

RNS Number : 1969F
Water Intelligence PLC
16 May 2017

Water Intelligence plc (AIM: WATR.L)
("Water Intelligence", the "Group" or the "Company")
Results for the year ended 31 December 2016

Water Intelligence, a leading provider of non-invasive leak detection and remediation solutions, is pleased to present its full, audited results for the year ended 31 December 2016.

Copies of the Annual Report will be made available to view on the Company's website at www.waterintelligence.co.uk.

Results Highlights

- 2016 total revenue increased 38% to \$12.18 million accelerating from 23% annual revenue growth reported for 2015
- Growth mostly organic and through 5 business acquisitions (franchise reacquisitions in US - New Jersey, Ohio and Arkansas - and Sydney, Australia; municipal leak detection in UK - NRW Utilities)
- All major components of revenue grow strongly
- Royalty income from franchisee-executed sales increases 6.2% to \$5.54 million
- Revenue from U.S. corporate-executed sales increases 61.3% to \$4.22 million
- Product and Equipment sales increase 14.1% to \$1.05 million as U.S. franchisees reinvest for growth
- UK and Sydney acquisitions establish corporate operations with sales from corporate operations outside U.S. growing from \$38 thousand in 2015 to \$683 thousand; support for Australian franchisees
- Corporate staff grew from 63 to 89 to execute growth strategy
- Profits before tax when adjusted for one-time costs of 8 transactions (5 business acquisitions and 3 corporate finance) increase 8.6% to \$1.07 million
- Adjusted EPS increased by 11.8% to \$0.062; (2015: \$0.055)
- 3 transactions to improve capital profile supplement business acquisitions: Share reorganization to permit dividends; equity financing at premium to market price; bank refinancing reducing monthly amortization by 30.6% to \$36 thousand

- Net debt reduced 25% to \$0.76 million
- Net asset value (equity attributable to shareholders) increases 34% from 2015 to \$5.15 million
- Very positive start to 2017 led by first national business account with leading insurance company

Dr. Patrick DeSouza, Executive Chairman of Water Intelligence, commented: "We had quite a 2016 achieving a strong and sustainable growth trajectory as a multinational company. We are off to a fast start in 2017. Market demand worldwide for solutions to water loss is only increasing. The continued organic growth in our core American Leak Detection business provides us with an excellent platform upon which to build our additional services and capabilities."

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Chairman's statement

Introduction

As discussed in last year's Chairman's Statement, we are building a *multinational growth-oriented* company that provides minimally-invasive solutions to the worldwide problem of water-loss from leakage in pipes whether residential, commercial or municipal. Our ambitious plan is underway and, once again, we are pleased to report strong results for 2016 led by a 38% growth in sales. In fact, we stretched our sales targets during 2016 (leading to revised analyst estimates three times) combining both organic growth and growth through acquisition. In fact, during 2016 we successfully executed eight transactions: three corporate finance transactions to add wherewithal and five business acquisitions (3 in the US, 1 in the UK and 1 in Australia to add critical mass to the Group). We are pleased that the market showed confidence in our efforts with the share price building during the course of the year, including after an oversubscribed capital raise that was priced at a premium to the prevailing market price. Given our Q1 unaudited results, we anticipate that our momentum will continue during 2017, if not accelerate.

Meeting Our Objectives

In advancing our goal of developing a multinational growth-oriented company, we have focused on three objectives: strengthening our *multinational* execution, achieving *growth* and reinforcing our corporate finance capabilities to fuel the first two objectives. First, as always, we start with achieving the key components of our growth plan. We are committed to growing our core franchise business - American Leak Detection - that executes approximately \$75 million in System-wide sales. From that expanding sales network, we look to selectively reacquire franchisees both to aggregate revenue and earnings directly onto the Water Intelligence accounts and to set-up regional corporate operations to help grow our franchise network further. As discussed in the Trading Results section below, we achieved this primary objective with royalty income from franchisee sales growing by 6.2% and with corporate store sales jumping by 61.3%. Moreover, with our 2016 acquisitions, we strengthened corporate execution capabilities in the Northeast and Midwest of the United States.

Second, to better position ourselves for the multinational aspect of growth, we sought to expand existing corporate operations in the UK and Australia. We established a much stronger presence in the UK through the acquisition of NRW Utilities Ltd ("NRW") in September 2016. NRW had previously served as our subcontractor for leak detection work for UK utilities such as Thames Water. NRW is fast growing. During the first seven months as part of the Group, NRW has contributed approximately \$1 million of sales (during Q3/4 2016 and Q1 2017). Meanwhile, with respect to Australia, we acquired a former American Leak Detection franchisee in Sydney. Our new corporate location will be used not only to grow existing municipal and residential work in Sydney but also to support and grow American Leak Detection's five other franchisees in Australia. Water loss is a big problem in Australia and we are excited about the opportunity to expand operations and perhaps sell additional franchises. In executing our Australia plan, we recognized one important collateral benefit of the NRW acquisition. NRW adds significant operational leadership for our worldwide efforts. Given NRW's prior experience in Australia, we are confident about our plan's long-run success.

Third, in order to sustain our efforts to be a multinational growth company, we sought to improve the Company's corporate and capital profile. We launched the 2016 plan in Q1 with a share reorganization to address legacy matters from when Water Intelligence first came to AIM through its reverse acquisition of Qconnectis Plc. Because of the share reorganization, we were able to eliminate unnecessary reserves and create the opportunity for dividends for our shareholder base in the future if deemed compatible with the yearly plan. After five acquisitions during 2016, we ended 2016 by supplementing our war chest with both equity and commercial bank financings to provide us with additional resources and relationships with which to accelerate our business plan in 2017 and beyond. During November, we raised approximately \$1 million from investors on both sides of the Atlantic. During December, we refinanced our existing term loan reducing our yearly amortization for the next four years by approximately 30% thus freeing-up cash for reinvestment. We have also expanded our lines of credit at attractive interest rates including adding a new line of \$1.5 million for further acquisitions. Our calibrated corporate finance efforts have put us on a stronger footing with minimum shareholder dilution. Importantly, Water Intelligence's net debt reduced by approximately 25% from 2015 to \$763,000. Executing against these three objectives has enabled us to take a significant step forward in building a valuable company whose growth path is sustainable. As a result of our efforts, net asset value (equity attributable to shareholders) increased 34% from 2015 to \$5.15 million.

Trading Results

As discussed in the Strategic Report, we displayed growth along every key indicator of the Company. During 2016, overall sales grew 38% to \$12.18 million from \$8.84 million. In fact, the rate of sales growth accelerated during 2016 as growth for 2015 was 23% over that of 2014. We believe that this trend of acceleration is continuing during Q1 2017.

Within overall sales growth, franchise royalty growth remained steady at 6.2% reaching \$5.54 million (2015: \$5.22 million and 6% growth). We are pleased with this solid outcome given that royalty growth would have been higher had we not removed some royalty income from the pool by reacquiring some franchises. We will continue to build our American Leak Detection brand and System-wide sales through the development of national channels. Our insurance company partners continue to value our precision leak detection services across the US in an effort to minimize claims. During Q1 2017 we signed our first formal national contract with a major carrier. We are currently in the midst of its implementation. We look to gaining additional national accounts in insurance and property management. Moreover, with the addition of NRW's professional expertise in municipal work, we are looking to taking advantage of trends in infrastructure spending across the US.

Corporate-operated leak detection services during 2016 jumped to \$4.22 million showing a 61.3% growth over 2015 results of \$2.61 million. Such growth was achieved mostly organically from growing existing corporate stores and from 2016 acquisitions of franchise locations in South New Jersey, Cincinnati and Northwest Arkansas. 2015 franchise reacquisitions all showed strong organic sales growth during 2016: New York (120% growth to approximately \$500,000), Miami (86% growth to approximately \$1.19 million) and Detroit (40% growth to approximately \$550,000). One additional indicator of our ability to add value over time when converting franchise operations to corporate operations is the contribution to profits from corporate-run operations (see Strategic Report). Profits from corporate stores increased 119% to \$324,000 in 2016 from \$148,000 in 2015. Much like we did with our 2015 reacquisitions, we are increasing spending for our 2016 reacquisitions to fuel long-run sustainable growth.

As noted above, our September acquisition of NRW has shown promise and brings an additional professional dimension to our offerings, especially with respect to municipal work. For the 4 months of 2016 that it was part of the Group, NRW achieved approximately \$550,000 of sales and \$95,000 of profits. Its consistent growth has continued during Q1 2017. We are now exploring our next national sales channel bidding for municipal work and taking advantage of not only our franchisees' existing distribution across the US but also NRW's operational leadership.

Finally, product and equipment sales also continued to grow. This indicator is important because it shows the commitment of our franchisees to invest in future growth. Product and equipment sales grew 14.1% to approximately \$1.05 million. Overall, revenue from franchise related activities grew 79% to \$1.73 million, due to the sales from the new Business to Business channel of \$665,000 in addition to the increase in product and equipment sales.

With respect to our profits performance, our strong rate of sales growth has required us to significantly increase our expense base so that our growth trajectory can be sustained over the long-run. However, because of the dual sources of our growth - organic and by acquisition - we need to make certain distinctions to present an accurate picture of our performance.

For organic growth, as we unlock value from newly acquired corporate stores, we need to increase headcount, marketing and equipment expense ahead of realizing more sales. We remain confident, given market demand that profits will catch up. As noted above, our increased investments for corporate stores acquired during 2015 have produced increasing contribution to profits for 2016. These expenses are simply part of continuing activities. By contrast, for franchise

reacquisition-related growth, certain significant transactional costs such as legal fees, while non-recurring, are treated as an operating expense under IFRS accounting. To get an accurate picture of operational profitability, we have identified such expenses in the Strategic Report as "One-Time" costs where they relate to investment or capital reorganization.

In this light, under IFRS, operating profits for 2016 declined to \$929,720 from \$1,090,216 during 2015. On the other hand, if one adds back \$296,000 (2015: \$11,000) of One-Time costs, operating profits from continuing activities would have been \$1,225,720 for 2016 or 11.3% growth. Profits before tax declined in 2016 to \$772,471 from \$972,440 during 2015. When profits before tax is adjusted for One-Time Costs, then we achieved \$1,068,471 during 2016 or a 8.6% improvement over Profits before tax adjusted in the same way of \$983,440 during 2015.

Outlook

We are sticking to our "multinational growth" plan during 2017. As an operating matter, we are pleased with 38% sales growth for 2016 especially given our 2015 report of 23% sales growth. This pathway looks to be accelerating during Q1 2017. Our next milestone is to pass \$20 million in sales and that marker is within sight. We are also delighted to have added the leadership of UK-based NRW to help manage global opportunities. Meanwhile, as a balance sheet matter, we are pleased to have reduced net debt by approximately 25% and to have increased net asset value by 34%.

As we grow, we are mindful of the various investments that we continually need to make in people and technology to reinforce our ability to execute and to sustain our growth trajectory. During Q1, we launched a new website for American Leak Detection that has state of the art social media content management and Internet lead generation. The web site will also link to our national accounts such as insurance companies. Our franchisees are really pleased. We will be rolling-out the Canada, Australia and UK versions during Q2 and Q3. Such investment will enhance our brand and our ability to communicate our value proposition. Over the longer run, we are beginning to see the renewables market as a natural extension for our range of water (potable and non-potable) solutions and customers, especially given the operational reach of NRW. Because of the opportunities for growth, we have decided that the time is not appropriate to issue a dividend even though we executed the share reorganization to give us the flexibility to do so. We should reinvest our resources in the near-term to create a much more valuable company for the shareholders. The market seems to agree. We are excited to seize the opportunities ahead with the strong alignment of board, corporate and franchise team members, shareholders and business partners.

Dr. Patrick DeSouza

Executive Chairman

15 May 2017

Strategic Report

Business Review and Key Performance Indicators

The Chairman's Statement, on pages 3 to 5, provides an overview of the year and the outlook for the Water Intelligence plc and its subsidiaries, referred to as the Group. From a performance perspective the key features of 2016 were the continued growth strategy in the core business, investments and acquisitions that resulted in increased sales and corresponding costs across the Group, one-off expenditure and a marginally declining profit as acquisitions are integrated into the business and

acquisition and investment costs are incurred. The financial position of the Group at the end of 2016 has strengthened with an increased net asset position reflecting the investments made, increased trading activity and growth. Net debt has reduced and there is a more simplified equity and reserves structure following the share reorganization in 2016.

Six key performance indicators are used by the board to monitor the business: (i) growth in franchise royalty income, (ii) performance of Corporate-owned stores, (iii) growth from US franchise-related activities, (iv) growth from international corporate activities, (v) one-time costs and (vi) net debt. These six indicators are reported to the board on a monthly basis and used to assist the board in the management of the business.

(i) Franchise Royalty Income.

The continued growth of the core American Leak Detection ("ALD") franchise business is important to the business strategy of Water Intelligence. Royalty income is a key indicator of the health of the franchise business because it is derived from ALD's system-wide sales. As System-wide sales increase - currently approximately \$75 million - the Board can decide whether to selectively reacquire franchises adding critical mass of revenue and earnings to the Group or to keep adding high margin royalty income. Royalty income compared to 2015 grew despite 2016 reacquisitions which had the effect of reducing royalty income. The Group has 96 franchises at the end of 2016 which represents a decrease of 3 franchises (2015: 99). All three of the decreases were the subject of reacquisition. Growth in royalty income is as follows:

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000	Change %
Total USA	5,312	4,994	6%
International	231	227	2%
Total Group Royalty Income	5,543	5,221	6%
Profit/(loss) before tax (see note 4)	1,219	1,186	3%

(ii) Corporate Owned Stores.

Performance of the US corporate-run stores is an indication of the success of the Group's strategy to selectively reacquire franchises and add critical mass of revenue and earnings to the Group accounts. The Group directly operates 10 territories, an increase of 4 territories (2015: 6). 2015 corporate store performance is as follows:

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000	Change %
Revenue	4,217	2,614	61%
Profit/(loss) before tax (see note 4)	324	148	119%

(iii) Franchise-related Activities.

US franchise-related activities provide supporting evidence for strength of the core ALD business. Parts and equipment sales are an indication of franchisee reinvestment in growth. A new consideration, Business-to-Business channels such as insurance and property management represent national customers and are an indication that these customers consider ALD a nationwide system - an important aspect of competitive strategy. Finally, franchise sales are a reflection of the Group's priority with respect to adding corporate stores. Revenue from Franchise-related Activities compared to 2015 as follows:

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000	Change %
Parts and equipment sales	1,050	920	14%
Business to Business sales	665	-	100%
Franchise sales	17	49	(65%)
Total Revenue from US Other Activates activities	1,732	969	79%
Profit/(loss) before tax (see note 4)	227	126	79%

(iv) International Corporate Activities.

The Group seeks to strengthen its multinational presence. With the establishment of Group corporate operations in the UK and Australia, revenue from UK and international corporate activities compared to 2015 as follows:

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000	Change %
NRW	540	-	100%
Sydney	43	-	100%
Water Intelligence International	101	38	62%
Total Revenue from UK and International Corporate Activates	684	38	1700%
Profit/(loss) before tax (see note 4)	139	(70)	299%

(v) One-Time Costs.

During 2016 the Group has incurred what are considered to be one-off non-operational costs relating to the share reorganization and linked to the investments/acquisitions made for the future benefit of the business. Because transactions are part of the Group's growth strategy (8 during 2016), understanding

one-time costs as distinct from costs from continuing activities is important. In 2016, there were \$296,000 of one-time costs. During 2015 there were \$11,000 of one-time costs. Please see table below for details:

	Year ended 31 December 2016 \$'000
Share reorganization and capital raising	79
Investment in University of Chicago R&D	25
Legal costs of acquisitions	151
Imputed interest due to deferred acquisition payments	41
Total	296

(vi) Net Debt.

Management of financial resources is important for making various decisions regarding the rate of growth as indicated in items (i) through (v). Net debt decreased to \$763,000 at 31 December 2016, from \$1,019,000 at 31 December 2015. Amounts owed under the term loan have been reduced based on its amortization schedule to \$1,600,000.

Group	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Line of credit for working capital	252	-
Term loan	1,568	2,050
	1,820	2,050
Less: Cash		
<i>Held in US Dollars</i>	601	1007
<i>Held in £ Sterling</i>	397	24
<i>Held in AU Dollars</i>	59	-
	1,057	1,031
Total Net Debt	763	1,019

Principal Risks and Uncertainties

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

Market Risk

The Group's activities expose it to the financial risk of changes in foreign currency exchange rates as it undertakes certain transactions denominated in foreign currencies. There has been no change to the Group's exposure to market risks. The Group and the Company had no material foreign exchange transactional exposure at 31 December 2016.

Interest Rate Risk

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

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

Credit Risk

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

Liquidity Risk

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

Other Risks

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

By order of the Board

Patrick DeSouza
Executive Chairman

15 May 2017

Consolidated Statement of Comprehensive Income for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Revenue	4	12,175,237	8,842,349
Cost of sales		(1,667,004)	(799,441)

Gross profit		10,508,233	8,042,908
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Administrative expenses			
- Other Income		24,621	29,394
- Share-based payments	7	(37,459)	(35,232)
- Amortisation of intangibles	13	(295,606)	(270,492)
- Other administrative costs	5	(9,267,496)	(6,676,362)
Total administrative expenses		(9,575,940)	(6,952,692)
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Operating profit	5	932,293	1,090,216
Finance income	8	12,264	17,326
Finance expense	9	(172,086)	(135,102)
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Profit before tax		772,471	972,440
Taxation expense	10	(294,098)	(391,687)
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Profit for the year		478,373	580,753

Other Comprehensive Income

Items that may be reclassified subsequently to profit & loss

Exchange differences arising on translation of foreign operations		(116,548)	(37,029)
Income attributable to Non-Controlling Interest		6,296	-
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Total comprehensive profit for the year		368,121	543,724

Profit per share		Cents	Cents
Basic	11	4.5	5.5
Diluted	11	4.4	5.5

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

**Consolidated Statement of Financial Position for the year ended 31 December
2016**

	Notes	2016	2015
		\$	\$
ASSETS			
Non-current assets			
Goodwill	13	2,906,531	1,469,027
Other intangible assets	13	2,518,451	2,680,523
Property, plant and equipment	14	436,928	107,448
Trade and other receivables	17	42,445	37,576
		5,904,355	4,294,574
Current assets			
Inventories	16	327,501	275,204
Trade and other receivables	17	2,206,079	1,350,804
Cash and cash equivalents	18	1,056,888	1,031,454
		3,590,468	2,657,462
TOTAL ASSETS		9,494,823	6,952,036
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	21	64,257	12,733,307
Share premium	21	926,787	4,829,377
Capital redemption reserve	21	-	6,517,644
Merger reserve		1,001,150	8,501,150
Share based payment reserve		72,691	35,232
Other reserves		(264,643)	(148,095)
Reverse acquisition reserve		(27,758,088)	(27,758,088)
Retained earnings/ (loss)		31,108,642	(874,022)
		5,150,796	3,836,505

Equity attributable to Non-Controlling interest

Non-controlling Interest		93,704	-
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Non-current liabilities

Borrowings	23	1,327,593	1,459,027
Deferred consideration	12	612,225	277,208
Deferred tax liability	20	305,081	64,449
		2,244,899	1,800,684

Current liabilities

Trade and other payables	19	950,725	663,616
Borrowings	23	492,453	591,450
Deferred consideration	12	562,246	59,781
		2,005,424	1,314,847

TOTAL EQUITY AND LIABILITIES

		9,494,823	6,952,036
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These Financial Statements were approved and authorised for issue by the Board of Directors on 15 May 2017 and were signed on its behalf by:

Patrick De Souza
Executive Chairman

Company Statement of Financial Position for the year ended 31 December 2016

	Notes	2016 \$	2015 \$
ASSETS			
Non-current assets			
Investment in subsidiaries	15	6,757,904	8,132,601
		6,757,904	8,132,601
Current assets			
Trade and other receivables	17	1,158,443	677,593
Cash and cash equivalents	18	268,785	18,937

		1,427,228	696,530
TOTAL ASSETS		8,185,132	8,829,131
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	21	64,257	12,733,307
Share premium	21	926,787	4,829,377
Capital redemption reserve	21	-	6,517,644
Merger reserve		1,001,150	8,501,150
Share based payment reserve		72,691	35,232
Other reserves		(1,919,342)	(514,331)
Retained earnings/(losses)		6,656,506	(24,219,895)
		6,802,049	7,882,484
Current liabilities			
Trade and other payables	19	1,383,083	946,647
		1,383,083	946,647
TOTAL EQUITY AND LIABILITIES		8,185,132	8,829,131

The loss for the financial year dealt with in the financial statements of the parent Company was \$621,594 (2015: profit \$451,255).

These Financial Statements were approved and authorised for issue by the Board of Directors on 15 May 2017 and were signed on its behalf by:

Patrick De Souza
Executive Chairman

**Consolidated
Statement
of
Changes in
Equity for
the
year
ended
31
December
2016**

	Share Capital \$	Share Premium \$	Shares to be issued \$	Capital Rede mption Reser ve \$	Rever se Acqui sition Reser ve \$	Merger Reser ve \$	Share based payme nt reserv e \$	Other reserves \$	Retaine d Profits/ (Losse s) \$	Total \$	Non- cont rolli ng inter est \$	Total Equi ty \$
As at 1 January 2015	12,73 2,564	4,800, 610	29,5 10	6,517, 644	(27,75 8,088)	8,501, 150	-	(111,066)	(1,454, 775)	3,257, 549	-	3,25 7,54 9
Issue of Ordinary Shares	743	28,76 7	(29, 510)	-	-	-	-	-	-	-	-	-
Share- based payment expense	-	-	-	-	-	-	35,232	-	-	35,23 2	-	35,2 32
Profit for the year	-	-	-	-	-	-	-	-	580,753	580,7 53	-	580, 753
Other compreh ensive loss	-	-	-	-	-	-	-	(37,029)	-	(37,02 9)	-	(37,0 29)
As at 31 December 2016	12,73 3,307	4,829, 377	-	6,517, 644	(27,75 8,088)	8,501, 150	35,232	(148,095)	(874,02 2)	3,836, 505	-	3,83 6,50 5
As at 1 January 2016	12,73 3,307	4,829, 377	-	6,517, 644	(27,75 8,088)	8,501, 150	35,232	(148,095)	(874,02 2)	3,836, 505	-	3,83 6,50 5
Cancellat ion of	(12,6 79,74 1)	-	-	-	-	-	-	-	12,679, 741	-	-	-

deferred shares												
Cancellation of share premium	-	(4,800,610)	-	-	-	-	-	-	4,800,610	-	-	-
Cancellation of capital redemption reserve	-	-	-	(6,517,644)	-	-	-	-	6,517,644	-	-	-
Issue of capital reduction shares	7,500,000	-	-	-	-	(7,500,000)	-	-	-	-	-	-
Cancellation of capital reduction shares	(7,500,000)	-	-	-	-	-	-	-	7,500,000	-	-	-
Issue of Ordinary Shares	10,691	898,020	-	-	-	-	-	-	-	908,711	-	908,711
Share-based payment expense	-	-	-	-	-	-	37,459	-	-	37,459	-	37,459
Equity contributions	-	-	-	-	-	-	-	-	-	-	100,000	100,000
Profit for the year	-	-	-	-	-	-	-	-	484,669	484,669	(6,296)	478,373
Other comprehensive loss	-	-	-	-	-	-	-	(116,548)	-	(116,548)	-	(116,548)
As at 31 December 2016	64,257	926,787	-	-	(27,758,088)	1,001,150	72,691	(264,643)	31,108,642	5,150,796	93,704	5,244,500

**Company
Statement of
Changes in
Equity
for the year
ended
31
December
2016**

	Share Capital \$	Share Premium \$	Share s to be issue d \$	Capital Redempti on Reserve \$	Merger Reserve \$	Share based payme nt reserv e \$	Other reserves \$	Retained Profits/ (Losses) \$	Total Equity \$
As at 1 January 2015	12,732,564	4,800,610	29,510	6,517,644	8,501,150	-	(143,781)	(24,671,150)	7,766,547
Issue of Ordinary Shares	743	28,767	(29,510)	-	-	-	-	-	-
Share-based payment expense	-	-	-	-	-	35,232	-	-	35,232
Profit for the year	-	-	-	-	-	-	-	451,255	451,255
Other comprehen sive loss	-	-	-	-	-	-	(370,550)	-	(370,550)
As at 31 December 2016	12,733,307	4,829,377	-	6,517,644	8,501,150	35,232	(514,331)	(24,219,895)	7,882,484
As at 1 January 2016	12,733,307	4,829,377	-	6,517,644	8,501,150	35,232	(514,331)	(24,219,895)	7,882,484
Cancellation of deferred shares	(12,679,741)	-	-	-	-	-	-	12,679,741	-
Cancellation of share premium account	-	(4,800,610)	-	-	-	-	-	4,800,610	-
Cancellation of capital redemption reserve	-	-	-	(6,517,644)	-	-	-	6,517,644	-

Issue of capital reduction shares	7,500,000	-	-	-	(7,500,000)	-	-	-	-
Cancellation of capital reduction shares	(7,500,000)	-	-	-	-	-	-	7,500,000	-
Issue of Ordinary Shares	10,691	898,020	-	-	-	-	-	-	908,711
Share-based payment expense	-	-	-	-	-	37,459	-	-	37,459
Profit for the year	-	-	-	-	-	-	-	(621,594)	(621,594)
Other comprehensive loss	-	-	-	-	-	-	(1,405,011)	-	(1,405,011)
As at 31 December 2016	64,257	926,787	-	-	1,001,150	72,691	(1,919,342)	6,656,506	6,802,049

Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Non-distributable reserve arising on reverse acquisition.
Share based payment reserve in accordance with IFRS 2.	Amounts recognised for the fair value of share options granted in
Other reserves	foreign exchange differences on re-translation.
Retained profits/(losses)	Cumulative net profits/(losses) recognised in the Financial Statements.
The accompanying notes on pages 26 to 58 are an integral part of these financial statements	

Consolidated Statement of Cash Flows for the year ended 31 December 2016

Notes	Year ended	Year ended
	31 December 2016	31 December 2015
	\$	\$

Net cash generated from operating activities	24	533,099	199,484
Cash flows from investing activities			
Purchase of plant and equipment		(347,660)	(66,244)
Acquisition of subsidiaries		(329,368)	-
Reacquisition of franchises		(449,094)	(240,000)
Interest received		12,264	17,326
Net cash used in investing activities		(1,113,858)	(288,918)
Cash flows from financing activities			
Issue of ordinary share capital		10,691	-
Premium on issue of ordinary share capital		898,020	-
Interest paid		(172,086)	(135,102)
Proceeds from borrowings		276,468	-
Repayment of borrowings		(475,426)	(500,024)
Deferred financing costs		(31,473)	-
Equity contributions - non-controlling interest		100,000	-
Net cash generated by/ (used in) financing activities		606,194	(635,126)
Net (decrease)/increase in cash and cash equivalents		25,435	(724,560)
Cash and cash equivalents at the beginning of year		1,031,454	1,756,014
Cash and cash equivalents at end of year		1,056,889	1,031,454

Company Statement of Cash Flows for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Net cash (used by)/generated from operating activities	24	(658,863)	1,608

Cash flows from financing activities

Issue of ordinary share capital	10,691	-
Premium on issue of ordinary share capital	898,020	-
Net cash generated by financing activities	908,711	-
Increase in cash and cash equivalents	249,848	1,608
Cash and cash equivalents at the beginning of period	18,937	17,329
Cash and cash equivalents at end of period	268,785	18,937

Noted to the Financial Statements

1 General information

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

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

The Company is listed on AIM of the London Stock Exchange. These Financial Statements were authorised for issue by the Board of Directors on 11 May 2017.

2 Adoption of new and revised International Financial Reporting Standards

No new IFRS standards, amendments or interpretations became effective in 2016 which had a material effect on these Financial Statements.

At the date of approval of these Financial Statements, the directors have considered IFRS Standards and Interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective.

The Group has not early adopted these amended standards and interpretations. The Directors are undertaking an ongoing evaluation of the potential impact of IFRS9 in respect of the impact of the expected loss model on the impairment of receivables, IFRS15 in respect of the revenue recognition for service revenue and IFRS16 in respect of leases. Whilst this exercise is not concluded, the Directors but do not presently 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, Strategic Report and the Chairman's Statement.

The Directors have prepared a business plan and cash flow forecast for the period to May 2018. The forecast contains certain assumptions about the level of future sales and the level of margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term is funded entirely on cash generation by its profitable US-based franchise business, ALD. The Directors believe that the funding will be available on a case by case basis for different initiatives such that the Group will have adequate cash resources to pursue its growth plan.

3 Significant accounting policies *continued*

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 2016. The Consolidated Statement of Comprehensive Income includes the results of all subsidiary undertakings for the period from the date on which control passes. Control is achieved where the Company (or one of its subsidiary undertakings) obtains the power to govern the financial and operating policies of an investee entity so as to derive benefits from its activities.

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

The acquisition of ALDHC in 2011 was accounted for as a reverse acquisition. The assets and liabilities revalued at their fair value on acquisition therefore related to the Company. Both a merger reserve and a reverse acquisition reserve were created to enable the presentation of a consolidated statement of financial position which combines the equity structure of the legal parent with the reserves of the legal subsidiary.

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

Parent Company income statement - UK head office only

The Company has taken advantage of Section 408 of the Companies Act 2006 in not presenting its own Statement of Comprehensive Income. The Company's loss after tax for the year ended 31 December 2016 is \$621,594 (2015: Profit of \$451,255). The prior year profit after tax included a deferred tax adjustment of \$837,271 related to the utilisation by ALDHC of tax losses generated by the parent company, which eliminates on consolidation. Excluding this, a loss before tax of \$422,016 was 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.

3 Significant accounting policies *continued*

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's and Company's liability

for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end.

Deferred tax

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

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

Foreign currencies

(i) Functional and presentational currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which each entity operates ("the functional currency") which is considered by the Directors to be Pounds Sterling (£) for the Parent Company and US Dollars (\$) for ALDHC. The Financial Statements have been presented in US Dollars which represents the dominant economic environment in which the Group operates and is the functional currency of the Group. The effective exchange rate at 31 December 2016 was £1 = US\$1.2305 (2015: £1 = US\$1.4804). The average exchange rate for the year 31 December 2016 were £1 = US\$1.3562 (2015: £1 = US\$1.3559).

(ii) Transactions and balances

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

(iii) Group Companies

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

- (a) assets and liabilities for each statement of financial position presented are translated at closing rate at the date of the statement;
- (b) the income and expenses are translated at average exchange rates for period where there is no significant fluctuation in rates, otherwise a more precise rate at a transaction date is used; and
- (c) all resulting exchange differences are recognised in equity.

3 Significant accounting policies *continued*

Leases

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

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

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

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

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

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

Revenue recognition

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

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

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

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, in particular corporate run stores, are sold by the Group are recognised at fair value of the consideration received or receivable following delivery of the goods or services.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group manages its capital to ensure that entities in the Group will be

able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

Loans and receivables

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

Cash and cash equivalents

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

3 Significant accounting policies *continued*

Impairment of financial assets

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

Financial liabilities and equity

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

Equity instruments

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

Financial liabilities

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

Derecognition of financial liabilities

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

Property, plant and equipment

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

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

Equipment and displays: 5 to 7 years

Motor vehicles: 5 years

Leasehold improvements: 7 years or lease term, whichever is shorter

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

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

Goodwill

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

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

Other intangible assets

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

3 Significant accounting policies *continued*

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

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

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

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

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

Research and development

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

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

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

Segment reporting

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

A geographical segment is identified by reference to revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material (more than 10%) those revenues are disclosed separately.

Pension contributions

There are no pension schemes in the Group.

3 Significant accounting policies *continued*

Impairment reviews

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

Share based payments

The Group has made share-based payments to certain Directors and employees and to certain advisers and lenders by way of issue of share options. The fair value of these payments is calculated either using the Black Scholes option pricing model or by reference

to the fair value of any fees or remuneration settled by way of granting of options. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the best estimate of the number of shares that will eventually vest.

Critical accounting estimates and judgements

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

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

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

4 Segmental Information

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

The Group mainly operates in the US, with operations in the UK and certain other countries. In 2016, 94.4% (2015: 99.6%) of its revenue came from American Leak Detection, which includes royalties from franchisees and corporate-operated stores, with the remaining 5.6% of revenue coming from its UK based wholly-owned ALD International Limited subsidiary (2015: 0.4%).

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

4 Segmental Information continued

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

Revenue

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Franchise royalty income	5,543,207	5,221,331
Corporate owned stores	4,216,584	2,614,274
Franchise related activities	1,731,849	968,336
International corporate activities	683,597	38,409
Total	12,175,237	8,842,349

Profit/(Loss) before tax

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Franchise royalty income	1,219,247	1,186,132
Corporate owned stores	324,423	148,040
Franchise related activities	226,934	126,442
International corporate activities	139,004	(69,807)
Unallocated head office costs	(841,137)	(407,367)
One-Time cost	(296,000)	(11,000)
Total	772,471	972,440

Assets

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
--	---	---

Franchise royalty income	6,814,156	7,868,133
Corporate owned stores	2,186,759	791,928
Franchise related activities	327,502	(1,751,747)
International corporate activities	166,405	43,722
Total	9,494,823	6,952,036

4 Segmental Information *continued*

Amortization

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Franchise royalty income	266,438	270,492
International corporate activities	27,248	-
Total	295,606	270,492

Depreciation

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Franchise royalty income	3,734	21,221
Corporate owned stores	71,885	-
Franchise related activities	-	14
International corporate activities	5,661	420
Total	81,279	21,655

Finance Expense

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
International corporate activities	17,671	-
Unallocated head office costs	154,415	135,102
Total	172,086	135,102

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

Geographic Information

The breakdown of segmental information into US and International begins to capture the Group's effort to be multinational company. The acquisitions of NRW (UK) and the former franchisee in Sydney, Australia take a significant step in this direction.

Total Revenue

	Year ended 31 December 2016			Year ended 31 December 2015		
	US	International	Total	US	International	Total
	\$	\$	\$	\$	\$	\$
Franchise royalty income	5,312,542	230,665	5,543,207	4,993,714	227,616	5,221,330
Corporate owned Stores	4,216,584	-	4,216,584	2,614,274	-	2,614,274
Franchise related activities	1,731,849	-	1,731,849	968,336	-	968,336
International corporate activities	-	683,597	683,597	-	38,409	38,409
Total	11,260,975	914,262	12,175,237	8,576,324	266,026	8,842,349

5 Expenses by nature

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

		Year ended 31 December 2016	Year ended 31 December 2015
	Note	\$	\$
Raw materials and consumables used		954,234	793,369
Employee costs	6	6,002,080	3,902,956
Operating lease rentals		121,813	3,841
Depreciation charge		81,279	21,655
Amortization charge		295,606	270,492
Marketing costs		333,827	532,846
R & D		14,989	13,878
Foreign exchange (gain)/loss		3,016	(226)

		Year ended 31 December 2016	Year ended 31 December 2015
		\$	\$
Auditors remuneration			
Fees payable to the Company's auditor for audit of Parent Company and Consolidated Financial Statements		39,318	37,010
Fees payables to the Company's auditor for other services (assurance related services)		12,925	-

The Group auditors are not the auditors of the US subsidiary companies. The fees paid to the auditor of the US subsidiary companies were \$92,085 (2015: \$88,012) for the audit of these companies and \$nil (2015: \$nil) for other services.

6 Employees and Directors

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

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
<i>Short-Term employee benefits</i>		
Directors fees, salaries and benefits	644,208	593,000
Wages and Salaries	4,943,189	3,039,404
Social Security Costs	377,224	235,320
<i>Long-Term employee benefits</i>		
Share based payments	37,459	35,232
	6,002,080	3,902,956

6 Employees and Directors *continued*

Information regarding Directors emoluments are as follows:

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
<i>Short-Term employee benefits</i>		
Directors' fees, salaries and benefits	644,208	593,000
Social Security Costs	19,190	14,445
<i>Long-Term employee benefits</i>		
Share based payments	36,176	16,034
	699,574	623,479

The highest paid Director received emoluments of \$447,019 (2015: \$404,490).

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

Year ended 31 December	Year ended 31 December
---------------------------	---------------------------

	2016	2015
	\$	\$
Directors (executive and non-executive)	5	5
Management	6	6
Field Services	57	23
Franchise Support	16	26
Administration	5	3
	89	63

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. These are accounted for as equity settled options. 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 unless an extension is agreed to by the board. Options are exercisable at a price equal to the Company's quoted market price on the date of grant or an exercise price to be determined by the board.

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

	Number of share options 2016	Weighted average exercise price (\$) 2016	Number of share options 2015	Weighted average exercise price (\$) 2015
Outstanding at beginning of year	1,152,000	1.05	734,500	1.26
Granted during the year	730,000	1.33	417,500	0.67
Forfeited/lapsed during the year	(117,000)	1.21	-	-
Exercised during the year	-	-	-	-
Outstanding at end of the year	1,765,000	1.12	1,152,000	1.05
Exercisable at end of the year	1,765,000	1.12	1,152,000	1.05

Fair value of share options

During the year, the Group granted 730,000 Share Options to Directors and to certain Employees, with exercise prices ranging from of £0.62 to £1.25 (\$0.92 to \$1.56).

The fair value of options granted during the year has been calculated using the Black Scholes model which has given rise to fair values per share ranging from 0.2528p to 0.3194p. This is based on risk-free rates ranging from 0.239% to 0.369% and volatility ranging from 62% to 69%. The Black Scholes calculations for the Options granted during the year resulted in a charge of \$37,459 (2015: \$35,232) which has been expensed in the year.

The weighted average remaining contractual life of the Share Options is 8.34 years (2015: 8.08 years). The following options arrangements exist over the Company's shares:

Scheme	2016	2015	Date of Grant	Exercise price	Exercise period	
					From	To
Third Party	-	67,000	12/09/2013	\$1.18	12/09/2013	12/09/2016
ALDHC Plan (1)	417,500	417,500	01/12/2013	\$1.14	01/12/2013	01/12/2023
Directors (2)	250,000	250,000	01/08/2013	\$1.30	01/08/2013	01/08/2023
2015 Options (3)	417,500	417,500	08/06/2015	\$0.67	08/06/2015	08/06/2025
2016 Directors (4)	200,000	-	13/06/2016	\$1.29	13/06/2016	13/06/2026
2016 Directors (4)	50,000	-	13/06/2016	\$0.92	13/06/2016	13/06/2026
2016 Employee (5)	220,000	-	19/12/2016	\$1.24	19/12/2016	19/12/2026
2016 Employee (5)	210,000	-	19/12/2016	\$1.56	19/12/2016	19/12/2026
Total	1,765,000	1,152,000				

All share options are equity settled on exercise.

7 Share options *continued*

- (1) Under ALDHC's 2006 Employee, Director and Consultant Stock Plan ("ALDHC Option Plan"), certain directors and employees of ALD, were granted options to acquire an aggregate of 738,750 shares in ALDHC with an exercise price of \$1.14 per share. Of these grants, the Executive Chairman had been granted an option to purchase 250,000 shares. Following Admission, all options under the ALDHC Option Plan were to be cancelled or waived in return for the grant of options over New Ordinary Shares with the same economic value as existing options under the ALDHC Option Plan. The conversion to options over 417,500 New Ordinary Shares in respect of these options has been completed in 2013, the balance being attributable to leavers between 2010 and 2013 or options that have not been taken up. These Options have all vested in full.
- (2) In recognition of three years of deferred compensation and additional services rendered, each member of the board, after consultation with the NOMAD, received an option to purchase 50,000 New Ordinary Shares pursuant to the Option Plan in 2013. The Director options have an exercise price of \$1.30 per share or 67% above the highest share price for 2013. These Options have all vested in full.

- (3) On 5 June 2015, the Group granted 417,500 Share Options to the Executive Chairman and David Silverstone, both directors of the Company, and to certain Employees, all with an exercise price of \$0.67. 100,000 of these Share Options relate to the Executive Chairman's compensation and an additional 50,000 of these Share Options relate to the Executive Chairman's personnel guarantee of the loan with Liberty Bank in 2014. 40,000 of these Share Options relate to compensation payable to David Silverstone.
- (4) On 13 June 2016, each member of the board received an option to purchase 50,000 New Ordinary Shares. The Director options have an exercise price of \$1.26 per share which is 5% higher than the highest share price for 2015. These Options have a three-year vesting requirement. Stephen Leeb's 50,000 options lapsed on his resignation as a Director during 2016. On 13 June 2016, the Executive Chairman, a director of the Company, was also granted 50,000 Share Options with an exercise price of \$0.92 related to the Executive Chairman's personnel guarantee of the loan with Liberty Bank in 2015.
- (5) On 19 December 2016, certain employees were granted an option to purchase 220,000 New Ordinary Shares at a price of \$1.24 and 210,000 New Ordinary Shares at a price of \$1.56 based on 2016 performance and as an incentive for future performance. These options have a three-year vesting requirement.

8 Finance income

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Interest income	12,264	17,326

9 Finance expense

Interest payable

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Bank loans	172,086	135,102

10 Taxation

Group	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Current tax:		
Current tax on profits in the year	53,466	522,557
Prior year over provision	-	-
Total current tax	53,467	522,557
Deferred tax current year	240,632	(130,870)
Deferred tax prior year	-	-
Deferred tax expense/(credit) (note 21)	240,632	(130,870)
Income tax expense	294,098	391,687

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

Profit before tax on ordinary activities	772,299	972,440
Tax calculated at domestic rate applicable profits in respective countries		
(2016: 35% versus 2015: 34%)	270,365	330,630
Tax effects of:		
Non-deductible expenses	56,891	54,235
State taxes net of federal benefit	33,962	82,534
Adjustment in respect of prior year	(77,702)	-
Deferred tax not recognised	11,156	(75,712)
Adjust deferred tax rate to 35%	35,614	-
Changes in rates	(36,188)	-
Taxation expense recognised in income statement	294,098	391,687

The Group is subject to income taxes in two jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group

recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The effective rate for tax for 2016 is 38% (2015: 40%).

11 Earnings per share

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

Basic

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Profit for the year attributable to shareholders of the Company (\$)	478,200	580,753
Weighted average number of ordinary shares	10,690,410	10,605,321
Diluted weighted average number of ordinary shares	10,825,113	10,648,128
Profit per share (cents)	4.5	5.5
Diluted profit per share (cents)	4.4	5.5

12 Acquisitions

During 2016, the Group purchased franchisee operations in South New Jersey, Cincinnati, Ohio, Northwest Arkansas and Sydney, Australia, as well as, a municipal business in the UK - NRW Utilities Limited. As discussed in the Chairman's Statement, these acquisitions not only are expected to contribute revenue and earnings but also strengthen the Group's corporate execution capabilities in the US, UK and Australia. In the US and Australia such corporate presence supports the American Leak Detection franchise system. In the UK, the acquisition builds on the Group's existing municipal business and provides operational leadership for the Group's multinational objectives.

These can be summarised as follows:

	New Jersey	Ohio	Arkansas	NRW	Australia	Totals
	\$	\$	\$	\$	\$	\$
Fair value of assets and liabilities acquired						
Customer relationships (see note 13)	-	-	-	132,857	-	132,857

Accounts receivable	-	-	-	173,319	-	173,319
Equipment	1,250	83,450	21,516	15,427	57,866	179,509
Cash	-	-	-	17,658	-	17,658
Liabilities	-	-	-	(201,558)	-	(201,558)
Net assets acquired	1,250	83,450	21,516	137,703	57,866	301,785
<hr/>						
Consideration	95,000	367,340	250,000	615,080	411,869	1,739,289
<hr/>						
Goodwill on acquisition (see note 13)	93,750	283,890	228,484	477,377	354,003	1,437,504
<hr/>						

Goodwill arising on New Jersey, Ohio and Arkansas of \$606,124 is included additions to goodwill for owned & operated stores (see note 13). Goodwill arising on NRW and Australia of \$831,380 is included in additions to goodwill for goodwill acquisitions (see note 13).

12 Acquisitions *continued*

On February 19, 2016 American Leak Detection reacquired the franchise territory located in Southern New Jersey for \$95,000.

On April 30, 2016 American Leak Detection reacquired the franchise territory located in Cincinnati, Ohio for total consideration of \$400,000. As of May 2, 2017, ALD has paid \$220,000 and has \$180,000 in deferred payments remaining which are evenly divided into 3 installments of \$60,000 to be paid over each of the next three years on May 1.

On September 30, 2016 American Leak Detection reacquired the franchise territory located in Northwest Arkansas for a total \$150,000 amounting to sixty percent (60%) of the equity value of the territory. As part of the agreement, ALD has the right to purchase the remaining forty percent (40%) for \$100,000 once total sales pass \$250,000 annually.

On 1 September 2016 the Group acquired NRW Utilities Limited ('NRW'), a UK-based water services business for a total consideration of £575,173. The consideration is comprised of an initial payment of £275,173, which includes the repayment of a vendor loan amounting to £75,173. The initial payment is made at signing and draws on the Group's existing cash reserves. Additional payments amounting to £300,000 are to be made in 2017 and 2018. On 9 February 2017, the Group made an early payment of £110,000 reducing total deferred payments to £190,000. (See Subsequent Events)

On 2 November 2016 the group acquired Advanced Leak Detection (ADV) and Australian Watermain (AWL), the latter pending a regulatory clearance that has subsequently been obtained. Both Australian Companies, located in Sydney, were owned by a former franchisee of American Leak Detection - a core business unit of Water Intelligence. The total consideration for the transaction was US\$434,000. Of the total consideration, \$105,409 is allocated at Closing, \$102,470 is to be paid on the first anniversary of Closing and \$226,065 is to be paid on the second anniversary of Closing. An adjustment in the Closing amount in favor of Water Intelligence shall be made depending on the amount of additional time needed for regulatory clearance for AWL.

The amount of deferred consideration (after discounting anticipated cash flows to evaluate the fair value), can be summarized as follows:

Current	Year ended	Year ended
	31	31
	December	December
	2016	2015
	\$	\$
T&M Tech LLC (South Michigan Franchise)	62,115	59,781
New Jersey	-	-
Ohio	58,212	-
Arkansas	-	-
NRW	307,540	-
Australia	134,379	-
Total current deferred consideration	562,246	59,781

Non-Current	Year ended	Year ended
	31	31
	December	December
	2016	2015
	\$	\$
T&M Tech LLC (South Michigan Franchise)	215,094	277,208
New Jersey	-	-
Ohio	159,128	-
Arkansas	-	-
NRW	61,508	-

Australia	176,495	-
Total non-current deferred consideration	612,225	277,208

13 Intangible assets

Goodwill table

Group	Goodwill Acquisitions	Owned & Operated stores	Franchisor activities	Totals
	\$	\$	\$	\$
Cost				
At 1 January 2015	1,493,729	239,500	636,711	2,369,940
Additions	-	595,616	-	595,616
Reclassification on (see below)	-	72,200	-	72,200
At 31 December 2015	1,493,729	907,316	636,711	3,037,756
Additions (see note 12)	831,380	606,124	-	1,437,504
At 31 December 2016	2,325,109	1,513,440	636,711	4,475,260
Impairment				
At 1 January 2015	1,493,729	75,000	-	1,568,729
Impairment in year	-	-	-	-
At 31 December 2015	1,493,729	75,000	-	1,568,729
Impairment in year	-	-	-	-

At 31 December 2016	1,493,7 29	75,000	-	1,568,7 29
Carrying amount				
At 31 December 2015	-	832,316	636,711	1,469,027
At 31 December 2016	831,380	1,438,440	636,711	2,906,5 31

The carrying value of Goodwill Acquisitions at 31 December 2016 relate to goodwill additions arising on the acquisition of NRW and Australia in 2016 (as detailed in note 12).

Goodwill Owned & Operated stores comprises legacy owned stores together with additions arising from reacquisitions of franchise operations in 2015 and 2016. Additions in 2016 relate to New Jersey, Ohio and Arkansas (see note 12).

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

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

13 Intangible assets *continued*

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

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

Goodwill Acquisitions - NRW and Australia - are separately categorized as cash generating units.

Goodwill on Owned & Operated stores are categorized as cash generating units that are expected to benefit from the synergies of the combination,

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

The cash generating units to which goodwill 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.

The key assumptions/inputs used for the impairment assessment based on the forecast cash flow and revenues for 2017 were as follows:

	%
Discount rate	15
Short term revenue growth	5
Long term revenue growth	3.5
Tax rate	35
Discount rate sensitivity step	2
Perpetual growth rate sensitivity step	1

This has resulted in no impairment charge being required in 2016 (2015: \$nil).

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

13 Intangible assets *continued*

Other Intangible assets table

	Product development	Covenants not to compete	Customer Lists	Trademarks	Patents	Territory servicing rights	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
At 1 January 2015	164,880	270,000	217,500	5,293,817	23,692	88,000	6,057,889
Additions	-	20,000	-	-	-	-	20,000
Reclassification	-	-	-	-	-	(88,000)	(88,000)
At 31 December 2015	164,880	290,000	217,500	5,293,817	23,692	-	5,989,889
Additions (see note 12)	-	-	132,857	-	-	-	132,857
Exchange differences	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-
At 31 December 2016	164,880	290,000	350,357	5,293,817	23,692	-	6,122,746
Accumulated amortisation							
At 1 January 2015	164,880	270,000	217,500	2,371,602	23,692	7,000	3,054,674
Amortisation expense	-	-	-	261,692	-	8,800	270,492
Reclassification	-	-	-	-	-	(15,800)	(15,800)
At 31 December 2015	164,880	270,000	217,500	2,633,294	23,692	-	3,309,366
Amortisation expense	-	6,667	27,248	261,691	-	-	295,606

Exchange differences	-	-	(677)	-	-	-	(677)
At 31 December 2016	164,880	276,667	244,071	2,894,985	23,692	-	3,604,295
Carrying amount							
At 31 December 2015	-	20,000	-	2,660,523	-	-	2,680,523
At 31 December 2016	-	13,333	106,286	2,398,832	-	-	2,518,451

All intangible assets have been acquired by the Group.

Customer list additions relate to the acquisitions during the year of NRW, as detailed note 12.

The brought forward items as at 1 January 2015 for Territory Servicing rights, arose from the reacquisition of the New York Franchise on 25 March 2015. This amount was reassessed in 2015 and as such, reclassified, at its net carrying value, as at 31 December 2015 as goodwill (see goodwill table above) for consistency in treatment with further such acquisitions that have arisen during 2015 and 2016. No adjustment was made to amortisation up to this date on the basis of the amount being immaterial.

14 Property, plant and equipment

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

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

	Equipment & displays \$	Motor Vehicles \$	Leasehold Improvements \$	Total \$
Cost				
At 1 January 2015	444,284	157,781	123,418	725,483
Acquired on acquisition of subsidiary	150,571	122,771	-	273,342
Additions	62,673	3,640	-	66,313
Exchange differences	(103)	-	-	(103)

Disposals	-	(35,657)	-	(35,657)
At 31 December 2015	657,425	248,535	123,418	1,029,378
Acquired on acquisition of subsidiary	47,693	20,871	-	68,564
Additions	254,096	93,843	-	347,939
Exchange differences	(279)	-	-	(279)
Disposals	-	-	-	-
At 31 December 2016	958,935	363,249	123,418	1,445,602
Accumulated depreciation				
At 1 January 2015	402,948	141,169	123,418	667,535
Acquired on acquisition of subsidiary	150,571	117,840	-	268,411
Eliminated on disposals	-	(35,657)	-	(35,657)
Depreciation expense	17,607	4,048	-	21,655
Exchange differences	(14)	-	-	(14)
At 31 December 2015	571,112	227,400	123,418	921,930
Acquired on acquisition of subsidiary	2,839	2,807	-	5,646
Eliminated on disposals	-	-	-	-
Depreciation expense	62,587	18,692	-	81,279
Exchange differences	(148)	(33)	-	(181)
At 31 December 2016	636,390	248,866	123,418	1,008,674
Carrying amount				
At 31 December 2015	86,313	21,135	-	107,448
At 31 December 2016	322,545	114,383	-	436,928

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 2016 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 \$393,354 (2015: \$105,802).

15 Investment in subsidiary undertakings

Company	Subsidiary Undertakings \$
Cost	
At 31 December 2015	14,533,507
Exchange difference	(1,374,697)
At 31 December 2016	13,158,810
Impairment	
At 31 December 2015	6,400,906
Exchange difference	-
At 31 December 2016	6,400,906
Carrying amount	
At 31 December 2015	8,132,601
At 31 December 2016	6,757,904

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

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

The subsidiary undertakings during the year were as follows:

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

American Leak Detection, Inc. (leak detection product and services)		US	100%
NRW Utilities Limited	201 Temple Chambers 3-7 Temple Avenue, London, EC4Y 0DT	England and Wales	100%
Water Intelligence Australia Pty	201 Temple Chambers 3-7 Temple Avenue, London, EC4Y 0DT	Australia	100%

* Subsidiaries owned directly by the Parent Company.

16 Inventories

	Group	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Group Inventories	327,501	275,204

During the year ended 31 December 2016 an expense of \$1,586,095 (2015: \$793,369) was recognized in the Consolidated Statement of Comprehensive Income. There has been no write down of inventories during the year.

17 Trade and other receivables

	Group		Company	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Trade notes receivable	42,445	37,576	-	-

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

	Group		Company	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Trade receivables	879,820	357,557	-	-
Prepayments	494,713	256,143	27,840	74,096
Due from Group undertakings	-	-	1,092,595	496,988
Accrued royalties receivable	428,983	432,033	-	-
Trade notes receivable	122,197	82,240	-	-
Other receivables	164,644	111,524	38,008	106,509
Due from related party	115,722	111,307	-	-
Current portion	2,206,079	1,350,804	1,158,443	677,593

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

The average credit period taken on sales is 26 days (2015: 25 days).

As at the 31 December 2015, trade receivables of \$70,395 (2015: \$41,171) 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 2016 \$	Year ended 31 December 2015 \$
60-90 days	27,404	3,661
90+ days	42,991	37,510
	70,395	41,171
Average age (days)	92	92

17 Trade and other receivables *continued*

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

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
US Dollar	2,140,231	1,240,142
UK Pound	65,848	110,662
	2,206,079	1,350,804

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

18 Cash and cash equivalents

	Group		Company	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Cash at bank and in hand	1,056,888	1,031,454	268,785	18,937

19 Trade and other payables

	Group		Company	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Trade payables	494,263	227,033	15,041	9,796
Accruals and other payables	456,462	436,583	84,727	55,885
Due to Group undertakings	-	-	1,283,315	880,966
	950,725	663,616	1,383,083	946,647

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs and are payable within 3 months. The average credit period taken for trade purchases is 16 days (2015: 16 days).

20 Deferred Tax

The analysis of deferred tax assets is as follows:

Group	2016	2015
	\$	\$
Deferred tax (liability)/assets	(305,081)	(64,449)

The movement in deferred tax assets is as follows:

2016	Opening balance	Recognized in the income statement	Closing balance
	\$	\$	\$
Temporary differences:	-	-	-
Net operating profit (loss) (non-current)	-	-	-
Short term timing differences	(64,449)	(240,632)	(305,081)
	-	-	-

2015	Opening balance	Recognized in the income statement	Closing balance
	\$	\$	\$
Temporary differences:	-	-	-
Net operating profit (loss) (non-current)	-	-	-
Short term timing differences	(195,319)	130,870	(64,449)
	(195,319)	130,870	(64,449)

At the balance sheet date, the Group's UK trading subsidiaries had unused tax losses of £3,459,553 (2015 £3,459,553) available for offset against future profits. £590,866 (2015 £590,866) represents unrecognized deferred tax assets thereon at 17%. The deferred tax asset has not been recognized due to uncertainty over timing of utilization.

21 Share capital

The issued share capital in the year was as follows:

Group & Company

	Ordinary Shares Number	Deferred Shares Number
At 31 December 2015	10,617,650	808,450,760
At 31 December 2016	11,473,833	-

Group & Company

	Share Capital \$	Share Premium \$	Capital Redemption \$
At 31 December 2015	12,733,307	4,829,377	6,517,644
At 31 December 2016	64,257	926,787	-

Following a general meeting held on 29 March 2016, where shareholders voted to approve the matter, a share capital reorganisation was undertaken on 30 March 2016 pursuant to which every 230 ordinary shares of 1p each were consolidated into 1 ordinary share of £2.30 nominal value and then subdivided back into ordinary shares of 1p each. Undertaking this exercise enabled the Company to significantly decrease the number of persons on its shareholder register and reduce the associated costs and administrative burden of maintaining a large shareholder base with no material interest in the Company. The total number of shares in issue following completion of the share capital reorganisation was 10,617,720 ordinary shares of 1p each.

On 20 April 2016, following approval by shareholders at the general meeting held on 29 March 2016 and the High Court of Justice of England and Wales, the Company undertook a capital reduction exercise pursuant to which:

- the share premium account of the Company was cancelled;
- the capital redemption account of the Company was cancelled;
- the issued share capital of the Company was reduced by cancelling all the issued deferred shares; and
- the amount of US\$7,500,000 standing to the credit of the merger reserve was capitalised and applied in paying up bonus shares which were then cancelled.

Accordingly, for the purposes of the Company's balance sheet, on 20 April 2016, the share premium account and capital redemption account were reduced to zero, the merger reserve was reduced by US\$7,500,000 and the share capital of the Company was reduced by £8,084,507.60 (US\$12,679,741).

In total, this exercise generated US\$31,497,995 to be credited against the negative distributable reserves of the Company thereby creating positive distributable reserves. Having positive distributable reserves means that the Company will be able to pay dividends and buy back shares in the future should it be deemed desirable to do so.

In November 2016, the Company issued new ordinary shares as part of a capital raise. Upon closing of the financing the number of ordinary shares outstanding was 11,473,833.

22 Obligations under operating leases

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

2016	Land & Buildings	Other	Total
	\$	\$	\$
No later than one year	136,256	105,220	241,476
Later than one year, and not later than five years	73,459	229,392	302,851
Total	209,715	334,612	544,327

2015	Land & Buildings	Other	Total
	\$	\$	\$
No later than one year	-	48,990	48,990
Later than one year, and not later than five years	-	154,548	154,548
Total	-	203,538	203,538

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

23 Financial instruments

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

- i. Market risk (including foreign currency risk management)
- ii. Interest rate risk
- iii. Credit risk
- iv. Liquidity risk

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

The Directors determine, as required, the degree to which it is appropriate to use financial instruments or other hedging contracts or techniques to mitigate risk. The main risk affecting such instruments is foreign currency risk which is discussed below. Throughout the year ending 31 December 2016 no trading in financial instruments was undertaken (2015: none) and the Group did not have any derivative or hedging instruments.

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

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

Fair value of financial assets and financial liabilities

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

Credit risk

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

23 Financial instruments continued

Credit risk management

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

Exposure to credit risk

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

Categories of financial instruments

	Group		Company	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Loans and receivables	-	-	-	-
Cash and cash equivalents	1,056,888	1,031,454	268,785	18,937
Trade and other receivables - current	2,206,079	1,350,804	1,158,443	526,084
Trade and other receivables - non-current	42,445	37,576	-	-
Financial Liabilities measured at amortised cost				
Trade and other payables	950,725	663,616	1,383,083	946,647
Borrowings - current	492,453	591,450	-	-
Borrowings - non-current	1,327,593	1,459,027	-	-
Deferred consideration - current	562,246	59,781	-	-
Deferred consideration - non-current	612,225	277,208	-	-

Borrowings

Bank Loan

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

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

	Current		Non-Current	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Financial Instruments				

Term loan	492,453	591,450	1,075,593	1,459,027
Total	492,453	591,450	1,075,593	1,459,027

23 Financial instruments continued

During 2016, the Company drew on a \$250,000 line of credit available from Liberty Bank. This amount was refinanced under the People's transaction (2015: \$nil).

Capital risk management

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

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

Significant accounting policies

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

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies (other than the functional currency of the Company and its UK operations, being £ Sterling), with exposure to exchange rate fluctuations. These transactions predominately relate to royalties receivable in the US denominated in currencies other than US\$ being Canadian Dollars, Australian Dollars and Euro; royalties from such sources in 2016 were \$230,666 (2015: \$309,215). No foreign exchange contracts were in place at 31 December 2016 (2015: Nil).

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

Group		Company	
Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$

Assets

	828,291			696,530
Sterling		110,647	1,427,228	
Liabilities				
	264,242	87,071	1,383,083	946,647
Sterling				

As shown above, at 31 December 2016 the Group had Sterling denominated monetary net assets of \$564,049 (2015: \$23,576). If Sterling weakens by 10% against the US dollar, this would decrease assets by \$56,405 (2015: \$2,142) with a corresponding impact on reported losses.

Interest rate risk management

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

Interest rate sensitivity analysis

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

23 Financial instruments continued

Liquidity risk management

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

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

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

	0-6 months	6-12 months	>12 months	Total
Group	\$	\$	\$	\$

2016

Fixed interest rate instruments principal	215,244	215,244	1,389,558	1,820,046
Other financial liabilities	-	-	-	-
2015				
Fixed interest rate instruments principal	295,725	295,725	1,459,027	2,050,477
Other financial liabilities	723,397	-	277,208	1,000,605

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.

24 Notes to the statement of cash flows

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Cash flows from operating activities		
Group		
Operating Profit	932,293	1,090,216
Adjustments for:		
Depreciation of plant and equipment	81,098	21,744
Amortisation of intangible assets	294,930	270,492
Share based payments	37,459	35,232
Operating cash flows before movements in working capital	1,345,780	1,417,684
Increase in inventories	(52,298)	(69,727)
Increase in trade and other receivables	(686,825)	(518,033)
(Decrease) in trade and other payables	(20,092)	(107,883)
Cash generated by operations	586,565	722,041
Income taxes	(53,466)	(522,557)
Net cash generated from operating activities	533,099	199,484

Cash flows from operating activities	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Company		
(Loss)/Profit for the year	(621,594)	451,255
Adjustments for:		
Share based payment expense	37,459	35,232
Operating cash flows before movements in working capital	(584,135)	486,487
Increase in trade and other receivables	(480,850)	(262,822)
Increase/(Decrease) in trade and other payables	406,121	(222,057)
Cash (used by)/generated from operations	(658,863)	1,608
Income taxes	-	-
Net cash (used by)/generated from operating activities	(658,863)	1,608

25 Contingent liabilities

The Directors are not aware of any material contingent liabilities.

26 Related party transactions

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

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

One set of inter-Group transactions surrounds its banking facilities. The Group had a commercial banking relationship with Liberty Bank ("Liberty"). The term of the loan was reset for 5 years to 2019. The principal amount outstanding at 5 December 2016 was \$1,574,801. Interest on the loan was 5.75% annually, with monthly instalments of principal and interest amounting to \$52,959 per month. Liberty required guarantees from Plain Sight among others.

On December 5, 2016, the Group replaced Liberty Bank with People's United Bank ("People's") and closed on a new term loan with People's. The People's loan refinanced the outstanding note from Liberty Bank and reset the term of the loan for 4 years to 2020. The principal amount outstanding at 31 December 2016 is \$1,600,000. Annual interest on the loan is fixed for the term at 4.78% and requires installments of principal and interest amounting to \$36,716 to be paid per month beginning on 1 January 2017. People's Bank also requires PSS, among others, to guarantee the loan. For the PSS's on-going guarantee, ALD pays 0.75% per annum based on the outstanding balance of the loan calculated at the end of each month.

PSS owes a receivable to ALD. Interest charged on the PSS receivable will match the interest rate charged by the bank. The monthly charge for the PSS guarantee would not change and would be offset against amounts owed by PSS. The charge will be eliminated should the guarantee no longer be required by Liberty Bank. Interest income related to the PSS receivable amounted to \$7,378 and \$6,239 for the years ending 31 December 2016 and 31 December 2015, respectively. The guarantee fee expense for the PSS guarantee amounted to \$13,296 and \$16,922 for the years ended 31 December 2016 and 31 December 2015, respectively. The related receivable/prepaid balance remaining for PSS was \$115,722 and \$111,307 at 31 December 2016 and 2015, respectively.

26 Related party transactions *continued*

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

Water Intelligence International Limited

	\$
Balance at 31 December 2015	496,988
Net loans to subsidiary	498,665
VAT transferred under group registration	55,484
Other expenses recharged and exchange differences	(155,580)
Balance at 31 December 2016	895,556

NRW Utilities Limited

	\$
Balance at 31 December 2015	
Net loans to subsidiary	202,053
Other expenses recharged and exchange differences	(5,014)
Balance at 31 December 2016	197,039

ALDHC

	\$
Balance at 31 December 2015	(923,590)
Loans to WI	(259,813)
Other expenses recharged and exchange differences	276,817
Balance at 31 December 2016	(906,586)

ALD Inc.

	\$
Balance at 31 December 2015	(126,729)
Loans to WI	(255,016)
Other expenses recharged and exchange differences	5,016
Balance at 31 December 2016	(376,729)

27 Subsequent events

On the 9 January 2017, the Group announced it had completed the final purchase of all remaining shares owned by certain former minority shareholders of ALD, pursuant to rights granted to the Minority Shareholders at the time of the acquisition of ALD by the Company. The Minority Shareholders exercised their rights to sell 99,936 Consideration Shares to the Company at a price of 75 pence per Consideration Share.

On the 19 January 2017, the Group announced it had appointed John F. Weigold as Non-Executive Director.

On the 6 February 2017, the Group announced it had signed and launched its first formal national contract with one of the top five insurance companies in the US to provide adjusters a trusted partner to pinpoint water leaks and minimize collateral damage claims from residences and businesses.

On the 9 February 2017, the Group announced it had drawn down on its Acquisition Line of Credit ("ALOC") from People's Bank. The Company drew approximately \$140,000 of the \$1.5 million ALOC to pay partners of NRW Utilities Ltd. Under the terms of the ALOC, the Company's payments will be interest only on the amount drawn until further draws are made. As a result, \$1.36 million remained under the ALOC.

27 Subsequent events continued

On 1 May 2017, the Group drew \$150,000 of its ALOC to pay amounts due with respect to the reacquisitions of Detroit (2015) and Cincinnati (2016). As a result, \$1.21 million remained under the ALOC.

On 8 May 2017, the Group announced the opening of a corporate-operation in Washington D.C.

28 Control

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

This information is provided by RNS
The company news service from the London Stock Exchange