Water Intelligence plc

Group Annual Report and Financial Statements for the Year Ended 31 December 2018

Company number 03923150

Group Annual Report and Financial Statements

for the year ended 31 December 2018

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Company Information

Directors & Advisers

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

Company Secretary and Registered Office	Adrian Hargrave 27-28 Eastcastle Street London United Kingdom W1W 8DH
Company number	Registered in England and Wales number 03923150
Nominated adviser and broker	WH Ireland Limited 24 Martin Lane London EC4R 0DR
Independent Auditor	Crowe UK LLP St Brides House 10 Salisbury Square London EC4Y 8EH
Registrar	Neville Registrars Limited Neville House Steelpark Road Halesowen B62 8HD

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

Overview.

We had another remarkable year both in terms of financial and operating performance. We delivered on our annual commitment in these pages for sustainable, multinational growth. Year-over-year, we grew revenue by 45% to $25.5 million (2017: $17.6 million) *and* profit before tax even faster by 53% to $1.8 million (2017: $1.1 million). Further, our shareholders benefited with fully diluted EPS growth of 21.3% to 9.1 cents per share (2017: 7.5 cents per share). Our balance sheet is strong and we have cash required to execute our growth plan. Moreover, as we will discuss below, robust financial performance results over the last five years underscore not only sustained growth but also an acceleration of that growth path. Water Intelligence profits before tax adjusted for non-core costs and non-cash amortization expense at $2.4 million exceeded 2018 market expectations.

Operationally, the foundations have been laid for continued strong performance. We have expanded cross-selling efforts between our American Leak Detection (ALD) and Water Intelligence International (WII) subsidiaries so that we can capture an entire matrix of opportunities – residential, commercial, municipal, clean water and wastewater – as complementary business lines with reduced customer acquisition costs. Further, we have reinvested profits and are launching new proprietary products for each subsidiary to sustain growth in market capture. Yet, before discussing our strong 2018 performance and current momentum, we should underscore that demand from the global marketplace has provided us with a tailwind to deliver a very valuable company for our investors as we continue to scale operations.

Water and infrastructure services, as a global investment category, continues to gain salience because market demand for solutions is anticipated to remain strong irrespective of volatile macroeconomic or political conditions. Market research indicates that total global spending on water and wastewater currently amounts to $771 billion with capital expenditure expected to rise between 2019-2023 by 4.7% compounded annually, which is higher than forecasts of worldwide economic growth. Moreover, the water infrastructure crisis has reached areas typically less visible to the marketplace. On March 7, 2019 the Wall Street Journal published “American Homeowners and Their Insurers Face a Flooding Crisis From Within.” The article indicated that over the last five years, the frequency of water-damage claims is rising affecting 1 in 50 homeowners and posing a $13 billion problem for insurance companies. The article identified a hot new market for innovation called “InsureTech.” Water remains our most precious natural resource around the world and may be considered a safe haven for investors.

The research marketplace is responding to such demand. Columbia University, with whom we have a strong relationship, has recently announced the launch of its “2019: A Year of Water: An Interdisciplinary Investigation.” University of Chicago’s Molecular Engineering Institute, where we are an industrial affiliate, has made water and wastewater a core area of research. We are well-positioned to help with commercialization of such research given our sales and distribution reach, especially given our national insurance channel. For our leadership team, the critical need to conserve water and minimize water-related damage is a call to create a world-class company that can provide cutting-edge solutions for an entire matrix of market opportunities as identified above: residential, commercial, municipal, clean water and wastewater. Because of global market demand and our current operational footprint with sales and distribution across the US and in the UK, Australia and Canada, we are seeing many international opportunities to expand our range of solutions both organically and through acquisition.

We have momentum financially and operationally and we have accelerated our efforts during the first third of 2019 across all business lines that form our strategic plan: We have signed another major insurance company partnership to feed the growth of our franchise royalty base; sold new franchises; closed three strategic reacquisitions of franchises; reaped strong organic growth across corporate locations; expanded of our municipal business, particularly in the U.S.; and unveiled a new proprietary technology product for diagnosing sewer blockages. These wins will reinforce our financial performance not only for 2019 but also for 2020 and beyond. We and our stakeholders are ready for the exciting journey ahead.

Financial Performance and Attributes for Scaling Operations

Financial Performance

As noted above, we have reaffirmed our stated objective of sustainable multinational growth. Water Intelligence revenue growth for 2018 was again strong at 45% year-over-year reaching $25.5 million (2017: $17.6 million). Profit before tax grew even faster at 53% year-over-year to $1.8 million (2017: $1.1 million). These results are not atypical. Rather, they reflect a consistent pattern of high performance that is accelerating. From 2014 to 2018, we achieved compound annual growth rates (CAGR) of 37% in terms of revenue and 32% in terms of profit before tax (2014: Revenue of $7.2 million; PBT of $0.6 million). More recently, from 2016 to 2018, we achieved an even higher revenue CAGR of 45% and a higher PBT CAGR of 51% (2016: Revenue of $12.2 million; PBT of $0.8 million). And, of course, these accelerating percentage increases have taken place over a base of numbers that is getting larger each year.

Our extraordinary results are reflected across both ALD and WII subsidiaries. We will discuss various key performance indicators (KPI's) in our Strategic Report and draw on segmental information tables provided herein. Our core ALD business grew strongly year-over-year as consumers continue to face higher water bills in the US and our business-to-business channel delivers more jobs from insurance companies seeking to minimize claims by deploying our minimally invasive leak detection solutions. As conveyed in our segmental tables, ALD revenue grew 45% to $22.6 million (2017: $15.5 million). ALD profit before tax grew 43% to $3.0 million (2017: $2.1 million).

Two comments highlight the success of our business plan. First, given ALD's sales footprint in 46 states of the US, we continue to prioritize our franchise System as our main distribution base of solutions. We will drive this centerpiece of our business strategy even as we unlock shareholder value with selective franchise reacquisitions and conversions into corporate-operated locations. In absolute terms, despite franchise reacquisitions during 2018 that reduced the possible pool of royalty income, we grew royalty income 5.7% to $6.3 million (2017: $5.9 million). We should underscore that our royalty income masks somewhat the scale of the ALD franchise business. Since we derive such royalties from a percentage (6-10%) of the gross sales of our franchisees, the actual sales to end-user customers of our ALD franchisees grew to approximately $85 million. As we have noted, combined with our corporate-operated sales, total sales to third parties from our ALD brand exceed $100 million.

To enlarge the revenue base of the franchise System, we continue to grow our business-to-business insurance channel through which our corporate administration sources residential leak detection jobs from major insurance companies via a central processing system and then feeds the franchise system directly. Sales attributable to the business-to-business channel grew 93% to $5.0 million (2017: $2.6 million). This channel is expected to continue its rapid growth, reinforced by our May 2019 national insurance contract win – our third formal contract with one of the major insurance companies. During 2018 this channel generated approximately 50,000 jobs (2017: 35,000). While the profit margins on such channel sales are lower than margins based on royalty where franchisees source jobs, such as pool leaks, at a local level, the trade-off is sensible as layering-in a big, supplementary business line that expands the ALD brand. The added administration / marketing expense assumed by corporate operations leading to channel sales with 8% margin versus franchise royalty with 20% margin has the collateral benefit of advancing the brand and market capture for an important $13 billion pain point, as noted above, for water-damage insurance claims.

Second, the selective reacquisition of franchises and conversion into corporate-operated locations continues to unlock shareholder value. As a strategic matter, reacquisitions provide regional corporate support for continued franchisees' growth. As a financial matter, total sales from corporate locations grew 70% to $10.1 million (2017: $5.9 million) as corporate staff executed shoulder-to-shoulder with our franchisees in expanding our common ALD brand. In executing corporate operations, we have been able to grow such locations *faster* than they were growing before they became corporate operations. In our Strategic Report, to distinguish organic growth from growth simply through reacquisition, we show that corporate operated locations held before January 1, 2017 have organically grown sales 34%. (2018: $8.0 million; 2017: $5.9 million). Further, margins improve after we reinvigorate the corporate location unlocking significant shareholder value as we detail in the Strategic Report. More generally, profit margins from corporate-operated locations improved to 12% in 2018 from 4% in 2017. Such improvement in margins generated incremental profits during 2018 of $1.0 million (2018: $1.2 million; 2017: $0.2 million) that we could reinvest. Our operating plan for 2019 will be to keep pushing sales growth of corporate locations but continue to increase margins to levels closer to that of franchisees which are typically above 20%. Hence selective reacquisitions can be a driver of the share price reflecting an organic expansion of profits and equity multiple.

We are executing the same process of growth and unlocking shareholder value with our WII subsidiary. It is useful to remember that WII is a relatively new addition, launching in Q4 2016 to take advantage of the growth in infrastructure spending among municipalities in both clean water and wastewater. Because ALD is focused on providing residential and commercial solutions but well known in communities across the US, our goal is to use the municipal expertise of WII to layer-in a supplementary business line leveraging ALD's presence and reputation for excellence across the US. During 2018, WII grew 39% to $2.9 million (2017: $2.1 million); a growth trajectory similar to that of ALD. Moreover, after initial start-up losses during 2017, we are now not only growing sales but also generating profit before taxes. As the segmental information indicates, during 2018 we had a substantial swing of approximately $200,000 in moving from "red" to "black". (2018: $0.03 million; 2017: ($0.16) million). Further, we are pleased with the synergies unlocked among operating units. During 2018, we used municipal wins to support growth in corporate sales both in Sydney, after a franchise reacquisition, and in select locations across the US. During 2019 we are using the same strategy to support corporate sales in Ontario, Canada after a recent franchise reacquisition and municipal work across the US with several new contracts. These efforts supplement the growth of the ALD brand.

Our strong financial performance reinforces our already strong balance sheet. Cash as of December 31, 2018 was approximately $5.0 million and net cash after taking into account all bank debt (short and long-term) was approximately $2.6 million. Moreover, during 2018, we generated free cash flow of $1.1 million in cash from operations (post-tax and working capital movements). This represented an 80% growth in free cash flow year-over-year (2017: $0.6 million). As a result, our business plan and financial capability to execute such plan is on a solid footing.

Attributes for Scaling Rapidly

Our mission has been to create a world-class multinational growth company. The size and importance of the global addressable market for clean water and wastewater solutions affords us a great opportunity to seize. To date, we have executed our plan in disciplined way. With our performance over the last five years, we have put ourselves in position to make good on our long-run ambition. However, in getting from here to there, scaling of operations is always a challenge for every successful company.

In tandem with our financial performance reported above, we would like to communicate to our shareholders that our execution plan has achieved five attributes that reinforce our ability to manage growth and scale operations: (i) a critical mass of existing sales to leverage into more sales (reduced customer acquisition costs); (ii) strong momentum with sales to push through any near-term bumps; (iii) a complementary matrix of product offerings to smooth out growth over the medium term; (iv) a suite of products that improve the long-run microeconomics of the business (i.e. reinforce upselling and cross-selling); and (v) brand differentiation for ready consumer choice at all times. These attributes support our efforts to accelerate execution towards the next milestone of $250 million of total sales (franchise and corporate).

First, we have gained *critical mass* to take advantage of the market opportunity. Under IFRS accounting, Water Intelligence revenue passed $25 million during 2018. However, as noted above, between direct sales and indirect sales to end-users via our franchise system (recorded as royalty income), Water Intelligence has really passed over $100 million in sales to customers of our brand. Coupled with our sales and distribution footprint in 46 states of the US, UK, Australia and Canada, we have a real base of operations and brand recognition from which to reach the next level of $250 million of direct and indirect sales of our solutions. Moreover, geographic distribution of operations in three continents provides us sufficient leverage for market capture. Given the size of the global addressable market for preventing water loss and dealing with wastewater, we can not only expand much deeper in our current geographies but also, at some point, extend operations into Latin America from the US, and into Asia, Middle East and Africa with strategic partners. As noted below, we are already exploring working with a major Japanese company to expand into Asia. Our WII team has operating experience in all of these extended geographies.

Second, as discussed above, we have *strong momentum* from which to take advantage of having critical mass. From 2016-18, we have achieved a revenue CAGR of 45% and a profit before tax CAGR of 51%; and that horizon shows acceleration from 2014-18 which yielded a 37% revenue CAGR and 31% profit before tax CAGR. Our team already has a good feel for digesting strong growth.

Third, we have established a *platform with a suite of solutions* that provides a matrix of complementary offerings for customers: (i) products and services for leak detection and repair of both clean water and wastewater pipes; (ii) applications and experience in delivering for consumers, businesses and municipalities; and (iii) two operating subsidiaries for execution focus – one on each side of the Atlantic. Such a platform provides structure for taking advantage of critical mass and momentum from complementary business lines.

Fourth, our broad solutions matrix enables lower customer acquisition costs and, correspondingly, increased margins from reduced marketing and delivery expenses. Scale always requires improving the microeconomics of market capture to enable greater efficiencies and reinvestment. Our complementary business lines enable us to provide solutions all along the water value chain from monitoring to pinpoint leak detection to repair to prevention. Our range of solutions provide customers with ready means of addressing all of their problems in a comprehensive way and our technicians with opportunities for efficient upselling since they are already on-site. Moreover, our two complementary subsidiaries – ALD for residential and commercial solutions and WII for municipal solutions – enable cross-selling opportunities reducing customer acquisition costs. Such upsales and cross-sales opportunities transform the economics available for Water Intelligence. For example, we gain customer leads for municipal contracts based on our reputation in providing solutions for homeowners in residential communities and vice versa. Additionally, once we pinpoint the water leak, customers prefer for us to also finish the job with repair thus creating operating efficiencies and value for customers. Beyond these operating efficiencies, it must be remembered that our core value proposition of leak detection and repair with minimal invasion enables Water Intelligence to maintain its pricing margins.

Finally, we have strengthened our brand by creating a products and services matrix that is distinguishable because of its use of proprietary and third-party technologies to enable precision detection and repair of pipes to produce minimally-invasive outcomes. Moreover, while we have been achieving high financial performance, we have not forgotten to reinvest in our technology profile. For our WII business, during 1H we are rolling-out our proprietary sewer diagnostic product. We provided a first public viewing in February at the Worldwide Water and Wastewater Technology and Equipment Show in Indianapolis and received strong interest from both potential customers and distribution partners. We are currently reviewing a licensing structure given the proprietary nature of our product. Meanwhile, to further activate our ALD distribution platform with the broader offering of home services solutions, we are developing an e-commerce and video display technology to advance direct-to-consumer product sales to help with water-related problems such as water quality. In March 2019 we provided demonstrations in Tokyo with a major Japanese corporation with whom we would like to sell Water Intelligence solutions in Asia.

First Third of 2019 and Outlook

We have taken advantage of these attributes to accelerate the pace of execution during the first third of 2019. We have achieved wins for every part of our business plan. First, we have continued to expand the core ALD franchise business and our royalty income base by closing our third major insurance company partnership to feed our business-to-business channel. Second, after making our franchise System more valuable through reacquisitions, we have begun to sell franchises again thus adding high gross margin revenue and profits. Third, we have continued to unlock shareholder value through the strategic re-acquisition of franchises: Ontario, Canada; South Atlanta; and Orlando, Florida. As indicated, reacquired corporate-operated locations continue to achieve strong organic growth. Our WII subsidiary has won additional strategic municipal contracts to help grow the upper northeastern part of North America: Eastern Michigan; Upstate New York; Ontario, Canada. These wins during the first third of the year will add critical mass and momentum to the development of our operating platform. As we roll-out our new technologies during Q2 and Q3, we will be reinforcing our brand definition setting the stage for further acceleration as we head into 2020.

We are excited by the prospects for 2019. Our products and solutions cultivate a technology profile for the marketplace. We see ourselves in this light and not in traditional analyst categories such as "support services." To date, water management has lagged behind other aspects of the smart home such as information, gas and electric. We aim to change that and seek to capitalize on the "Insuretech" opportunity. Our technology profile and recurring income from royalty and business-to-business channels enable us to navigate towards a higher valuation multiple based on our asset characteristics.

We remain confident about delivering on our vision to create a world-class water infrastructure services company. The addressable market is huge and technology is transforming the nature of solutions. We are in a great position to help lead change with respect to a natural resource that is precious and inspires passion.

Dr. Patrick DeSouza
Executive Chairman

8 May 2019

Business Review and Key Performance Indicators

The Chairman's Statement, on pages 3-7, provides an overview of the year and the outlook for Water Intelligence plc and its subsidiaries, referred to as the "Group". The business indicators offered below are meant to capture for the Board not only the state of performance but also the evolution of our business model to a platform company that is a "One-stop Shop" for customers through the cross-sale of solutions across our business units and the up-sale of technology products to our installed base of customers.

The Water Intelligence platform has two wholly-owned subsidiaries: American Leak Detection (ALD) and Water Intelligence International (WII). These business units are distinguished by the degree of franchise-operated and corporate-operated locations and their respective priorities on residential, business-to-business and municipal customers. ALD, our core business, is largely a franchise business with strategic corporate-operated locations. ALD is a leader in using technology to pinpoint and repair water leaks without destruction. Solutions target both residential and business-to-business customers, such as insurance companies, which value our minimally invasive value proposition. ALD has approximately $100 million of sales to end-users of the brand that is expressed through direct sales via corporate-operated locations and indirect sales measured by royalty income from franchisees, which, in turn, is based on franchisee gross sales to end-users. With its installed and growing base of residential customers, ALD can also upsell technology home services products to meet growing consumer demand for solutions to water loss and water quality. Meanwhile, WII, our UK-based operation that the Group acquired in Q4 2016, focuses on municipal solutions given the world-wide problem of failing water infrastructure. WII's solutions are also technology-centered. It is exclusively a corporate-run unit that will lead the Group's international expansion. WII does have the capability to execute ALD service offerings and is currently doing so at our corporate-operated location in Sydney. WII also cross-sells complementary municipal offerings to ALD.

The Group's strategy includes both organic growth from ALD and WII solutions, as well as, unlocking sales growth and shareholder value through acquisition, especially by selectively converting ALD franchises to corporate-operated locations. In doing so, some amount of the $85 million in indirect sales via our franchise System can be converted from royalty income to the Group's direct P&L (currently approximately $20 million of direct sales). One measure of unlocking value for shareholders from such reacquisitions is based on our ability to grow converted corporate locations faster than would be the case under franchisee operation. As a byproduct of such acquisition-led growth, it is important to separate continuing operating costs from non-core costs related to transactions that are executed as part of the Group's growth plan. Finally, because of the recurring nature of royalty income from the franchise business, the Group is able to be efficient in its capital formation using both equity and debt. As a result, it is important that the Group manage to the right balance in capital formation by monitoring the level of net borrowings.

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

2018 Conclusions Drawn From 6 KPIs:

i. ALD Franchise System is expanding as indicated by royalty growth reinforcing our "One-Stop Shop" distribution platform
ii. ALD Business-to-Business Channel led by insurance jobs is expanding Franchise System
iii. ALD Corporate-operated locations add to critical mass of Group revenue and profits and selective reacquisitions from expanding our franchise System unlocks Group's shareholder equity value
iv. WII has achieved early traction and contributes complementary international municipal sales to ALD brand
v. Non-core costs, largely legal transactions costs, are an acceptable tradeoff relative to the operating benefits
vi. Net-borrowing position is favorable for Group's continued growth and business plan

(i) Franchise Royalty Income.

The continued growth of the core ALD franchise business is the foundation for the business strategy of the Group. ALD is the centerpiece of the Group's distribution strategy as a "One-Stop Shop" platform because of its sales footprint in 46 states of the US and multiple locations in Australia and Canada. Moreover, because of the recurring nature of its royalty stream, the Group is able to increase shareholder value in its capital formation with a mix of debt and equity. As System-wide franchisee sales increase, the Board can decide whether to selectively reacquire franchises and convert them to corporate operated locations adding critical mass of revenue and earnings to the Group or to keep adding high margin royalty income. Royalty income in 2018 grew in absolute terms by 6% compared with 2017 despite significant reacquisitions during 2018 which had the effect of reducing the eligible pool of royalty income. Such royalty growth is attributable in part to the benefits arising from the Group's insurance channel which expands the franchise System. Profits before tax from this business line grew by 1% as the Group reinvested by adding staff expenses to further develop business-to-business partnerships to fuel future royalty growth. The Group has 105 franchises at the end of 2018 which represents a decrease of 4 franchises (2017: 109). The decreases were the results of reacquisition and conversion into corporate-run locations. Performance from royalty income is as follows:

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000	Change %
Total USA	6,087	5,688	7%
International	178	237	(25)%
Total Group Royalty Income	6,265	5,924	6%
Profit before tax (see note 4)	1,448	1,428	1%

(ii) Franchise-related Activities.

US franchise-related activities provide supporting evidence for strength of the core ALD business. Parts and equipment sales are an indication of franchisee reinvestment in growth of their respective operations. Business-to-Business channels, such as insurance and property management represent national customers and are an indication that these customers value ALD's nationwide sales footprint – an important aspect of competitive strategy. Jobs for franchisees are sourced by the Group from insurance companies using a centralized processing system. The jobs are then dispatched to franchisees from corporate administration. Finally, sales of franchise units represent the decision to develop a new territory through a franchisee. This line item, correspondingly, is also a reflection of the Group's priority with respect to adding corporate-operated locations in order to develop a territory. Revenue from franchise-related activities grew by 69% compared to 2017 largely because of the growth of the Group's business to business channel. Profits before tax grew 54% compared with 2017. Performance from franchise-related activities are as follows:

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000	Change %
Parts and equipment sales	1,076	1,039	4%
Business-to-Business sales	5,023	2,601	93%
Sales of Franchise Units	55	10	453%
Total Revenue from US Other Activities	6,154	3,649	69%
Profit before tax (see note 4)	484	315	54%

(iii) U.S. Corporate Operated Locations.

Corporate-run locations support the franchise System with marketing and execution support in further developing territories. Performance of the US corporate-run locations is an indication of the success of the Group's strategy to selectively reacquire ALD franchises and open new locations to meet increasing market demand for our minimally invasive leak detection and repair solutions. Corporate-operated locations supplement royalty income and add a critical mass of revenue and profits directly to the Group accounts. The Group directly operates 15 territories, an increase of 4 territory (2017: 11). Sales growth from corporate-operated locations grew strongly both organically and from reacquisitions when compared with 2017.

This KPI table has been redesigned for 2018 to add information for the Board. We have begun to measure the difference between corporate growth through reacquisitions of franchisees and corporate-operated organic growth. We have included a line item for corporate locations owned during the comparison years. Holding aside 2018 franchise reacquisitions, sales growth from corporate-operated locations owned prior to 2017 grew 34% to $8 million. Profit before taxes also grew both in absolute terms and, importantly in terms of margin (2018:12%; 2017: 4%) despite increased reinvestment expense for accelerated sales growth.

Table (iii) also enables us to assess the trade-off between franchise royalty growth and corporate-operated growth by examining yield in terms of Group profit before tax. Corporate store profit before tax amount to $1.2 million. By comparison, ALD corporate-operated 2018 sales of $10.1 million would have produced only approximately $0.28 million of profit before tax for the Group if such $10.1 million of sales to end-users had originated from franchisees subject to a 7.25% royalty to the Group. ($10.1 million of sales multiplied by 7.25% royalty equals approximately $0.73 million; and $0.73 million is then multiplied by 23% profit margin of royalty income - see KPI #1 – to yield $0.28 million). The incremental profit of approximately $0.9 to 1 million of profits when derived from corporate operations ($1.21 million vs. $0.28 million) adds valuation to the Group at its trading multiple. On the other hand, as a risk adjusted matter, recurring royalty revenue is especially valuable for optimal capital formation through non-dilutive bank finance. The Board will use this KPI to evaluate the trade-offs. Performance from corporate-operated locations is as follows:

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000	Change %
Revenue	10,141	5,948	70%
Full Year 2018 and 2017	*7,961*	*5,948*	*34%*
New locations	*2,180*	*-*	*N/A*
Profit before tax (see note 4)	1,213	350	247%

(iv) International Corporate Operated Locations.

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

The objective was for UK-based WII to lead the Group's international expansion. Sales have grown strongly at 39% during 2018 to $2.9 million. (2017: $2.1 million). Most importantly, within a year of operations WII has had a sizeable swing of $0.2 million in moving from start-up losses to profits while still achieving strong sales growth. Moreover, while still leading the Group's international growth strategy, WII is working during 2019 to accelerate the pace of cross-selling to the US, Australian and Canadian operations of ALD unlocking shareholder value. Performance from Water Intelligence International is as follows:

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000	Change %
Water Intelligence International	1,628	1,398	16%
Sydney	1,279	696	83%
Total Revenue from International Corporate Activities	2,907	2,094	39%
(Loss)/Profit before tax (see note 4)	31	(157)	Into profit

(v) Non-Core Costs.

During 2018, the Group incurred what are considered to be non-core costs relating to (i) legal costs relating to transactions executed for the future growth of the business and (ii) a prepayment issue for a service that had not been performed at year end. As discussed herein, understanding non-core costs, as distinct from continuing operating costs, enables the Board to evaluate capital allocation choices made to accelerate operations organically and to scale through acquisition. In 2018, there were $287,000 of non-core costs. During 2017, there were $198,000 of non-core costs. Please see table below for details:

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Product development legal costs	60	-
Corporate store extraordinary legal and post-acquisition	32	-
Pre-payment provision	60	-
Share reorganization and capital raising	-	141
Legal costs of acquisitions	-	19
Other legal costs	135	38
Total	**287**	**198**

(vi) Net Borrowings.

Management of financial resources is important for making various decisions regarding the rate of growth of operations. As noted herein, the recurring income from franchise royalty provides the Group with attractive attributes for using bank debt to complement equity sources of capital. In the current macroeconomic environment, bank debt is a relatively cheaper cost of capital than equity. Despite the growth of annual royalty income to $6.2 million which far exceeds the yearly amortization of the debt the Board takes a conservative approach to capital formation. During 2018 net debt was eliminated through a combination of an equity issuance and growth of cash from operations. Net *cash* is currently approximately $2.6 million.

Group

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Lines of credit: acquisition and working capital	1,616	813
Term loan	822	1,217
	2,438	2,030
Less: Cash		
Held in US Dollars	3,569	601
Held in £ Sterling	1,239	397
Held in AU Dollars	208	59
	5,016	1,057
Total Net Borrowings/(Cash)	(2,578)	973

Principal Risks and Uncertainties

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

Market Risk

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

Interest Rate Risk

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

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

Credit Risk

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

Liquidity Risk

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

Other Risks

There is a risk that existing and new customer relationships and R&D will not lead to the 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

8 May 2019

The Directors present their report on the affairs of Water Intelligence plc (the "Company") and its subsidiaries, referred to as the Group, together with the audited Financial Statements and Independent Auditors' report for the year ended 31 December 2018.

Principal Activities

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

Results

The financial performance for the year, including the Group's Statement of Comprehensive Income and the Group's financial position at the end of the year, is shown in the Financial Statements on pages 28 to 34.

2018 was marked by sustained and balanced multinational growth for both ALD and WII – ideal for scaling of operations. Total revenue grew 45% and profit before tax grew 53% when compared with 2017. Our ALD subsidiary grew revenue 45% and profit before tax 43% when compared with 2017. Our WII subsidiary grew revenue 39% and turned sharply from start-up losses in 2017 to profits alongside its revenue growth in 2018. More generally, Water Intelligence 2018 results are consistent with its 2016-18 CAGR of 45% revenue growth and 51% profit before tax growth and faster than its 2014-18 CAGR of 37% revenue growth and 32% profit before tax growth. The splits between ALD and WII revenue remained consistent with 2017 with approximately 88.6% of total revenue attributable to ALD and 11.4% of total sales attributable to WII.

Going Concern

The Directors have prepared a business plan and cash flow forecast for the period to April 2020. The forecast contains certain assumptions about the level of future sales and the level of margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term is funded mainly on cash generation by its profitable US-based franchise business, ALD. However, the Directors also note that the Group has net cash of $2.6 million on its balance sheet as of December 31, 2018 and have diversified its operations further with WII. Moreover, after an oversubscribed capital raise in March 2017, the Directors believe that funding will be available on a case-by-case basis for different additional initiatives. The Directors conclude that the Group will have adequate cash resources both to pursue its growth plan and to accelerate execution if it so chooses. The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly, continue to adopt the going concern basis in preparing the financial statements.

Research Design & Development

Expenditure on research and development, all of which was undertaken by third parties not related to the Group, was $64,285 (2017: $10,752). The Group's focus is currently on reinvestment for commercialization of products not pure R&D; however, Group is committed to anticipate market demands and has spent money on product development during the year, which has been capitalised.

Dividends

The Directors do not recommend the payment of a dividend (2017: $nil).

Share Price

On 31 December 2018, the closing market price of Water Intelligence plc ordinary shares was 233.0 pence. The highest and lowest prices of these shares during the year to 31 December 2018 were 450.0 pence and 171.5 pence respectively.

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

Future Developments
Future developments are outlined in the Outlook section of the Chairman's Statement on page 6.

Financial Risk Management
Financial risk management is outlined in the principal risks and uncertainties section of the strategic report on page 10.

Subsequent Events
On 17 January 2019, the Company announced that Bobby Knell would replace John Weigold as a director on the Board of the Company, pending regulatory checks. This confirmation of this appointment was announced on 12 March 2019. Bobby had been serving as a managing director at Water Intelligence responsible for franchise relations for the last four years. Prior to this role, Mr. Knell founded and grew the Dallas franchise of American Leak Detection into a multimillion dollar operation; an operation now run by his son.

On 5 February 2019, the Company announced a series of corporate activity, including the acquisition of Ontario (Niagara) franchise, expanding the Group's corporate presence into Canada and upstate New York; the sale of a new franchise territory for Youngstown, Ohio and financial support to a franchisee in Idaho, accelerating its expansion into municipal offerings. In addition, the formal launch of the ORCA municipal sewer product into the United States was announced.

On 7 March 2019, the Company announced the acquisition of its South Atlanta and Southern Georgia franchise. This territory will be used to create a regional corporate presence to help accelerate development of southeastern franchises. In addition, the franchise owner has agreed to stay with American Leak Detection and open a new corporate location given his experience.

On 28 March 2019, the Company announced the acquisition of its Orlando, Florida franchise. The acquisition enables the Group to set up another regional office in Florida to support the growth of the ALD business throughout the southeast United States. Together, Orlando and Miami provide a critical mass of operating personnel to grow the entire southeast United States providing residential, commercial and municipal solutions. During 2H, the Company will be opening a Water Intelligence International office in either Miami or Orlando in order to advance the Group's municipal line of business.

On 4 April 2019, the Company announced the sale of a territory in Southern Georgia. This territory was undeveloped and used to be part of the franchise acquired by the Company on 7 March 2019. This transaction allows for optimization of franchise territory in the region and could be a model across the US enabling more sales coverage in support of our national channels and incentivizing ever greater collaboration among corporate and franchise operations towards execution of our growth plan.

On 4 April 2019 the Board granted 475,000 options with an exercise price of 475p and a four-year vesting requirement to employees and directors to incentivized continued high performance. In addition, a further 50,000 options with an exercise price of 350p and a four-year vesting requirement were issued to vendors of reacquired franchises in 2019 and who are remaining in the employment of the Group.

On 25 April 2019, the Company announced five new municipal contracts in the US to be launched in Q2 by WII to underscore its value-add in cross-selling to territories being developed by ALD.

On 1 May 2019, the Company announced the launch of its third national insurance contract with a major US insurance company and the expansion of its business-to-business channel.

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

	Ontario $'000	Orlando $'000	Atlanta $'000	Totals $'000
Fair value of assets and liabilities acquired				
Equipment	41,224	27,800	-	69,024
Vehicles	51,435	46,300	-	97,735
Other	125,140	-	-	125,140
Net assets acquired	217,799	74,100	-	291,899
Consideration				
Cash	665,134	673,000	250,000	1,588,134
Deferred consideration – discounted to present	76,000	471,698	175,000	722,698
Total consideration	741,134	1,144,698	425,000	2,310,832
Intangible asset arising on acquisition	523,335	1,070,598	425,000	2,018,933

Directors

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

Executive Directors
Patrick DeSouza – Executive Chairman
John Weigold (Resigned 16 January 2019)
Bobby Knell (Appointed 12 March 2019)

Non-Executive Directors
Laura Hills (Appointed 6 March 2018)
Michael Reisman
David Silverstone
Robert Mitchell (Resigned 6 March 2018)

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

Directors' emoluments

2018

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

2017

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

Directors' interests

The Directors who held office at 31 December 2018 and subsequent to year end had the following direct interest in the ordinary shares of the Company at 31 December 2018 and at the date of this report, excluding the shares held by Plain Sight Systems, Inc.:

	Number of shares at 31 December 2018	% held at 31 December 2018	Number of shares at 8 May 2019	% held at 8 May 2019
Patrick DeSouza*	4,192,110	27.52	4,192,110	27.52
Michael Reisman*	173,466	1.14	173,466	1.14
David Silverstone	-	-	-	-
Jon Weigold	-	-	-	-
Laura Hills	89,331	0.59	89,331	0.59

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

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

Share option schemes

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

Substantial Shareholders

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

	Number of shares	% held
Plain Sight Systems, Inc.	2,430,000	19.98
State Street Nominees Limited	984,752	7.09
Amati AIM VCT	814,200	5.34
George D. Yancopoulos	656,166	4.31
Oryx International Growth Fund Limited	604,500	3.97

Corporate Responsibility

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

Employees

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

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

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

Independent Auditors

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

Statement of disclosure to the Independent Auditor

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

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

By order of the Board

Patrick DeSouza
Executive Chairman
8 May 2019

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

With effect from September 2018, Water Intelligence has adopted the QCA Corporate Governance Code. The Company has adopted a share dealing code for the Board and employees of the Company which is in conformity with the requirements of Rule 21 of the AIM Rules for Companies. The Company takes steps to ensure compliance by the Board and applicable employees with the terms of such code.

The following pages outline the structures, processes and procedures by which the Board ensures that high standards of corporate governance are maintained throughout the Group.

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

Takeovers and Mergers

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

Board

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

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

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

Meetings held during the period between 1 January 2018 and 31 December 2018 and the attendance of directors is summarised below:

	Board meetings Possible (attended)	**Audit committee Possible (attended)**	**Remuneration committee Possible (attended)**
Patrick DeSouza	6/6		
John Weigold	6/6		
Michael Reisman	6/6		1/1
David Silverstone	6/6	2/2	
Laura Hills (appointed 6 March 2018)	4/4	2/2	1/1
Robert Mitchell (resigned 6 March 2018)	2/2		

Board Committees

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

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

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

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

Board Experience

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

Patrick J. DeSouza, Executive Chairman

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

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

Bobby Knell, Executive Director

Term of office: Appointed March 2019.

Background and suitability for the role: Bobby has been serving as a managing director at Water Intelligence responsible for franchise relations for the last four years. Prior to this role, Bobby founded and grew the Dallas franchise of American Leak Detection into a multimillion dollar operation; an operation now run by his son. His appointment allows the alignment of interests between corporate operations and the growing American Leak Detection franchise business to continue growing strongly.

Michael Reisman, Independent Non-executive Director

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

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

Laura Hills, Independent Non-executive Director

Term of office: Appointed as a non-executive director on 6 February 2018.

Background and suitability for the role: Laura has more than 30 years' experience as a legal professional, having spent 10 years working for the Overseas Private Investment Corporation (OPIC), where she served as Associate General for the agency's finance program, supervising a team of lawyers on all finance transactions ranging from micro-lending and small business to multi-creditor infrastructure project financing in emerging market countries. Prior to this, she spent time in Argentina where she served as a foreign associate to various practices, with a focus on international trade, tax and domestic antitrust issues. Since 2002, Ms. Hills has worked at Hills, Stern & Morley LLP, an emerging markets legal boutique based in Washington D.C. Given her background in finance and transactions, Laura heads the Audit Committee. Laura holds undergraduate, graduate and law degrees from Stanford University. Laura brings considerable expertise in negotiating on infrastructure and renewables related transactions globally.

David Silverstone, Independent Non-executive Director

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

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

The Group has a non-Board Chief Financial Officer, Pat LaMarco, who reports regularly to the Executive Directors and assist in the preparation of Board materials and in reviewing the budget and ongoing performance.

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

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

Board Performance and Effectiveness

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

Risk Management

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

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

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

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

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

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

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

Corporate Culture

Corporate Responsibility

The Board recognises its employment, environmental and health and safety responsibilities. It devotes appropriate resources towards monitoring and improving compliance with existing standards. There is a professional Human Resources Director, Ann Tennero. Ms.Tennero reports to David Silverstone who is responsible at the Board level. Mr. Silverstone ensures that the Group's policies are upheld and providing the necessary resources. All members of the Board have significant experience in matters of public policy.

Employees

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

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

The Group has continued its policy of informing all employees of matters of concern to them as employees, both in their immediate work situation and in the wider context of the Group's well-being.

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

Audit Committee Annual Review

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

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

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

The Committee met twice during the year, to review the 2017 annual accounts and the interim accounts to 30 June 2018. The Committee reviewed with the independent auditor its judgements as to the acceptability of the Company's accounting principles.

In particular, the Committee discussed the application of the new accounting standards, IFRS9 and IFRS15, and the future application of IFRS16. The Committee reviewed and discussed the auditor's comments on improvements which could be made to the internal controls. In addition, the Committee monitors the auditor firm's independence from Company management and the Company.

Remuneration Committee Annual Review

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

Relations with Shareholders

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

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

Statement of Directors' Responsibilities

Directors' Responsibilities

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

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

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

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

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

Website publication

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

Statement of Directors' Responsibilities

Opinion

We have audited the financial statements of Water Intelligence plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2018, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2018;
- the Group and parent company statements of financial position as at 31 December 2018;
- the Group and parent company statements of cash flows for the year then ended;
- the Group and parent company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Overview of our audit approach

Materiality

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

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be $165,000, based on a measure of profit before taxation. We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

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

We agreed with management to report all identified errors in excess of $5,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

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

Key Audit Matters

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

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

Key audit matter	***How the scope of our audit addressed the key audit matter***
Revenue recognition Revenue is recognised in accordance with the accounting policy set out in the financial statements. This includes the transition to IFRS 15 – Revenue from contracts with customers. The accounting policy contains a number of judgements, particularly in recognising when the risks and rewards of ownership have passed to the buyer. This is determined with reference to the underlying contract with the purchaser.	Our audit procedures consisted of: Reviewing management's assessment of the impact of IFRS 15 on the revenue streams in the business and the accounting policies Validating that revenue is recognised in accordance with the accounting policies through testing an appropriate sample of income from each revenue stream. Assessing the appropriateness of the related disclosures in the financial statements.
Impairment of intangible assets The carrying value of intangible assets relates to trademarks, franchisor activities, goodwill on acquisitions and owned stores goodwill and indefinite life intangible assets. There is a risk that the carrying value could be impaired as a result of reduced activity.	We reviewed management's assessment of the carrying value of the group's intangible assets. In considering this assessment, we evaluated: • The discounted cash-flow forecasts for the group and the relevant cash generating units. This assessment included consideration of the key assumptions, which principally included discount rate and growth rates. • Board minutes, budgets and other operational plans • Discussion with management over plans and intentions for the group

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

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

John Glasby (Senior Statutory Auditor)
for and on behalf of
Crowe U.K. LLP
Statutory Auditor
St Brides House
10 Salisbury Square
London
EC4Y 8EH
8 May 2019

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Revenue	4	25,466,651	17,615,178
Cost of sales		(5,669,616)	(3,334,101)
Gross profit		19,797,035	14,281,077
Administrative expenses			
– Other Income		48,027	33,671
– Share-based payments	7	(104,652)	(62,397)
– Amortisation of intangibles	13	(327,201)	(317,259)
– Other administrative costs		(17,450,905)	(12,668,525)
Total administrative expenses		(17,834,731)	(13,014,510)
Operating profit		1,962,304	1,266,567
Finance income	8	28,003	13,928
Finance expense	9	(235,957)	(135,461)
Profit before tax		1,754,350	1,145,034
Taxation expense	10	(468,624)	(286,330)
Profit for the year		1,285,726	858,704
Attributable to:			
Equity holders of the parent		1,294,701	913,250
Non-controlling interests		(8,975)	(54,546)
		1,285,726	858,704
Other Comprehensive Income			
Exchange differences arising on translation of foreign operations	24	(439,517)	(39,038)
Total comprehensive profit for the year		846,209	819,666

Attributable to:			
Equity holders of the parent		855,184	874,212
Non-controlling interests		(8,975)	(54,546)
		846,209	819,666

Profit per share attributable to equity holders of Parent		**Cents**	**Cents**
Basic	11	9.7	8.0
Diluted	11	9.1	7.5

The results reflected above relate to continuing activities.

The accompanying notes on pages 35 to 66 are an integral part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2018

	Notes	2018 $	2017 $
ASSETS			
Non-current assets			
Goodwill and indefinite life intangible assets	13	6,254,967	3,304,506
Other intangible assets	13	2,423,565	2,398,192
Property, plant and equipment	14	1,732,527	762,459
Trade and other receivables	17	618,005	59,075
		11,029,064	6,524,232
Current assets			
Inventories	16	451,465	359,973
Trade and other receivables	17	4,211,981	2,820,315
Cash and cash equivalents	18	5,016,406	774,767
		9,679,852	3,955,055
TOTAL ASSETS		20,708,916	10,479,287
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	21	101,915	65,305
Share premium	21	6,887,739	980,436
Shares held in treasury	21	-	(210,150)
Merger reserve		1,001,150	1,001,150
Share based payment reserve		239,740	135,088
Foreign exchange reserve		(743,198)	(303,681)
Reverse acquisition reserve	21	(27,758,088)	(27,758,088)
Retained earnings		33,246,277	32,021,892
		12,975,535	5,931,952
Equity attributable to Non-Controlling interest			
Non-controlling Interest		100,499	39,158
Non-current liabilities			
Borrowings	23	1,448,303	1,635,311
Deferred consideration	12	879,307	374,600
Deferred tax liability	20	316,221	115,233
		2,643,831	2,125,144
Current liabilities			
Trade and other payables	19	2,550,280	1,428,509
Borrowings	23	989,736	394,525
Deferred consideration	12	1,449,035	559,999
		4,989,051	2,383,033
TOTAL EQUITY AND LIABILITIES		20,708,916	10,479,287

The financial statements of Water Intelligence plc, company number 03923150, were approved by the board of Directors and authorised for issue on the 8 May 2019. They were signed on its behalf by:
Patrick De Souza
Executive Chairman

The accompanying notes on pages 35 to 66 are an integral part of these financial statements.

Company Statement of Financial Position

as at 31 December 2018

	Notes	2018 $	2017 $
ASSETS			
Non-current assets			
Investment in subsidiaries	15	6,971,382	7,411,412
		6,971,382	7,411,412
Current assets			
Trade and other receivables	17	4,818,232	1,750,787
Cash and cash equivalents	18	48,164	76
		4,866,396	1,750,863
TOTAL ASSETS		11,837,778	9,162,275
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	21	101,915	65,305
Share premium	21	6,887,739	980,436
Shares held in treasury	21	-	(210,150)
Merger reserve		1,001,150	1,001,150
Share based payment reserve		239,740	135,088
Foreign exchange reserve		(2,013,369)	(1,472,274)
Retained earnings		5,360,880	6,055,205
		11,578,055	6,554,760
Current liabilities			
Trade and other payables	19	259,723	2,607,515
		259,723	2,607,515
TOTAL EQUITY AND LIABILITIES		11,837,778	9,162,275

The loss for the financial year in the financial statements of the parent Company was $694,325 (2017: costs $601,301), which related entirely to Plc costs.

The financial statements of Water Intelligence plc, company number 03923150, were approved by the board of Directors and authorised for issue on the 8 May 2019. They were signed on its behalf by:

Patrick De Souza
Executive Chairman

The accompanying notes on pages 35 to 66 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Share Capital $	Share Premium $	Shares held in Treasury $	Capital Redemption Reserve $	Reverse Acquisition Reserve $	Merger Reserve $	Share based payment reserve $	Foreign exchange reserve $	Retained (Losses)/ Earnings $	Total $	Non-controlling interest $	Total Equity $
As at 1 January 2017	**64,257**	**926,787**	**-**	**-**	**(27,758,088)**	**1,001,150**	**72,691**	**(264,643)**	**31,108,642**	**5,150,796**	**93,704**	**5,244,500**
Issue of Ordinary Shares	1,048	53,649	-	-	-	-	-	-	-	54,697	-	54,697
Share buyback	-	-	(210,150)	-	-	-	-	-	-	(210,150)	-	(210,150)
Share-based payment expense	-	-	-	-	-		62,397	-	-	62,397	-	62,397
Profit for the year	-	-	-	-	-		-	-	913,250	913,250	(54,546)	858,704
Other comprehensive loss	-	-	-	-	-		-	(39,038)	-	(39,038)	-	(39,038)
As at 31 December 2017	**65,305**	**980,436**	**(210,150)**	**-**	**(27,758,088)**	**1,001,150**	**135,088**	**(303,681)**	**32,021,892**	**5,931,952**	**39,158**	**5,971,110**
As at 1 January 2018	**65,305**	**980,436**	**(210,150)**	**-**	**(27,758,088)**	**1,001,150**	**135,088**	**(303,681)**	**32,021,892**	**5,931,952**	**39,158**	**5,971,110**
Issue of Ordinary Shares	36,610	5,907,303	210,150	-	-	-	-	-	-	6,154,063	-	6,154,063
Purchase Non-controlling interest (NWAR)	-	-	-	-	-	-	-	-	(70,316)	(70,316)	(29,684)	(100,000)
Share-based payment expense	-	-	-	-	-	-	104,652	-	-	104,652	-	104,652
Capital Contribution by non-controlling interests	-	-	-	-	-	-	-	-	-	-	100,000	100,000
Profit for the year	-	-	-	-	-	-	-	-	1,294,701	1,294,701	(8,975)	1,285,726
Other comprehensive loss	-	-	-	-	-		-	(439,517)	-	(439,517)	-	(439,517)
As at 31 December 2018	**101,915**	**6,887,739**	**-**	**-**	**(27,758,088)**	**1,001,150**	**239,740**	**(743,198)**	**33,246,277**	**12,975,535**	**100,499**	**13,076,034**

The accompanying notes on pages 35 to 66 are an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share Capital $	Share Premium $	Shares held in Treasury $	Capital Redemption Reserve $	Merger Reserve $	Share based payment reserve $	Foreign exchange reserve $	Retained (Losses)/ Earnings $	Total Equity $
As at 1 January 2017	**64,257**	**926,787**	-	**-**	**1,001,150**	**72,691**	**(1,919,342)**	**6,656,506**	**6,802,049**
Issue of Ordinary Shares	1,048	53,649	-	-	-	-	-	-	54,697
Share buyback	-	-	(210,150)	-	-	-	-	-	(210,150)
Share-based payment expense	-	-	-	-	-	62,397	-	-	62,397
Profit for the year	-	-	-	-	-	-	-	(601,301)	(601,301)
Other comprehensive loss	-	-	-	-	-	-	447,068	-	447,068
As at 31 December 2017	**65,305**	**980,436**	**(210,150)**	**-**	**1,001,150**	**135,088**	**(1,472,274)**	**6,055,205**	**6,554,760**
As at 1 January 2018	**65,305**	**980,436**	**(210,150)**	**-**	**1,001,150**	**135,088**	**(1,472,274)**	**6,055,205**	**6,554,760**
Issue of Ordinary Shares	36,610	5,907,303	210,150	-	-	-	-	-	6,122,424
Share-based payment expense	-	-	-	-	-	104,652	-	-	104,652
Profit for the year	-	-	-	-	-	-	-	(694,325)	(694,325)
Other comprehensive loss	-	-	-	-	-	-	(541,095)	-	(541,095)
As at 31 December 2018	**101,915**	**6,887,739**	**-**	**-**	**1,001,150**	**239,740**	**(2,013,369)**	**5,360,880**	**11,578,055**

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

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

The accompanying notes on pages 35 to 66 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Cash flows from operating activities		
Profit before tax	1,754,350	1,145,034
Adjustments for non-cash/non-operating items:		
Depreciation of plant and equipment	355,897	168,817
Amortisation of intangible assets	327,201	317,259
Share based payments	104,652	62,397
Interest paid	235,957	135,461
Interest received	(28,003)	(13,928)
Operating cash flows before movements in working capital	2,750,054	1,815,040
Increase in inventories	(91,492)	(32,471)
Increase in trade and other receivables	(1,950,597)	(654,040)
Decrease in trade and other payables	682,256	(30,301)
Cash generated by operations	1,390,221	1,098,228
Income taxes	(267,636)	(476,178)
Net cash generated from operating activities	1,122,585	622,050
Cash flows from investing activities		
Purchase of plant and equipment	(789,591)	(444,976)
Purchase of intangible assets	(352,574)	(197,000)
Acquisition of subsidiaries	(330,174)	-
Reacquisition of franchises	(1,762,917)	(195,000)
Interest received	28,003	13,928
Net cash used in investing activities	(3,207,253)	(823,048)
Cash flows from financing activities		
Issue of ordinary share capital	36,610	1,048
Premium on issue of ordinary share capital	5,907,302	53,649
Share buyback	210,150	(210,150)
Interest paid	(235,957)	(135,461)
Proceeds from borrowings	926,472	332,434
Repayment of borrowings	(518,270)	(122,644)
Net cash (used by)/generated from financing activities	6,326,307	(81,124)
Net (decrease)/increase in cash and cash equivalents	4,241,639	(282,122)
Cash and cash equivalents at the beginning of year	774,767	1,056,889
Cash and cash equivalents at end of year	5,016,406	774,767

The accompanying notes on pages 35 to 66 are an integral part of these financial statements

Company Statement of Cash Flows

for the year ended 31 December 2018

	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Cash flows from operating activities		
Loss before tax	(694,325)	(601,301)
Adjustments for non-cash/non-operating items:		
Share based payment expense	104,652	62,397
Operating cash flows before movements in working capital	(589,673)	(538,904)
Increase in trade and other receivables	(3,067,445)	(592,344)
Increase in trade and other payables	(2,448,857)	1,017,992
Cash used by operations	(6,105,975)	(113,256)
Income taxes	-	-
Net cash used by operating activities	(6,105,975)	(113,256)
Cash flows from financing activities		
Issue of ordinary share capital	36,610	1,048
Premium on issue of ordinary share capital	5,907,303	53,649
Share buyback	210,150	(210,150)
Net cash (used by)/generated from financing activities	6,154,063	(155,453)
(Decrease)/Increase in cash and cash equivalents	48,088	(268,709)
Cash and cash equivalents at the beginning of period	76	268,785
Cash and cash equivalents at end of period	48,164	76

The accompanying notes on pages 35 to 66 are an integral part of these financial statements.

1 General information

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

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

The Company is listed on AIM of the London Stock Exchange. These Financial Statements were authorised for issue by the Board of Directors on 8 May 2019.

2 Adoption of new and revised International Financial Reporting Standards

A number of new and revised standards, including IFRS 9 and 15, are effective for annual periods beginning on or after 1 January 2018. Adoption of these standards, on a modified retrospective basis, has not had an impact on the Group's financial statements, except the following, set out below:

- IFRS 9 Financial Instruments came into effect on 1 January 2018 and impacted the rules relating to the classification, measurement and impairment of financial assets. The Group holds all financial assets with the intention of collecting the contractual cash flows, and no contractual terms have failed the "solely payments of principal and interest" test. In addition, moving from the "incurred credit loss" model under IAS 39 to the "expected credit loss model" had no effect on the results for the year ending 31 December 2017.

- IFRS 15 (Revenue from Contracts with Customers) came into effect on 1 January 2018 replacing IAS 18 Revenue and related interpretations. It dealt with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Group has carried out a review of existing contractual arrangements as part of this process to identify the customer contracts, the performance obligations, the transaction price and when the performance obligation is satisfied, and has determined that there was no material impact on the Group's revenue streams as set out in the sub-section "Revenue Recognition" below. Particularly in respect of the sale of franchise territories, the Group will monitor on an ongoing basis the correct apportionment for each such sale between opening package fees, which are delivered upon or shortly after such a sale and territorial fees, which are deferred over the length of the franchise agreement and released to the combined statements of comprehensive income on a straight-line basis. The Group does not expect such sales to be a material part of the Group's revenue or income.

In addition, for the financial year commencing 1 January 2019, the Group and Company will adopt IFRS 16, replacing IAS 17, in respect of its treatment of operating leases. On implementation of IFRS 16, the Group will recognise a right of use asset and corresponding liability in respect of its current lease obligations.

As set out in note 22, the Group has a number of property and vehicle leases. The future aggregate minimum lease payments under non-cancellable operating leases at 31 December 2018 was $833,150, which would need to be fair valued and recognised as a liability on the consolidated balance sheet with a right to use asset also recognised.

In 2018 the charge recognised in the consolidated income statement relating to operating leases was $707,490 (2017: $640,154) and was disclosed within operating expenses. Under IFRS 16, this charge would be reversed and a depreciation charge for the right of use asset would be recognised as well as an interest charge on the liability. The group has calculated that on transition the group will recognize a right-of-use asset and corresponding lease liability estimated at $0.8m. There is not expected to be any material impact on the statement of comprehensive income.

3 Significant accounting policies

Basis of preparation

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

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

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

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

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Directors' Report, Strategic Report and the Chairman's Statement. The Directors have prepared a business plan and cash flow forecast for the period to April 2020. The forecast contains certain assumptions about the level of future sales and the level of margins achievable.

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

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 2018. The Consolidated Statement of Comprehensive Income includes the results of all subsidiary undertakings for the period from the date on which control passes. Control is achieved where the Company (or one of its subsidiary undertakings) obtains the power to govern the financial and operating policies of an investee entity so as to derive benefits from its activities.

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

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

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

Parent Company income statement – UK head office only
The Company has taken advantage of Section 408 of the Companies Act 2006 in not presenting its own Statement of Comprehensive Income. The Company's loss after tax for the year ended 31 December 2018 is $624,009 (2017: $601,301).

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

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

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

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

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 2018 was £1 = US$1.2670 (2017: £1 = US$1.2491). The average exchange rate for the year 31 December 2017 were £1 = US$1.3354 (2017: £1 = US$1.2880).

Transactions and balances

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

(ii) Group Companies

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

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

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

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

Leases

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

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

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

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

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

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

Revenue recognition

Revenue is measured based on consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

The Group recognises revenue when it transfers control of a product or service to a customer.

Franchise royalty income
The Group receives royalties from franchisees in various percentages of their gross monthly sales. Royalties are paid monthly in arrears based on the sales generated by franchisees in that month and as such recognised under the accrual method of accounting.

Franchise related activities
Service revenue is recognised when the services are rendered and complete. This also applies to services rendered by any Business-to-Business channel. In the case of Part and Equipment Sales, revenue is recognised when the item is delivered to franchisees, in the case of business-to-business sales, the sale is recognised when the franchisee is assigned the relevant work and in the case of franchise sales, cash is typically irredeemably received upfront and are included in deferred income until all set up requirements have been performed, with a small portion being recognised throughout the life of the franchise agreement.

U.S. Corporate operated locations
Sales of other goods and products, in particular corporate-operated locations, are recognised at fair value of the consideration received or receivable following delivery of the goods or services.

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

Financial instruments
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the fair value of assets arising on acquisition (see note 12), carrying value of the goodwill, the carrying value of the other intangibles (see note 13) and the carrying value of the investments. Please see relevant notes for these areas.

4 Segmental Information

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

The Group mainly operates in the US, with operations in the UK and certain other countries especially Canada and Australia. No single customer accounts for more than 10% of the Group's total external revenue.

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

Revenue	**Year ended 31 December 2018 $**	**Year ended 31 December 2017 $**
Franchise royalty income	6,264,839	5,924,353
Franchise related activities	6,153,652	3,649,200
US corporate operated locations	10,140,892	5,947,805
International corporate operated locations	2,907,268	2,093,820
Total	25,466,651	17,615,178

Profit/(Loss) before tax	**Year ended 31 December 2018 $**	**Year ended 31 December 2017 $**
Franchise royalty income	1,447,989	1,427,858
Franchise related activities	484,036	315,099
US corporate operated locations	1,213,304	349,609
International corporate operated locations	31,219	(157,141)
Unallocated head office costs	(1,135,435)	(592,778)
One-Time costs	(286,762)	(197,613)
Total	1,754,350	1,145,034

Assets	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Franchise royalty income	8,946,370	4,748,391
Franchise related activities	1,764,171	359,972
US corporate operated locations	7,648,032	3,739,931
International corporate operated locations	2,350,344	1,630,993
Total	20,708,917	10,479,287

Amortization	Year ended 31 December 2018 $	Year ended 31 December 2017 $
US corporate operated locations	298,357	290,858
International corporate operated locations	28,844	26,401
Total	327,201	317,259

Depreciation	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Franchise royalty income	-	-
Franchise related activities	-	-
US corporate operated locations	278,884	151,427
International corporate operated locations	77,013	15,992
Total	355,897	167,419

Finance Expense	Year ended 31 December 2018 $	Year ended 31 December 2017 $
International corporate activities	40	3,283
Unallocated head office costs	235,916	132,178
Total	235,957	135,461

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

Geographic Information

As noted herein, the Group has two wholly-owned subsidiaries – ALD and WII. ALD has U.S. franchises and corporate-operated locations and international franchises and corporate-operated locations in Australia and Canada. Meanwhile, WII has corporate-operated activities outside the

U.S. We may also regroup the same information into US and Outside the US to capture the Group's effort to be multinational company. As indicated herein, the Group has had strong balanced growth in the US and abroad and across ALD and WII. Between 2018 and 2017, International/Outside the US has grown to $3.1 million from $2.3 million. However, the percentage of International sales to Total sales has remained relatively constant at 12.1% (2017: 13.2%)

Total Revenue

	Year ended 31 December 2018			Year ended 31 December 2017		
	US	International	Total	US	International	Total
	$	$	$	$	$	$
Franchise royalty income	6,087,083	177,756	6,264,849	5,687,764	236,590	5,924,354
Corporate owned Stores	10,140,892	-	10,140,892	5,947,805	-	5,947,805
Franchise related activities	6,153,652	-	6,153,652	3,649,200	-	3,649,200
International corporate	-	2,907,268	2,907,268	-	2,093,820	2,093,820
Total	22,381,627	3,085,024	25,466,651	15,284,769	2,330,410	17,615,179

5 Expenses by nature

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

	Note	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Raw materials and consumables used		661,264	851,482
Employee costs	6	9,579,521	7,313,155
Operating lease rentals		707,490	640,154
Depreciation charge		355,897	167,419
Amortization charge		327,201	317,259
Marketing costs		243,799	215,006
R & D		4,285	10,752
Foreign exchange (gain)/loss		5,131	(8,162)

	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Auditors remuneration		
Fees payable to the Company's auditor for audit of Parent Company and Consolidated Financial Statements	41,545	71,482
Fees payables to the Company's auditor for other services (assurance related services)	-	-

The Group auditors are not the auditors of the US subsidiary companies. The fees paid to the auditor of the US subsidiary companies were $100,910 (2017: $125,445) for the audit of these companies and $48,582 (2017: $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 2018 $	Year ended 31 December 2017 $
Short-Term employee benefits		
Directors fees, salaries and benefits	687,872	610,645
Wages and Salaries	8,203,268	6,246,178
Social Security Costs	583,729	393,935
Long-Term employee benefits		
Share based payments	104,652	62,397
	9,579,521	7,313,155

Information regarding Directors emoluments are as follows:

	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Short-Term employee benefits		
Directors' fees, salaries and benefits	687,872	610,645
Social Security Costs	17,892	20,102
Long-Term employee benefits		
Share based payments	104,652	61,114
	810,416	691,861

The highest paid Director received emoluments of $501,872 (2017: $450,000).

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

	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Directors (executive and non-executive)	5	5
Management	22	7
Field Services	106	86
Franchise Support	20	20
Administration	20	6
	173	124

7 Share options

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

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

	Number of share options 2018	Weighted average exercise price ($) 2018	Number of share options 2017	Weighted average exercise price (£) 2017
Outstanding at beginning of year	1,005,000	1.02	1,765,000	1.12
Granted during the year	160,000	3.36	-	-
Forfeited/lapsed during the year	-	-	-	-
Exercised during the year	(310,000)	0.86	(80,000)	0.67
Outstanding at end of the year	855,000	1.43	1,685,000	1.15
Exercisable at end of the year	745,000	1.08	1,005,000	1.02

Fair value of share options

During the year, the Group granted 160,000 Share Options to certain Employees, with exercise prices ranging from of £2.25 to £3.48 ($3.15 to $4.52).

The fair value of options granted during the prior year has been calculated using the Black Scholes model which has given rise to fair values per share ranging from 71.98p to 109.69p. This is based on risk-free rates ranging from 1.24% to 1.44% and volatility ranging from 42% to 45%.

The Black Scholes calculations for the options granted during the year resulted in a charge of $104,652 (2017: $62,397) which has been expensed in the year. As the options granted prior to 2016 had no vesting period, none of the charge expensed in 2018 related to options granted prior to 2016.

The weighted average remaining contractual life of the share options as at 31 December 2018 was 6.68 years (2017: 7.33 years).

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

Grant	At report date	2018	2017	Date of Grant	Exercise price	Exercise period From	To
ALDHC Plan (1)	317,500	317,500	417,500	01/12/2013	$1.14	01/12/2013	01/12/2023
2013 Directors (2)	250,000	250,000	250,000	01/08/2013	$1.30	01/08/2013	01/08/2023
2015 Options (3)	177,500	177,500	337,500	08/06/2015	$0.67	08/06/2015	08/06/2025
2016 Directors (4)	200,000	200,000	200,000	13/06/2016	$1.26	13/06/2016	13/06/2026
2016 Directors (4)	-	-	50,000	13/06/2016	$0.92	13/06/2016	13/06/2026
2016 Employee (5)	220,000	220,000	220,000	19/12/2016	$1.24	19/12/2019	19/12/2026
2016 Employee (5)	210,000	210,000	210,000	19/12/2016	$1.56	19/12/2019	19/12/2026
2018 Acquisition (6)	135,000	135,000	-	06/03/2018	$3.15	06/03/2021	06/03/2028
2018 Acquisition (7)	25,000	25,000	-	08/10/2018	$4.52	08/10/2021	08/10/2028
2019 Employee (8)	475,000	-	-	04/04/2019	$6.24	04/04/2023	04/04/2029
2019 Acquisition (9)	50,000	-	-	04/04/2019	$4.59	04/04/2023	04/04/2029
Total	**2,177,500**	**1,535,000**	**1,685,000**				

All share options are equity settled on exercise.

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

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

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

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

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

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

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

(8) On 4 April 2019, certain employees were granted options to purchase 475,000 New Ordinary Shares at a price of $6.24 based on 2018 performance and as an incentive for future performance. These options have a four-year vesting requirement.

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

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

8 Finance income

	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Interest income	28,003	13,928

9 Finance expense

	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Interest expense	235,957	135,461

10 Taxation

Group	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Current tax:		
Current tax on profits in the year	267,636	476,178
Prior year over provision	-	-
Total current tax	267,636	476,178
Deferred tax current year	200,988	(189,848)
Deferred tax prior year	-	-
Deferred tax (credit)/expense (note 20)	200,988	(189,848)
Income tax expense	468,624	286,330

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

Profit before tax on ordinary activities	1,754,350	1,145,034
Tax calculated at domestic rate applicable profits in respective countries (2018: 26.7% versus 2017: 25%)	366,568	398,289
Tax effects of:		
Non-deductible expenses	19,737	65,187
Losses carried back	-	2,996
Other tax adjustments, reliefs and transfers	11,946	(1)
State taxes net of federal benefit	69,988	43,377
Adjustment in respect of prior year	(6,925)	(82,657)
Deferred tax not recognized	-	87,340
Adjust deferred tax rate to 25%	-	903
Changes in rates	7,310	(229,104)
Taxation expense recognized in income statement	468,624	286,330

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

As also set forth, in Note 20, at the balance sheet date, the Group's UK trading operations had unused tax losses of £4,276,906 (2017: £3,473,249) available for offset against future profits. £727,074 (2017: £593,205) represents unrecognized deferred tax assets thereon at 17%. The deferred tax asset has not been recognized due to uncertainty over timing of utilization.

The effective rate for tax for 2018 is 26.7% (2017: 25.0%). It is anticipated that the Group will use this effective tax rate of 26.7% (due to 2017 US tax cut) going forward.

11 Earnings per share

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

Basic

	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the year attributable to equity holders of the Parent ($)	1,294,701	913,250
Weighted average number of ordinary shares	13,401,624	11,403,236
Diluted weighted average number of ordinary shares	14,304,790	12,123,812
Profit per share (cents)	9.7	8.0
Diluted profit per share (cents)	9.1	7.5

12 Acquisitions

During 2018, the Group purchased franchisee operations in Louisville, Kentucky; Bakersfield, California; South Florida and Portland, Oregon. These acquisitions not only are expected to contribute revenue and earnings but also strengthen the Group’s corporate execution capabilities in the US. In the US such corporate presence supports the American Leak Detection franchise system.

On 7 March 2018, the Group completed the reacquisition of its Louisville, Kentucky franchise. The franchise owner has remained with the business as Vice President for Midwest operations to add depth to the corporate team and reinforce the Midwestern hub created through the acquisition of this franchise and previous reacquisitions.

On 15 March 2018, the Group completed the reacquisition of its Bakersfield, California franchise. As part of this re-acquisition, there was a minority investment from the franchise to the north of Bakersfield, which covers the city of Fresno. This franchisee helps provide management expertise to grow this significant opportunity in Central California.

On 15 May 2018, the Group completed the reacquisition of its South Florida franchise, spanning from the southern counties of Miami to Key West. This has been combined with American Leak Detection's fast growing and highly profitable corporate operation which is located immediately to the north, spanning Ft. Lauderdale and Miami, in order to form a significant regional operation in the Southeast US.

On 9 October 2018, the Group completed the reacquisition of the territories of Portland, Oregon and certain parts of Washington State (the "Portland Region") from a franchise owner, who remains a franchisee and continues to develop the rest of their territory. This reacquisition enables American Leak Detection to set up a regional corporate office to support the growth of its franchisees in the northwest United States.

These can be summarised as follows:

	Louisville	Bakers-field	Indiana Plumbing	South Florida	Portland	Adjust-ments	Totals
	$	$	$	$	$	$	$
Fair value of assets and liabilities acquired							
Equipment	55,878	33,275	17,600	50,000	119,454	-	276,207
Vehicles	39,393	11,200	60,574	30,000	119,000	-	260,167
Net assets acquired	95,270	44,475	78,174	80,000	238,454	-	536,373

Consideration							
Cash	465,000	252,000	90,674	150,000	646,250	18,650	1,622,574
Note payable	1,084,058	-	-	211,561	615,477	(34,335)	1,876,760
Total consideration	1,549,058	252,000	90,674	361,561	1,261,727	(15,685)	3,499,335
Intangible assets arising on acquisition (see note 13)	1,453,788	207,525	12,500	281,561	1,023,273	(15,685)	2,962,961

The intangible assets arising on the above acquisitions of $2,966,147 is included in additions to goodwill and indefinite life intangible assets for owned & operated stores (see note 13).

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

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

Current	**Year acquired**	**Year ended 31 December 2018 $**	**Year ended 31 December 2017 $**
T&M Tech LLC (South Michigan franchise)	2015	74,282	64,654
Cincinnati	2016	55,712	48,302
NRW	2016	-	67,456
Sydney	2016	55,631	263,747
Indianapolis	2017	102,073	115,839
Kentucky	2018	523,745	-
South Florida	2018	22,116	-
Portland	2018	615,476	-
Total current deferred consideration		1,449,035	559,999

Non-Current	**Year acquired**	**Year ended 31 December 2018 $**	**Year ended 31 December 2017 $**
T&M Tech LLC (South Michigan franchise)	2015	72,389	149,187
Cincinnati	2016	54,292	112,079
NRW	2016	-	-
Sydney	2016	-	-
Indianapolis	2017	-	113,335
Kentucky	2018	560,313	-
South Florida	2018	192,313	-
Portland	2018	-	-
Total non-current deferred consideration		879,307	374,600

13 Intangible assets

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

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

Goodwill and other indefinite life intangible assets

Group	Goodwill Acquisitions	Owned & Operated stores	Goodwill on franchisor activities	Totals
	$	$	$	$
Cost				
At 1 January 2017	2,325,109	1,513,440	636,711	4,475,260
Additions (see note 12)	-	397,975	-	397,975
At 31 December 2017	2,325,109	1,911,415	636,711	4,873,235
Additions (see note 12)	220,025	2,742,936	-	2,962,961
At 31 December 2018	2,545,134	4,654,351	636,711	7,836,196
Impairment				
At 1 January 2017	1,493,729	75,000	-	1,568,729
Impairment in year	-	-	-	-
At 31 December 2017	1,493,729	75,000	-	1,568,729
Impairment in year	12,500	-	-	12,500
At 31 December 2018	1,506,229	75,000	-	1,581,229
Carrying amount				
At 31 December 2017	831,380	1,836,415	636,711	3,304,506
At 31 December 2018	1,038,905	4,579,351	636,711	6,254,967

The increase in carrying value of Goodwill Acquisitions at 31 December 2018 relate to goodwill additions arising on the acquisition outlined in Note 12 above during 2018.

Goodwill and indefinite life intangible assets on owned & operated stores comprises legacy owned stores together with additions arising from reacquisitions of franchise operations in 2015, 2016, 2017 and 2018. Details on additions in 2018 can be found in note 12 above.

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

Where appropriate consideration of separately identifiable intangible assets has been considered in the evaluation of the fair value of assets acquired and the determination of the fair value of goodwill arising. For the acquisitions in 2018, 2017, 2016 and 2015 relating to the reacquisition of franchises, it is considered that the value being attributed to the purchase consideration relates to the synergies with surrounding franchises, obtaining wider geographical coverage directly within the Group, the focus to seize potential opportunity within their wider business strategy for revenue and earnings growth and the ability to expand new service offerings. Where appropriate consideration of separate intangibles, such as covenants not to compete, are evaluated.

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

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

Goodwill Acquisitions are separately categorized as cash generating units.

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

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

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

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

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

This has resulted in no material impairment charge being required in 2018 (2017: $nil).

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

13 Intangible assets continued

Other Intangible assets table

	Product development $	Covenants not to compete $	Customer Lists $	Trademarks $	Patents $	Website $	Enterprise Solution Development $	Total $
Cost								
At 1 January 2017	164,880	290,000	350,357	5,293,817	23,692	-	-	6,122,746
Additions	-	-	-	-	-	90,000	107,000	197,000
At 31 December 2017	164,880	290,000	350,357	5,293,817	23,692	90,000	107,000	6,319,746
Additions	-	-	-	-	-	-	350,471	350,471
At 31 December 2018	164,880	290,000	350,357	5,293,817	23,692	90,000	457,471	6,610,217
Accumulated amortisation								
At 1 January 2017	164,880	276,667	244,071	2,894,985	23,692	-	-	3,604,295
Amortisation expense	-	6,667	26,401	261,691	-	22,500	-	317,259
At 31 December 2017	164,880	283,334	270,472	3,156,676	23,692	22,500	-	3,921,554
Amortisation expense	-	6,666	28,844	261,691	-	30,000	-	327,201
Exchange differences	-	-	(2,103)	-	-	-	-	(2,103)
At 31 December 2018	164,880	290,000	297,213	3,418,367	23,692	52,500	-	4,246,652
Carrying amount								
At 31 December 2017	-	6,666	79,885	2,137,141	-	67,500	107,000	2,398,192
At 31 December 2018	-	-	53,144	1,875,450	-	37,500	457,471	2,423,565

All intangible assets have been acquired by the Group.

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

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

14 Property, plant and equipment

	Equipment & displays $	Motor Vehicles $	Leasehold Improvements $	Total $
Cost				
At 1 January 2017	958,935	363,249	123,418	1,445,602
Acquired on acquisition of subsidiary	49,373	-	-	49,373
Additions	327,748	102,229	15,000	444,977
Exchange differences	2,086	2,655	-	4,741
Disposals	(486,533)	(106,678)	(123,418)	(716,629)
At 31 December 2017	**851,609**	**361,455**	**15,000**	**1,228,064**
Reclassification	(137,747)	(49,998)	-	(187,745)
Acquired on acquisition of subsidiary	50,875	71,774	-	122,649
Additions	666,251	542,711	-	1,208,962
Exchange differences	(1,881)	(8,382)	-	(10,263)
Disposals	(703)	-	-	(703)
At 31 December 2018	**1,428,404**	**917,560**	**15,000**	**2,360,964**
Accumulated depreciation				
At 1 January 2017	636,390	248,866	123,418	1,008,674
Eliminated on disposals	(485,278)	(103,237)	(123,418)	(711,933)
Depreciation expense	120,122	46,615	682	167,419
Exchange differences	800	645	-	1,445
At 31 December 2017	**272,034**	**192,889**	**682**	**465,605**
Reclassification	(70,792)	(116,953)	-	(187,745)
Eliminated on disposals	(703)	-	-	(703)
Depreciation expense	220,609	133,924	1,364	355,897
Exchange differences	(537)	(4,079)	-	(4,616)
At 31 December 2018	**420,611**	**205,781**	**2,046**	**628,437**
Carrying amount				
At 31 December 2017	512,620	235,521	14,318	762,459
At 31 December 2018	**1,007,793**	**711,779**	**12,954**	**1,732,527**

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 2018 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 $1,234,492 (2017: $656,485).

15 Investment in subsidiary undertakings

Company	Subsidiary Undertakings $
Cost	
At 31 December 2017	13,812,318
Exchange difference	(440,030)
At 31 December 2018	13,372,288
Impairment	
At 31 December 2017	6,400,906
Exchange difference	-
At 31 December 2018	6,400,906
Carrying amount	
At 31 December 2017	7,411,412
At 31 December 2018	6,971,382

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

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

The subsidiary undertakings during the year were as follows:

	Registered office address	Country of incorporation	Interest held %
Water Intelligence International Limited* (leak detection products and services)	27-28 Eastcastle Street, London, United Kingdom, W1W 8DH	England and Wales	100%
Water Intelligence Australia Pty	1 Farrer Place, Sydney, NSW 2000	Australia	100%
American Leak Detection Holding Corp. (holding company of ALD Inc.) *	199 Whitney Avenue, New Haven, Connecticut 06511 U.S.	US	100%
American Leak Detection, Inc. (leak detection product and services)	199 Whitney Avenue, New Haven, Connecticut 06511 U.S.	US	100%
Qonnectis Group Limited (dormant)	27-28 Eastcastle Street, London, United Kingdom, W1W 8DH	England and Wales	
NRW Utilities Limited (Dormant)	27-28 Eastcastle Street, London, United Kingdom, W1W 8DH	England and Wales	

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

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

16 Inventories

	Group	
	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Group Inventories	451,465	359,973

During the year ended 31 December 2018, an expense of $5,446,010 (2017: $3,334,101) was recognized in the Consolidated Statement of Comprehensive Income, including business to business expenses of $4,806,466 (2017: $2,518,840). There has been no write down of inventories during 2018.

17 Trade and other receivables

	Group		Company	
	Year ended 31 December 2018 $	Year ended 31 December 2017 $	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Trade notes receivable	618,005	59,075	-	-

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

	Group		Company	
	Year ended 31 December 2018 $	Year ended 31 December 2017 $	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Trade receivables	2,209,382	1,458,112	-	-
Prepayments	697,123	328,142	4,735	4,891
Due from Group undertakings	-	-	4,660,040	1,704,886
Accrued royalties receivable	520,478	476,744	-	-
Trade notes receivable	191,988	76,218	-	-
Other receivables	357,487	315,969	123,540	41,010
Due from related party	235,523	165,130	29,917	-
Current portion	4,211,982	2,820,315	4,818,232	1,750,787

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

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

The average credit period taken on sales is 39 days (2017: 37 days).

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

	Year ended 31 December 2018 $	Year ended 31 December 2017 $
US Dollar	3,534,868	2,398,632
UK Pound	558,450	317,513
Australian Dollar	118,663	104,170
	4,211,981	2,820,315

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 2018 $	Year ended 31 December 2017 $	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Cash at bank and in hand	5,016,406	774,767	48,164	76

19 Trade and other payables

	Group		Company	
	Year ended 31 December 2018 $	Year ended 31 December 2017 $	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Trade payables	1,350,941	659,547	146,878	148,401
Accruals and other payables	1,199,339	768,962	112,845	87,700
Due to Group undertakings	-	-	-	2,371,414
	2,550,280	1,428,509	259,723	2,607,515

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 (2017:16 days).

20 Deferred Tax

The analysis of deferred tax liabilities is as follows:

Group	2018 $	2017 $
Deferred tax (liability)/assets	(316,221)	(115,233)

The movement in deferred tax liabilities is as follows:

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

2017	Opening balance	Recognized in the income statement	Closing balance
	$	$	$
Temporary differences:	-	-	-
Net operating profit (loss) (non-current)	-	-	-
Short term temporary differences	(305,081)	189,848	(115,233)
	(305,081)	189,848	(115,233)

At the balance sheet date, the Group's UK trading subsidiaries had unused tax losses of £4,276,906 (2017: £3,473,249) available for offset against future profits. £727,074 (2017: £593,205) 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	Shares held in treasury Number	Total Number
At 31 December 2017	11,402,649	151,184	11,553,833
At 31 December 2018	13,883,969	-	13,883,969

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Group & Company

	Share capital	Share premium
	$	$
At 31 December 2017	65,305	980,436
At 31 December 2018	101,915	6,887,739

On 11 January 2018, the Company announced that David Silverstone, a director of the Company exercised a portion of his options holdings to subscribe for a total of 10,000 new ordinary shares. These shares were admitted to trading on AIM on 12 January 2018 and immediately sold.

On 7 March 2018, the Company announced a capital raising, pursuant to which the Company sold 2,021,320 new ordinary shares and 151,184 shares out of treasury. In addition, Patrick DeSouza, Executive Chairman of the Company, exercised a portion of his options to subscribe for 300,000 new ordinary shares. All of these shares were admitted to trading on AIM on 13 March 2018. In addition, Patrick DeSouza received 750,000 Partly Paid Shares (being ordinary shares with voting rights and no economic rights until fully paid) in exchange for increasing the guarantee he is providing over the Company's bank facilities.

Reverse acquisition reserve

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

22 Obligations under operating leases

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

2018	Land & Buildings $	Other $	Total $
No later than one year	69,296	237,463	306,759
Later than one year, and not later than five years	4,400	521,991	526,391
Total	73,696	759,454	833,150

2017	Land & Buildings $	Other $	Total $
No later than one year	69,296	179,951	249,247
Later than one year, and not later than five years	4,400	420,459	424,859
Total	73,696	600,410	674,106

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

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 2018 no trading in financial instruments was undertaken (2017: none) and the Group did not have any derivative or hedging instruments.

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

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

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

Credit risk
The Group's principal financial assets are bank balances, cash, cash equivalents, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables and cash and cash equivalents. Receivables are regularly monitored and assessed for recoverability. The Group has no significant concentration of credit risk as exposure is spread over a number of customers. As at 31 December 2018, 59.81% was held with one counterparty with a credit rating of Aaa and a further 23.72% was held with another counterparty with a credit rating of A1.

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

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

As at 31 December 2018, trade receivables of $470,976 (2017: $116,088) 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 2018 $	**Year ended 31 December 2017 $**
60-90 days	109,963	42,328
90+ days	364,013	73,760
	470,976	116,088
Average age (days)	96	92

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

Credit risk management
Credit risk refers to the risk that a 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.

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 2018 $	Year ended 31 December 2017 $	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Loans and receivables	-	-	-	-
Cash and cash equivalents	5,106,406	774,767	48,164	76
Trade and other receivables – current	4,211,982	2,820,315	4,818,232	1,750,787
Trade and other receivables – non-current	618,605	59,075	-	-
Financial Liabilities measured at amortised cost				
Trade and other payables	2,550,283	1,428,509	259,724	2,607,515
Borrowings – current	989,736	394,525	-	-
Borrowings – non-current	1,448,303	1,635,311	-	-
Deferred consideration – current	1,449,035	559,999	-	-
Deferred consideration – non-current	879,307	374,600	-	-

Borrowings

Bank Debt

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

2016 Term Loan. The 2016 Term Loan was initiated on December 5, 2016 and is a four-year term loan amortizing through 2020. The principal amount outstanding at 31 December 2018 was $838,196 (2017: $1,227,874). 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. People's requires PlainSight Systems (PSS), among others, to guarantee the loan.

WC Line. The WC Line was initiated on 5 December 2016 with $500,000 availability. The WC Line supports various short-term needs of the Group from support for our business-to-business insurance channel to fleet and inventory management. On March 6, 2018, to support the Group's growth, People's increased the WC Line from $500,000 to $2,000,000 with a maturity date of December 2019. The WC Line bears interest at LIBOR plus 3.00%. At 31 December 2018, the interest rate was 5.38%. The balance outstanding at 31 December 2018 was $228,133 (2017: $228,133). The WC Line is secured by substantially all of the assets of the Group and guarantees from other related parties including PSS.

ALOC 1. ALOC 1 supports the Group's growth strategy primarily with respect to franchise reacquisitions. ALOC 1 was initiated on 5 December 2016 with $1,500,000 of availability. ALOC 1 has two annual draw periods that are interest only and convert into a four-year term loan at the end of the draw period. Upon conversion, the term loan would bear interest at a rate per annum equal to 3.00% in excess of People's four-year cost of funds interest rate. The line of credit is secured by substantially all of the assets of the Group and the guarantee of other related parties including PSS.

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

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

In connection with the People's banking facilities, the Group is required to comply with certain financial and non-financial covenants to be performed on a consolidated basis. These covenants include (i) a debt service coverage ratio to be tested quarterly and (ii) a minimal semi-annual increase in capital funds to be tested semi-annually. The Group was in compliance with those requirements at 31 December 2018.

	Current		**Non-Current**	
Financial Instruments	**Year ended 31 December 2018 $**	**Year ended 31 December 2017 $**	**Year ended 31 December 2018 $**	**Year ended 31 December 2017 $**
2016 Term loan	408,989	394,525	429,207	833,349
Working Capital Line of Credit	228,133	-	-	228,133
Acquisition Line of Credit	352,614	-	1,034,832	584,750
- *ALOC1T1, converted into term loan*	*141,910*	-	*319,064*	*584,750*
- *ALOC1T2, converted into term loan*	*210,704*	-	*715,768*	-
Less: Loan Closing Costs	-	-	(15,736)	(10,931)
Total	989,736	394,525	1,448,303	1,635,301

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

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

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

Foreign currency risk management
The Group undertakes transactions denominated in foreign currencies (other than the functional currency of the Company and its UK operations, being £ Sterling), with exposure to exchange rate fluctuations. These transactions predominately relate to royalties receivable in the US denominated in currencies other than US$ being Canadian Dollars, Australian Dollars and Euro; royalties from such outside US sources in 2018 were $177,756 (2017: $236,590). No foreign exchange contracts were in place at 31 December 2018 (2017: Nil).

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

	Group		Company	
	Year ended 31 December 2018 $	Year ended 31 December 2017 $	Year ended 31 December 2018 $	Year ended 31 December 2017 $
Assets				
Sterling and Australian Dollars	945,987	598,004	4,866,396	1,750,863
Liabilities				
Sterling and Australian Dollars	529,081	467,946	259,724	2,607,515

As shown above, at 31 December 2018 the Group had Sterling denominated monetary net assets of $416,006 (2017: $130,059). If Sterling weakens by 10% against the US dollar, this would decrease net assets by $41,601 (2017: $13,006) with a corresponding impact on reported losses. Changes in exchange rate movements resulted in a loss from exchange differences on a translation of foreign exchange of $439,573 in 2018 (2017: loss of $39,038), resulting primarily from the share issuance during the year in Pound Sterling and subsequent intercompany transfer accounted in US Dollars.

Interest rate risk management

The Group is potentially exposed to interest rate risk because the Group borrows and deposits funds at both fixed and floating interest rates. However, at the year end, the borrowings are only subject to fixed rates. The floating rate borrowings at the year end are $1,615,579 (2017:$812,883).

Interest rate sensitivity analysis

The losses recorded by both the Group and the Company for the year ended 31 December 2018 would not materially change if market interest rates had been 1% higher/lower throughout 2018 and all other variables were held constant.

Liquidity risk management

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

The Directors have prepared a business plan and cash flow forecast for the period to 30 April 2020. The forecast contains certain assumptions about the level of future sales and the level of margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term trading is primarily reliant on cash generation from its predominantly US-based royalty income.

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

Group	0-6 months $	6-12 months $	>12 months $	Total $
2018				
Payables	2,550,283	-	-	2,550,283
Borrowings	272,182	717,554	1,448,303	2,438,039
Deferred consideration	764,396	684,639	879,307	2,328,342
2017				
Payables	1,428,509	-	-	1,428,509
Borrowings	220,297	174,228	1,635,311	2,029,836
Deferred consideration	210,312	349,687a	374,600	934,599

The Company has no non-derivative financial liabilities.

Derivatives
The Group and Company have no derivative financial instruments.

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

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

	Long-term borrowings $	Short-term borrowings $	Total $
At 1 January 2018	1,635,311	394,525	2,029,836
Cash flows			
- Repayment	(518,270)	-	(518,270)
- Proceeds	926,472	-	926,472
Non-cash			
- Acquisition	-	-	-
- Fair value	-	-	-
- Reclassification	(595,211)	595,211	
As at 31 December 2018	1,448,303	989,736	2,438,088

	Long-term borrowings $	Short-term borrowings $	Total $
At 1 January 2017	1,327,593	492,453	1,820,046
Cash flows			
- Repayment	(122,644)	-	(122,644)
- Proceeds	332,434	-	332,434
Non-cash			
- Acquisition	-	-	-
- Fair value	-	-	-
- Reclassification	97,928	(97,928)	-
As at 31 December 2017	1,635,311	394,525	2,029,836

24 Contingent liabilities

The Directors are not aware of any material contingent liabilities.

25 Related party transactions

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

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

As described in Note 7, the Company's parent (and the Company as co-borrower) have different credit facilities with Peoples. For the PSS guarantee, ALD pays 0.75% per annum based on the outstanding balance of the loan calculated at the end of each month. Interest charged on the PSS receivable will match the interest rate charged by the bank. The monthly charge for the PSS guarantee would not change and would be offset against amounts owed by PSS. The charge will be eliminated should the guarantee no longer be required by the bank. Interest income related to the PSS receivable amounted to $13,686 and $10,302 for the years December 31, 2018 and 2017, respectively. The guarantee fee expense for the PSS guarantee amounted to $16,877 and $10,496 for the years ended December 31, 2018 and 2017, respectively. During 2018 the Company paid expenses on behalf of PSS in the amount of $43,677. The related receivable/prepaid balance remaining is $205,606 and $165,130 at December 31, 2018 and 2017, respectively. The net receivable outstanding as of December 31, 2018 is $188,729 (2017: $154.634).

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

Water Intelligence International Limited

	$
Balance at 31 December 2017	1,704,886
Net loans to subsidiary	-
Other expenses recharged and exchange differences	817,914
Balance at 31 December 2017	2,522,800

ALDHC	**$**
Balance at 31 December 2017	(376,729)
Loans prepaid by WI capital raise	376,729
Balance at 31 December 2018	-

ALD Inc.	**$**
Balance at 31 December 2017	(1,994,685)
Loans repaid by WI capital raise	5,030,851
Loans to WI	(605,195)
Other expenses recharged and exchange differences	(293,731)
Balance at 31 December 2018	2,137,240

26 Subsequent events

On 17 January 2019, the Company announced that Bobby Knell would replace John Weigold as a director on the Board of the Company, pending regulatory checks. This confirmation of this appointment was announced on 12 March 2019. Bobby had been serving as a managing director at Water Intelligence responsible for franchise relations for the last four years. Prior to this role, Mr. Knell founded and grew the Dallas franchise of American Leak Detection into a multimillion dollar operation; an operation now run by his son.

On 5 February 2019, the Company announced a series of corporate activity, including the acquisition of Ontario (Niagara) franchise, expanding the Group’s corporate presence into Canada and upstate New York; the sale of a new franchise territory for Youngstown, Ohio and financial support to a franchisee in Idaho, accelerating its expansion into municipal offerings. In addition, the formal launch of the ORCA municipal sewer product into the United States was announced.

On 7 March 2019, the Company announced the acquisition of its South Atlanta and Southern Georgia franchise. This territory will be used to create a regional corporate presence to help accelerate development of southeastern franchises. In addition, the franchise owner has agreed to stay with American Leak Detection and open a new corporate location given his experience.

On 28 March 2019, the Company announced the acquisition of its Orlando, Florida franchise. The acquisition enables the Group to set up another regional office in Florida to support the growth of the ALD business throughout the southeast United States. Together, Orlando and Miami provide a critical mass of operating personnel to grow the entire southeast United States providing residential, commercial and municipal solutions. During 2H, the Company will be opening a Water Intelligence International office in either Miami or Orlando in order to advance the Group's municipal line of business.

On 4 April 2019, the Company announced the sale of a territory in Southern Georgia. This territory was undeveloped and used to be part of the franchise acquired by the Company on 7 March 2019. This transaction allows for optimization of franchise territory in the region and could be a model across the US enabling more sales coverage in support of our national channels and incentivizing ever greater collaboration among corporate and franchise operations towards execution of our growth plan.

On 4 April 2019 the Board granted 475,000 options with an exercise price of 475p and a four-year vesting requirement to employees and directors to incentivized continued high performance. In addition, a further 50,000 options with an exercise price of 350p and a four-year vesting requirement were issued to vendors of reacquired franchises in 2019 and who are remaining in the employment of the Group.

On 25 April 2019, the Company announced five new municipal contracts in the US to be launched in Q2 by WII to underscore its value-add in cross-selling to territories being developed by ALD.

On 1 May 2019, the Company announced the launch of its third national insurance contract with a major US insurance company and the expansion of its business-to-business channel.

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

	Ontario $'000	Orlando $'000	Atlanta $'000	Totals $'000
Fair value of assets and liabilities acquired				
Equipment	41,224	27,800	-	69,024
Vehicles	51,435	46,300	-	97,735
Other	125,140	-	-	125,140
Net assets acquired	217,799	74,100	-	291,899
Consideration				
Cash	665,134	673,000	250,000	1,588,134
Deferred consideration – discounted to present value	76,000	471,698	175,000	722,698
Total consideration	741,134	1,144,698	425,000	2,310,832
Intangible asset arising on acquisition	523,335	1,070,598	425,000	2,018,933

27 Control

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