deferred Tax

The analysis of deferred tax assets is as follows:

**Group**

| | **2012** **$** | **2011** **$** |
|---|---|---|
| Deferred tax (liability)/assets | (149,794) | 55,218 |

The movement in deferred tax assets is as follows:

**2012**

| | **Opening balance** **$** | **Recognised in the income statement** **$** | **Closing balance** **$** |
|---|---|---|---|
| Temporary differences: | | | |
| Net operating loss (non-current) | 112,000 | (62,874) | 49,126 |
| Short term timing differences | (56,782) | (142,138) | (198,920) |
| | 55,218 | (205,012) | (149,794) |

**2011**

| | **Opening balance** **$** | **Recognised in the income statement** **$** | **Closing balance** **$** |
|---|---|---|---|
| Temporary differences: | | | |
| Net operating loss (non-current) | 186,895 | (74,895) | 112,000 |
| Short term timing differences | 92,493 | (149,275) | (56,782) |
| | 279,388 | (224,170) | 55,218 |

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 relating to carried forward tax losses of $8,000,000 (2011: $7,100,000) arising in the UK as there is insufficient evidence that the asset will be recovered. The deferred income tax asset relating to these losses is $1,860,000 (2011: $1,800,000).

## 23 Share capital

The issued share capital in the year was as follows:

**Company**

| | Ordinary Shares Number | Deferred Shares Number |
|---|---|---|
| **At 31 January 2012** | 9,604,417 | 808,450,760 |
| **And At 31 December 2011** | 9,604,417 | 808,450,760 |

**Company**

| | Share Capital $ | Share Premium $ | Capital Redemption $ |
|---|---|---|---|
| **At 1 January 2012** | 12,716,863 | 4,203,812 | 6,517,644 |
| **And At 31 December 2012** | 12,716,863 | 4,203,812 | 6,517,644 |

The Deferred Shares, carry the right to repayment of 1p each 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.

The 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 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 1p and 1p respectively.

## 24 Obligations under operating leases

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

**2012**

| | Land & Buildings $ | Other $ | Total $ |
|---|---|---|---|
| No later than one year | – | 10,698 | 10,698 |
| Later than one year, and not later than five years | – | 5,383 | 5,383 |
| **Total** | – | 16,081 | 16,081 |

**2011**

| | Land & Buildings $ | Other $ | Total $ |
|---|---|---|---|
| No later than one year | 3,075 | 10,261 | 13,336 |
| Later than one year, and not later than five years | – | 10,180 | 10,180 |
| **Total** | 3,075 | 20,441 | 23,516 |

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 2012 no trading in financial instruments was undertaken (2011: 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 exposure to credit risk at the year end was in respect of the past due receivables that have not been impaired:

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

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| 60-90 days | 19,390 | 8,343 |
| 90+ days | 16,880 | 10,984 |
| | 36,270 | 19,327 |
| Average age (days) | 105 | 141 |

## 25 Financial instruments continued

**Categories of financial instruments**

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2012 $ | 31 December 2011 $ | 31 December 2012 $ | 31 December 2011 $ |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 382,525 | 364,099 | 56,465 | 29,677 |
| Trade and other receivables – current | 812,446 | 779,840 | 538,063 | 206,067 |
| Corporation tax recoverable | 29,434 | 62,725 | – | – |
| Trade and other receivables – non-current | 39,640 | 44,839 | – | – |
| **Financial Liabilities** | | | | |
| Trade and other payables | 1,032,970 | 970,985 | 1,272,285 | 794,284 |
| Borrowings – current | 900,275 | 600,521 | – | – |
| Borrowings – non-current | 1,950,489 | 2,582,964 | – | – |
| Promissory notes – current | – | 7,272 | – | – |

**Borrowings**

***Bank Loan***

On 16 July 2010 ALDHC drew down a six-year term loan at an initial rate of 8% per annum of US$4.0 million from the Bank of Southern Connecticut.

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

The Bank Loan is 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.

On 25 July 2012, the ALDH entered into a $250,000 revolving line of credit agreement (Revolver) with the Bank of Southern Connecticut. The line bears interest at a rate equal to the greater of 5.25% per annum, or the Wall Street Journal Prime Rate (as defined) plus 2.75% (6.0% at December 31, 2012). Commencing August 1, 2012, the ALDH began making monthly interest only payments and will be required to pay the entire principal balance and all accrued and unpaid interest in full on June 30, 2013. The Revolver is secured by substantially all of the assets of the Group. At December 31, 2012, $248,548 was outstanding. The full amount was repaid on 24 April 2013 and the Revolver was drawn down on 21 June 2013.

***Promissory Notes***

In addition to the Bank Loan, there is a Promissory Note in place at 31 December 2011 to finance the acquisition of trade assets. The Promissory Note was repaid in full on 29 March 2012.

| | Year ended 31 December 2012 | Year ended 31 December 2011 | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|---|---|
| | Current | | Non-current | |
| **Financial Instruments** | $ | $ | $ | $ |
| Term loan | 651,727 | 600,521 | 1,950,849 | 2,582,964 |
| Revolving credit facility | 248,548 | – | – | – |
| Promissory notes | – | 7,272 | – | – |
| **Total** | 900,275 | 607,793 | 1,950,849 | 2,582,964 |

The Company had no borrowings during the year (2011 $nil).

## 25 Financial instruments continued

### Capital risk management

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

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

### Significant accounting policies

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

### 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$ being Canadian Dollars, Australian Dollars and Euro; royalties from such sources in 2012 were $260,468 (2011: $249,000). No foreign exchange contracts were in place at 31 December 2012 (2011: Nil).

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

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2012 $ | 31 December 2011 $ | 31 December 2012 $ | 31 December 2011 $ |
| **Assets** | | | | |
| Sterling | 154,426 | 188,430 | 594,528 | 235,188 |
| **Liabilities** | | | | |
| Sterling | 560,062 | 838,383 | 1,272,391 | 789,284 |

As shown above, at 31 December 2012 the Group had Sterling denominated monetary net liabilities of $375,636. (2011: $649,953) If Sterling strengthens by 10% against the US dollar, this would increase liabilities by $37,564 (2011: $64,995) 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.

## 25 Financial instruments continued

**Interest rate sensitivity analysis**
The Group's borrowings are at fixed rates. Approximately 90% of the borrowings at 31 December 2012 were a Bank Loan of $2,354,028. The Bank Loan is repayable in full on or before 16 July 2016 with monthly repayments of principal and interest at 8% per annum until the principal balance is reduced to US$2.0 million when the interest rate becomes 2% above "Wall Street Journal Prime" adjusted annually.

The losses recorded by both the Group and the Company for the year ended 31 December 2012 would not materially change if market interest rates had been 1% higher/lower throughout 2012 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 30 June 2013. 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 shows both interest and principal cash flows.

**Group**

| | 0-6 months<br>$ | 6-12 months<br>$ | >12 months<br>$ | Total<br>$ |
|---|---|---|---|---|
| **2012** | | | | |
| Fixed interest rate instruments principal | 661,218 | 412,670 | 2,202,264 | 3,276,152 |
| **2011** | | | | |
| Fixed interest rate instruments principal | 429,540 | 422,205 | 3,095,937 | 3,947,682 |

The Company has no non-derivative financial liabilities.

**Derivatives**
The Group and Company have no derivative financial instruments.

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

## 26 Notes to the statement of cash flows

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Group** | | |
| Profit before interest and taxation | 762,093 | 98,727 |
| Adjustments for: | | |
| Depreciation of plant and equipment | 19,361 | 45,414 |
| Amortisation of intangible assets | 279,313 | 264,061 |
| Impairment | – | 75,000 |
| Loss/(gain) on disposal of fixed asset | 212 | (300) |
| Share based payments | 30,632 | 36,643 |
| Provision for bad debts | | – |
| **Operating cash flows before movements in working capital** | 1,091,611 | 519,545 |
| (Increase)/Decrease in inventories | (102,737) | 150,779 |
| (Increase)/Decrease in trade and other receivables | (8,337) | 59,594 |
| Decrease in trade and other payables | (130,042) | (2,978) |
| **Cash generated by operations** | 850,495 | 726,940 |
| Income taxes | (26,735) | (73,709) |
| **Net cash generated from operating activities** | 823,760 | 653,231 |

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Company** | | |
| Loss before interest and taxation | (526,274) | (727,712) |
| Adjustments for: | | |
| Share based payment expense | 30,632 | 36,643 |
| **Operating cash flows before movements in working capital** | (495,642) | (691,069) |
| Increase in trade and other receivables | (331,996) | (15,148) |
| Increase in trade and other payables | 491,726 | 540,390 |
| **Cash used by operations** | (335,912) | (165,827) |
| Income taxes | – | – |
| **Net cash used in operating activities** | (335,912) | (165,827) |

## 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 2011, PSS charged fees pursuant to the Commercial Relations Agreement amounting to $nil (2011: $Nil) which were included under research and development expenses.

## 28 Related party transactions continued

Fees charged by PSS under the Letter of Agreement were:

| | Year ended 31 December 2012 $ | Year ended 31 December 2011 $ |
|---|---|---|
| **R&D licence fees** | – | – |
| **Total** | – | – |

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 licence is worldwide in scope and was in perpetuity from the date of the letter agreement. The licence is royalty-free for the first $5,000,000 of any product sales which include intellectual property under licence and a fee of 3% is paid on any further sales.

As set out in Note 25, on 7 June 2010, the Bank of Southern Connecticut ("the Bank") lent 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 suretyship with the Bank guaranteeing the obligations of ALDHC under the loan agreement. The guarantee has been joined by a significant shareholder, the Executive Chairman. On 1 July 2011, ALDHC agreed to pay a guarantee fee to PSS of 0.75% per annum on the outstanding balance on the loan, calculated at the end of each month. The amount charged in respect of this in the year was $12,710 (2010: $nil).

On 10 May 2012, PSS lent the Company a short term loan of $162,380. The loan attracted interest at 10% per annum for the period. The loan and interest were fully repaid on 20 December 2012.

During the normal course of operations there are inter-company transactions with PSS, all such transactions have been approved by the independent Directors. The movement on the account during the year was as follows:

| | $ |
|---|---|
| Balance at 31 December 2011 | 138,758 |
| Loan guarantee fees paid to PSS | (22,161) |
| Interest charges on outstanding balance | 10,575 |
| Loan made to Water Intelligence | 162,380 |
| Repayment of loan | (162,380) |
| Interest on loan for the period | 10,256 |
| Payment of interest on loan | (10,256) |
| Other charges | 3,865 |
| Executive Chairman's compensation and expenses charged | 277,878 |
| Executive Chairman's compensation and expenses paid* | (277,878) |
| Balance at 31 December 2012 | 131,037 |

(*Note $42,000 of this amount has been paid directly to Mr De Souza. Additionally this does not include accrued costs that have not been invoiced by PSS).

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 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 annum).

## 28 Related party transactions continued

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% of the net proceeds will be utilised to reduce the balance due by PSS to ALDHC Group.

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

**QN**

| | $ |
|---|---|
| Balance at 31 December 2011 | 172,614 |
| Net loans to subsidiary | 276,742 |
| VAT transferred under group registration | 75,761 |
| Other expenses recharged and exchange differences | (2,860) |
| Balance at 31 December 2012 | 522,257 |

**ALD**

| | $ |
|---|---|
| Balance at 31 December 2011 | (252,958) |
| Loans to WI | (644,970) |
| Other expenses recharged and exchange differences | (21,040) |
| Balance at 31 December 2012 | (918,968) |

**ALDH**

| | $ |
|---|---|
| Dividend received | 400,000 |

## 29 Subsequent events

There have been no 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:

Wiel, Gotshall & Manges, 110 Fetter Lane, London EC4A 1AY at 10am on 30th July 2013.

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

**Ordinary resolutions**

1. THAT the Company's annual accounts for the financial year ended 31st December 2012, together with the last directors' report and the auditor's report on those accounts and the directors' report, be received and adopted.
2. To reappoint Crowe Clark Whitehill LLP as the Company's auditors to hold office from the conclusion of this meeting until the conclusion of the next meeting at which accounts are laid before the Company.
3. To authorise the directors to agree the remuneration of the auditors.
4. To re-appoint, as a director, Patrick DeSouza who retires by rotation in accordance with the Articles of Association.
5. To re-appoint, as a director, Robert Mitchell who retires by rotation in accordance with the Articles of Association.
6. THAT, in substitution for any existing and unexercised authorities, the Directors be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "**Act**") to exercise all the powers of the Company to allot equity securities (as defined in section 560(1) of the Act) provided that this authority shall be limited to the allotment of equity securities to any person or persons up to an aggregate nominal amount of £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**

7. 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 meanings 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:*
Hexagon Business Centre, Hexagon House, Station Lane, Witney, Oxfordshire OX28 4BN

Dated: 27 June 2013

**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 Limited, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by not later than 10am on Friday 26th July 2013 (being 48 hours prior to the time fixed for the AGM, excluding weekends and public holidays) or, in the case of an adjournment, as at 48 hours prior to the time of the adjourned AGM (weekends and public holidays excluded).

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

3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares in the capital of the Company registered in the register of members of the Company at 6pm on Friday 26th July 2013 (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.

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