



Water  
Intelligence<sup>plc</sup>



**Water Intelligence plc**

Group Annual Report and Financial Statements for  
the Year Ended 31 December 2023

Company number 03923150

# Group Annual Report and Financial Statements

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for the year ended 31 December 2023

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# Company Information

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## Directors & Advisers

<b>Directors</b>	Patrick DeSouza	Executive Chairman
	Laura Hills	Non-Executive Director
	Bobby Knell	Non-Executive Director
	Michael Reisman	Non-Executive Director (Retired 06/11/23)
	C. Daniel Ewell	Non-Executive Director
	Phil Meckley	Non-Executive Director (Appointed 06/11/23)

**Registered Office** 27-28 Eastcastle Street  
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**Company number** Registered in England and Wales number 03923150

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London  
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**Independent Auditor** Crowe U.K. LLP  
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**Registrar** Neville Registrars Limited  
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<b>Bankers</b>	CITI Bank	M&T Bank
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# Chairman's Statement

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## Overview

At our annual Convention this coming October, we will be celebrating an important milestone: the fiftieth birthday of our core business - American Leak Detection (ALD). ALD pioneered the use of technology to pinpoint water leaks so that minimally-invasive solutions might be provided for customers. What is remarkable is not just that our business has stood the test of time, growing year after year, but also that our best days are still ahead as we launch the next phase of our corporate growth trajectory. Our sustained financial performance in growing profits and earnings per share and our strong balance sheet reinforce our confidence in our strategic growth plan. Below we discuss the direction of our capital allocation in realizing increased shareholder value.

Market demand for minimally invasive water solutions is only increasing, driven by water scarcity and deteriorating water infrastructure. We are well-positioned to capture such demand for *Our Next 50* – the theme of the Convention - because of our current set of offerings and also because of new service offerings emerging from various investments that we have made in proprietary technology. These new business lines will reinforce our organic growth going forward as we market the solutions more widely through the rest of 2024 and 2025. We are energized by the opportunities to extend our brand as a trusted partner for our customers by handling more of their water-related infrastructure problems.

Towards the *Next 50*. Water Intelligence remains a growth company. As part of our communication efforts to launch the *Next 50*, we are refreshing our Group websites and using a new “video moments” technology to highlight our forward-looking opportunities and how we plan to seize them for our shareholders and partners.

We have a strong fifty-year track record of *Build and Buy*, investing in and digesting new opportunities to scale our business. ALD began its corporate journey fifty years ago in a narrow fashion by deploying proprietary acoustic technologies for residential pipes and swimming pools in the US. Today, we have a much more developed story. Water Intelligence, after merging with ALD in 2010, through both organic growth and selective acquisitions, has built a multinational platform with a broad range of offerings for the home, for commercial properties and for municipalities addressing various clean water and wastewater-related issues.

To illustrate: In the UK, after acquiring Water Intelligence International (WII) in 2016, IP assets from Reese Group (UK) in 2018 and Water Save Ltd (UK) in 2021, the Group extended its proprietary solutions to include wastewater solutions for larger diameter pipes covering commercial properties and municipal infrastructure. Today WII cross-sells a range of solutions to our ALD customers across geographies. As the Group continues to scale - now 150+ ALD locations across 46 states of the US with both corporate and franchise locations - we have successfully enhanced ALD's market capture by establishing national channels with insurance companies, property management and municipalities. Created by acquisition and strong follow-on execution, WII is contributing additional offerings for our core ALD business, particularly with respect to municipal customers. Our investment in a Salesforce.com customer relationship management software enables us to generate significant data for these national customers in terms of our service level agreements. Our Group's network sales (gross sales directly from corporate locations and indirectly from franchisee gross sales under our ALD brand) are approaching \$185 million.

Our *Build and Buy* approach to digesting such new opportunities remains consistent: We prudently balance bedrock principles, such as delivering quality customer service for our offerings, with the rapid pace of adding new business lines based on emerging technologies or adding new geographies given the global nature of water infrastructure problems. In executing this approach, we seek to leverage our key competitive attribute of an installed base of operating locations across 46 states of the US and in the UK, Canada and Australia. Our installed base enables us to lend support to neighboring operating locations and to maintain quality should the need arise. Moreover, the growth of our installed based with new business lines and new geographies reinforces our ultimate strategic goal of becoming a multinational distribution platform or a “one stop shop” that can handle all of our customer's water-related needs. As a distribution platform, we are

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defining our brand by promoting “continuous customer engagement” as a trusted partner instead of being a “one and done” vendor. Companies that provide such continuous engagement are valued highly.

In thinking about the *Next 50*, we remain passionate about our core mission - preserving the world's most precious resource. Over time, however, in keeping with our evolving corporate development, we have extended our mission beyond water savings to include the public health dimension of water with new technology-based solutions for wastewater blockages and storm water run-off into clean water channels. In pursuing our corporate mission, we are mindful of the public good given the importance of water to all communities. For example, in prior years we focused just on the US and worked in places such as Flint, Michigan where we provided solutions for lead in the water. During 2023 and now in 2024, we have broadened our horizons and contributed both time and resources to a non-profit organization building wells and water infrastructure for villages in India. It is our sense of mission and belief in quality of service as a trusted partner, even as we pursue growth, that sets our brand apart.

Financial Overview for 2023. In executing our competitive strategy, we continue to remain on a consistent upward trajectory in terms of performance. For 2023, Group revenue increased 7% to \$76 million (2022: \$71.3 million). EBITDA Adjusted (earnings before interest, taxes, depreciation and amortization adjusted for non-cash and non-recurring costs) grew by 9% to \$13.4 million (2022: \$12.4 million). Profit before Tax Adjusted (adjusted for non-cash, non-recurring costs and amortization) grew 12% to \$8.7 million (2022: \$7.8 million). Margins improved despite persistent inflation in the United States: Adjusted EBITDA margins increased to 17.7% (2022: 17.3%). Adjusted PBT margins increased to 11.5% (2022: 10.9%).

Our financial performance translated into increasing shareholder value. Statutory profit before tax (PBT) grew 13% to \$6.2 million (2022: \$5.5 million). As a result, statutory basic earnings per share (EPS) grew 23% to 25.3 cents (2022: 20.5 cents) and fully diluted EPS grew 29% to 24.7 cents (2022: 19.2 cents). Hence our operating foundation is delivering for our shareholders.

Our operating performance reinforces our consistent growth path. In reflecting upon our trailing five-year cycle, our compounded annual growth rate from 2018 to 2023 – across volatility induced by Covid and stagflation – has remained strong with +24% growth in terms of revenue and +29% growth in terms of profit before tax.

Financial Performance and KPIs. Four KPIs, identified below, reflect our execution through franchise-operated and corporate-operated locations.

Our franchise System sales continue to grow despite the number of reacquisitions of franchise locations during 2022 and 2023 which reduces the pool of franchisee sales. KPI #1 - ALD royalty income – is a proxy for System-wide franchise sales. Franchise royalty remained at \$6.7 million (2022: \$6.7 million). Had those same locations remained as franchises instead of being converted to corporate stores, royalty income would have grown by 3%. KPI #2 - Franchise-related Activity - measures Group support of franchise growth through the sale of equipment and additional territory and the development of channel sales such as insurance. Franchise-related Activity grew 6% to \$11.2 million (2022: \$10.6 million).

Our corporate operations also grew both in the US and internationally even after one adjusts for franchise reacquisitions. KPI #3 - US Corporate sales - grew 7% to \$50.5 million (2022: \$47.3 million). If we exclude those acquired locations in 2022 and 2023 and just consider “same store” corporate sales, same store locations grew modestly by 1% to \$47 million (2022: \$46.7 million). KPI #4 - International Corporate sales - grew by 14% to \$7.6 million (2022: \$6.7 million). International sales are led by our wholly-owned subsidiary Water Intelligence International (WII). WII, though smaller today than ALD in terms of sales, is leading the way in new product development, commercializing our wastewater solutions technology with UK water utilities. Market capture of the demand for wastewater solutions is expected to grow strongly in the US in 2025 especially as we commercialize our proprietary technology for the residential market.

Capital Allocation and the “Next 50”. Our balance sheet is strong and supports our reinvestment to sustain our growth trajectory and to increase market share. Cash on our balance sheet at year-end was

## Chairman's Statement

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\$15.8 million with significant untapped credit capacity indicated by a Total Net Debt to EBITDA Adjusted Ratio of 0.53.

As noted above, our *Build and Buy* plan for our *Next 50* reflects both the success of our historic approach to corporate development as well as our strategic vision. As discussed, we have two criteria for our investments: first, balance the importance of core values such as quality of service and product delivery with rapid additions of new business lines; and second, leverage our installed base of 150+ locations to mitigate against execution risk and transform our business model into a distribution platform that focuses on continuous customer engagement with the over 200,000 customers annually that we reach from these locations. Our vision carries with it a higher equity multiple.

*Four Groups of Investments.* We have four groups of investments which metaphorically form a simple "layer cake" for ALD's 50<sup>th</sup> birthday. Allocation of capital decisions around these four groups reflect the two principles cited above and seeks to manage risk by building on what we already execute well.

The first group of investment represents the foundational and broadest level of any layer cake - straight-forward organic growth by adding more trucks and trained technicians to capture increasing market demand for the offerings that we already have in place. We need to scale these operations in an efficient way. We have already made significant investments for these purposes so there is little additional need for heavy lifting in terms of new investment.

Since 2H 2023, we have been building a state-of-the-art training center in Bridgeport, Connecticut. This location was chosen because many of the national insurance companies have headquarters in the northeast corridor of the US. A showcase center would not only distinguish us for our current national customers but would also be helpful in gaining new partnerships. Our Bridgeport Center is outfitted with examples of all types of water and wastewater leaks for any size pipe – residential, commercial, municipal. As a result, we can train more technicians from around the country for various situations that their respective geography faces. The training center will be live on 1 July. Our Center will also leverage video moments technology to speed up training in the classroom and on the job. Finally, for this foundational layer of organic growth, we have also invested significant sums already in Salesforce customer management software and related applications. This operating system is currently being used by our corporate locations and both franchise and corporate locations for our insurance channel. We will complete System-wide adoption by year-end. We will then evaluate any incremental new investment to further enhance our execution platform.

The second group of investment, in building upon our foundation layer, represents organic growth of a different kind: new proprietary service offerings that leverage investments that we have made in technologies. Below we describe our ready-to-go new products: *LeakVue 2*; *Pulse*; *Leak Survey 1 and VersaLiner*. We have tested extensively new service offerings associated with these products with outstanding results. We now look forward to rolling-out these solutions with their accompanying "go to market" investments such as manufacturing and marketing (of course, producing accompanying sales and profits).

To start, we have invested in upgrading our devices for detecting "hard to find leaks" in swimming pools, an area in which ALD has been focused since its beginning. Swimming pools, especially those with water features, are more complicated than customers realize after making a significant investment. We have upgraded our patented *LeakVue* device to extract more data quicker and more accurately from larger swimming pools. With our device, we can solve difficult problems quickly enabling us to achieve more volume by the same technician but also to maintain our pricing. We have begun training all of our locations in the use of the technology and will be setting up partnerships with national pool service companies.

Further, we have beta tested in various communities a proprietary product called *Pulse* for pinpointing residential wastewater blockages much faster than conventional means. In this case, we would be creating a new service offering that addresses the needs expressed by our residential customers and by warranty companies that sell monthly subscriptions to homeowners. We see high demand for our *Pulse*

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residential solution based on sales traction from a different version of *Pulse* that generates sales and profits from municipal customers in the UK and EU.

Moreover, building on the current success of *Pulse* for municipal customers, we have designed a derivative product from the intellectual property that municipalities can use for quick water surveys for their respective infrastructure networks. Provisionally named *Leak Survey 1* or *LS1*, the product enables junior staff to execute a survey rapidly and to extract significant relevant data about the water or wastewater network. The product is geared to lower the labor costs for municipal survey work.

Finally, we have developed a technology solution – *VersaLiner* - for open channel water conveyance. This product is different from *LeakVue 2*, *Pulse* and *LS1* because it is not building on current offerings but rather is a new offering that broadens our base of customers around the world both in agribusiness and municipalities. We executed our first commercial job with *VersaLiner* in Q4 2023 in Avon, Colorado. Our customer and partners wanted to see performance data after one winter/spring cycle of the ground thawing and moving. On 10 June 2024, as a Subsequent Event, we released outstanding performance results from the first commercial job for our patented water management technology. We will be teaming up with various large-scale contractors and distribution partners. The capital expenditure required would be to create additional tooling to increase the range of open channel solutions. To reiterate, with respect to each of these four products, we have laid the groundwork for our return-on-investment calculation by testing it with customers and making early sales before we roll them out.

Our third group of investments or third level of our metaphorical layer cake focuses on growth by acquisition; an activity that has been part of our growth plan. Over the years, we have acquired ALD franchisees and converted them into corporate locations to enhance our ability to grow. We have also acquired third parties such as Water Intelligence International and Water Save to build out our UK presence. Importantly, in each of the areas of acquisition, we have gained integration experience so that we may be able to execute operations efficiently post-transaction across geographies and groups of customers. In doing so, we can ensure quality of service delivery and have confidence in an acquisition-led growth component.

With respect to our ALD franchisees, currently, there is approximately \$100 million in gross sales to third parties represented by royalty income. Both franchise locations and corporate locations operate under the same brand and all have similarly trained technicians, marketing and operations. For our customers there is no difference between corporate and franchise service delivery. As a result, with these acquisitions, we are able to integrate operations rapidly. In 2023 and 1H 2024, we have continued to execute franchise acquisitions.

However, to be clear with respect to capital allocation, we value and want to grow our franchise System. Our strategy is to create a virtuous cycle where we acquire a territory, perhaps split the territory for greater coverage and incentivize new franchisees to build territories and reap the rewards. While our priority to date has been acquiring franchises, now that there is a blend of corporate and franchise locations throughout the US to provide operational support for growth, we will begin again to also sell new franchises and reestablish a cycle of franchise development and royalty growth. During 1H 2024 as a Subsequent Event, we sold a new franchise in Albany, New York. We have been experiencing increasing demand for purchasing franchise territories as potential franchisees see a track record of franchisees growing a territory and then achieving an exit value for their asset.

Beyond franchisees, we have used acquisitions of third parties to deepen our service offerings not only for Water Intelligence International, as noted above, but also for ALD. Over the last few years, we have both hired plumbers and acquired plumbing companies to extend our capabilities from leak detection to repair. In addition, as an offshoot to acquiring franchisees and plumbing companies, increasingly we have the opportunity to acquire product companies that need sales channels. With our installed base of locations and customers and national channels, we have the opportunity to create the distribution platform with continuous customer engagement that is at the heart of our strategic vision. To be sure, given our prior

# Chairman's Statement

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investment in video commerce technology that we can leverage for customer engagement, we are more likely to set up reseller agreements rather than acquire product companies.

Fourth, at the very top of this conceptual layer cake, are our shareholders. Over the years, we have grown earnings per share for all shareholders with minimal dilution. 2023 was no different. As noted above, fully diluted EPS grew by 29% (2023: 24.7 cents vs. 2022: 19.2 cents). With our consistent growth trajectory and our ability to put significant free cash flow to work, our shareholders may be concerned that the share price does not trade at levels that reflect either EPS growth or fair value. Hence, one use of capital for which we will be seeking regulatory approval and asking our shareholders for authorization is to repurchase some of our shares and provide liquidity for our shareholders.

## Direction

We are optimistic about the *Next 50*. We have a *Build and Buy* growth plan and available capital that enables us to leverage our installed base of operations and customers. Our execution experience over the *Last 50* encourages both organic growth by adding service teams and offerings, as well as acquisitions and integration of operations. As part of our journey, we also have experience with investing and commercializing new technologies to further define our brand as a trusted partner with fresh solutions.

Most importantly, we remain passionate about our mission to preserve the world's most precious resource. We will confidently put capital to work to launch the *Next 50* and thus realize the full value of our strategic vision of a distribution platform that brings to our customers various solutions for water-related infrastructure.

**Dr. Patrick DeSouza**

*Executive Chairman*

26 June 2024



# Strategic Report

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## Business Review and Key Performance Indicators

The Chairman's Statement, on pages 3 to 7, provides an overview of the year and an outlook for Water Intelligence plc and its subsidiaries, together 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 as a platform company with multiple sales channels. As a "One-stop Shop" for our growing base of customers, we offer a matrix of clean water and waste-water solutions for residential, commercial and municipal infrastructure problems. With such offerings, we can both cross-sell services from different business units or up-sell technology products from partners.

The Water Intelligence platform has two wholly-owned subsidiaries: American Leak Detection (ALD) and Water Intelligence International (WII). These business units generated approximately \$170 million of gross sales to third-parties during 2023 (both direct sales provided by corporate locations and indirect sales provided by franchisees from which royalty income is derived). The two subsidiaries are distinguished by the degree of franchise-operated and corporate-operated locations and their respective priorities with respect to 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. During 2023 ALD generated approximately \$162 million of gross sales to end-users. That critical mass of gross sales is derived both from direct sales via corporate-operated locations and indirect sales measured by royalty income from franchisees.

WII, our international-based operation, focuses on municipal solutions to the worldwide problem of failing water infrastructure. During 2023 WII generated approximately \$7.6 million of sales to customers. Like ALD, WII's solutions are also technology-based. WII is exclusively a corporate-run unit that leads the Group's international expansion. WII does have the capability to execute ALD service offerings and is currently doing so at our corporate-operated locations in Australia. WII also cross-sells complementary municipal offerings and residential wastewater solutions to ALD customers in the US.

The Group's business model and growth strategy is evaluated through key performance indicators (KPIs). The KPIs capture both corporate-operated and franchise-operated organic growth from ALD and WII solutions. They also capture acquisition-led growth, especially by selectively converting ALD franchises into corporate-operated locations. Such re-acquisitions of franchisee operations enable some amount of the approximately \$100 million in highly profitable franchisee gross sales to end-users, currently recorded as royalty income, to be converted to the Group's direct Statement of Income. In evaluating such acquisition-led growth, it is also important to separate continuing operating costs from non-recurring costs or transaction costs. Finally, we have a KPI that provides guidance as to the availability of capital to execute our growth plan. Because of the monthly recurring royalty income from the franchise business, the Group is able to be efficient in its capital formation by mixing in non-dilutive bank debt. As a result, the Group manages to the right balance in capital formation between debt and equity by monitoring the level of bank 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 from banks which are subject to financial covenants. These six indicators are reported to the Board and used to assist the Board in the management of the business.

### Evaluation of Strategic Plan Drawn From 6 KPIs:

- i. Royalty income is a measure of the health of the ALD franchise System which represents the majority of gross sales under the ALD brand. The change in royalty income must be evaluated against the number of franchise reacquisitions in any given year which reduces the pool of available royalty income for the subsequent year.
- ii. Franchise-related Activities are a measure of the services and products sold by Corporate to its franchises to fuel growth in the franchise System. ALD's Business-to-Business Channel

# Strategic Report

leverages for customers our national execution presence under one brand and is led by insurance companies.

- iii. ALD Corporate-operated locations add to critical mass of Group revenue and profits. Selective reacquisitions from our franchise System further unlock equity value for the Group in two ways. First, reacquisitions set up corporate regional hubs from which corporate may help grow both franchise and corporate units. Second, reacquisitions add growing revenue and profits directly onto the accounts of the Group.
- iv. WII complements our ALD brand which is focused largely on residential and commercial customers, by contributing municipal sales to the Group's overall sales presence in the US and international geographies.
- v. Non-core costs (transactions costs and non-recurring costs) should be taken into account in evaluating on-going operating performance.
- vi. Credit facilities enable the Group to fuel expansion and preserve shareholder equity. Because of the quality of monthly recurring royalty income, the Group is attractive to banks enabling the Group to optimize capital formation.

(i) Franchise Royalty Income.

ALD receives royalty income from franchisees based on a percentage of gross sales to third parties. During 2023 approximately \$100 million of such gross sales may be attributed to the franchise System. The Group derived approximately \$6.7 million in royalty income from such gross sales. There are currently 78 franchises operating in over 100 locations across 46 states of the US, with additional locations in Australia and Canada. Some franchisees operate multiple locations in their territory.

Part of the Group's growth strategy to unlock shareholder value by selectively reacquiring franchises and operating the business as a corporate location. By executing such conversions, the Group is trading off a portion of the pool of available royalty income to directly aggregate and grow the underlying revenue and profits from those locations. Royalty income in 2023 remained constant in comparison with 2022. It is important to note that this is attributable to a number of reacquisitions during 2022 which had the effect of reducing the eligible pool of royalty income for 2023. Without such reacquisitions in 2022, royalty income would have grown 3% indicating that on a like-for-like basis the franchise System is still growing, driven especially by the growth of the insurance channel noted in KPI #2.

Performance from royalty income is as follows:

	Year ended 31 December 2023 \$'000	Year ended 31 December 2022 \$'000	Change %
Total USA	6,638	6,637	0%
International	101	110	(9)%
<b>Total Group Royalty Income</b>	<b>6,739</b>	<b>6,747</b>	<b>0%</b>
Profit before tax (see note 4)	2,156	1,957	10%

(ii) Franchise-related Activities.

US franchise-related activities capture what Corporate Administration ("Corporate") does to grow the franchise System. It is also one indication of the reinvestment of franchisees in the Group's growth plan.

Parts and equipment sold to franchisees by Corporate enables franchisees to further grow their respective operations.

## Strategic Report

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Business-to-Business channels, such as insurance, capture the market demands of national customers. These customers place significant value on ALD's nationwide brand, service standardization and delivery footprint – an important aspect of competitive strategy when one considers that the market for service providers is fragmented. Jobs for franchisees are sourced by Corporate from insurance companies using a centralized processing system. Important to note is that national channel jobs executed by Corporate locations are not counted in the Group's Business-to-Business sales. Hence the 6% growth of Business-to-Business sales *understates* the contribution of insurance relationships for Network Sales.

Finally, Sales of Franchise Units represent the decision to develop a new territory through a franchisee as opposed to corporate operations. It should be noted that the Group's current priority is to add corporate-operated locations as opposed to franchisee-operated locations. Given the rising value of franchise territory because of franchise reacquisitions, demand for additional territory is rising among franchisees. The Group reviews annually its priority on establishing new corporate locations as opposed to selling new franchise territories.

Revenue from franchise-related activities in 2023 grew by 5% compared to 2022 largely because of the growth of the Group's business-to-business channel. Profits before tax decreased 4% in 2023 compared with 2022 largely because of the high margin surrounding the sale of franchise territory in 2022. Performance from franchise-related activities are as follows:

	Year ended 31 December 2023 \$'000	Year ended 31 December 2022 \$'000	Change %
Parts and equipment sales	670	668	0%
Business-to-Business sales	10,480	9,893	6%
Sales of Franchise Units	13	63	(79)%
<b>Total Revenue Franchise Activities</b>	<b>11,163</b>	<b>10,624</b>	<b>5%</b>
Profit before tax (see note 4)	925	965	(4)%

(iii) US Corporate Operated Locations (ALD).

Corporate-run locations, both greenfield and initiated after reacquisition of franchise locations, contribute revenue and profits to the Group. In addition, such operations also support the franchise System with strategy, marketing and execution support in further developing territories. Performance of US corporate-run locations after reacquisition is also an indication of the success of the Group's strategy to capture more market demand for our minimally invasive leak detection and repair solutions. The Group directly operates 44 locations, an increase of 3 locations (2022: 41).

As set forth below, ALD Corporate-operated revenue grew 7% to \$50.5 million (2022: \$47.3 million). Meanwhile profits before tax increased by 2% to a \$8.4 million (2022: \$8.2 million). Revenue and profit growth was adversely affected by the sharp rise in US interest rates leading to write-offs with respect to the new construction market. \$325,000 of non-recurring costs are identified in the table of Non-core Costs below. However, there were additional expense amounts not placed in non-core costs because we do expect the housing market to rebound and we have kept some staff available.

Much like the pro forma adjustment for royalty income in KPI #1 based on the number of franchisees reacquired in the prior year, so also we can separate out corporate locations owned prior to January 2022 so that a comparison may be made for "same store sales" as a measure of organic growth post franchise reacquisition. Corporate-operated "same store" revenue grew 1% to \$47 million (2022: \$46.6 million) and profit before tax decreased 1% to \$8 million (2022: \$8.1 million). See above for adverse effect of write-offs in the new construction market.

# Strategic Report

Performance from corporate-operated locations is as follows:

	Year ended 31 December 2023 \$'000	Year ended 31 December 2022 \$'000	Change %
Revenue	50,460	47,297	7%
<i>Locations owned prior to 1 January 2022</i>	46,999	46,654	1%
Profit before tax (see note 4)	8,412	8,253	2%
<i>Locations owned prior to 1 January 2022</i>	7,950	8,053	(1)%

(iv) International Corporate Operated Locations (WII)

The Group continues to strengthen its multinational presence through its UK-based WII subsidiary. WII focuses largely on municipal solutions while maintaining core residential and commercial offerings. In the UK, WII executes municipal work for all major utilities and residential and commercial projects through its Wat-er-Save subsidiary. In this way, WII has multinational operating scope by managing corporate locations established in Australia and Ontario, Canada after ALD franchisee reacquisitions.

WII sales grew 14% during 2023 to \$7.6 million. (2022: \$6.7 million) and profits increased by 418% to \$0.44 million (2022: \$0.09 million). Much of the increase in profits is attributable Wat-er-Save Services Limited which encourages the Group to increase ALD residential and commercial offerings in the UK.

Performance from Water Intelligence International is as follows:

	Year ended 31 December 2023 \$'000	Year ended 31 December 2022 \$'000	Change %
UK	3,952	3,437	15%
Australia	2,611	2,038	28%
Canada	1,050	1,191	(12)%
Total Revenue from International Corporate Activities	7,613	6,666	14%
Profit before tax (see note 4)	443	86	418%

(v) Non-Core Costs.

During 2023, the Group incurred non-core costs relating to transactions or non-recurring expenses. As discussed herein, understanding non-core costs, as distinct from continuing operating costs, helps the Board evaluate capital allocation choices made to accelerate operations organically and to scale through acquisition. In 2023, there were \$1,069,00 of non-core costs (2022: \$840,000). The increase in non-core costs was entirely the result of the sharp rise in US interest rates stopping new construction and leading to write-offs.

# Strategic Report

Please see table below for details:

	Year ended 31 December 2023 \$'000	Year ended 31 December 2022 \$'000
New construction industry related costs	325	-
Technology upgrades	368	450
Transaction-related legal and other costs	376	243
Australian flood conditions	-	147
<b>Total</b>	<b>1,069</b>	<b>840</b>

(vi) Net Bank Borrowings.

Management of financial resources is important for making various decisions regarding the reinvestment rate for the growth of operations. As noted herein, the monthly recurring income from franchise royalty provides the Group with attractive attributes for using bank debt to complement equity sources of capital. The Group's objective for risk management purposes is to be prudent with respect to bank financial covenants. Net cash after Bank Borrowings is positive and amortisation of such debt extends through 2028.

<b>Group</b>	Year ended 31 December 2023 \$'000	Year ended 31 December 2022 \$'000
Lines of credit: acquisition and working capital	-	-
Bank borrowings	14,461	16,425
	14,461	16,425
Less: Cash and cash investments		
<i>Held in US Dollars</i>	13,512	20,514
<i>Held in £ Sterling</i>	1,479	1,779
<i>Held in CDN Dollars</i>	451	359
<i>Held in AU Dollars</i>	316	362
	15,758	23,014
<b>Total Net Bank Borrowings/(Cash)</b>	<b>(1,297)</b>	<b>(6,589)</b>

# Strategic Report

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## 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:

### Foreign Currency Risk

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

### Interest Rate Risk

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

Whilst borrowing issued at variable rates would expose the Group to cash flow risks, as at year-end, the Company is only subject to a variable rate on its working capital line of credit. As of the report date, all other credit facilities in use are at fixed interest rates.

### 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 sales growth and increased profits. The Group is reliant on a small number of skilled managers. The Group is reliant on effective relationships with its franchisees, especially in the US. Finally, there are continuing risks given the sharp rise in interest rates during 2023 but the existence of persistent inflation. The Group is monitoring risks associated with stagflation or recession for 2024 and 2025.

## Corporate Governance statement S172 of the UK's Companies Act

Each director must act in a way that, in good faith, would most likely promote the success of the Group for the benefit of its stakeholders. The Board of Directors consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters indicated in S172) in the decisions taken during the year ended 31 December 2023. Following is an overview of how the Board performed its duties during 2023.

### Shareholders and Banking Relationships

The Executive Chairman, Chief Financial Officer, members of the Board and senior executives on the management team have regular contact with major shareholders and banking relationships. The Board receives regular updates on the views of shareholders which are taken into account when the Board makes its decisions. During March 2022 and December 2023, the Group expanded its credit facilities. During July and November 2021, the Company raised capital largely from its current shareholders. The Group received feedback during each process.

### Employees

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

# Strategic Report

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## Franchisees

The Group holds an annual convention for its franchisees which includes education and training sessions. During October 2023, the Group held its annual convention in Charleston, South Carolina. Franchisees have an Advisory Committee that provides input to the Board with quarterly meetings. Moreover, two of our Board members, Bobby Knell and Phil Meckley are leaders in the franchise System.

## Customers

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

## Community and Environment

The Group's brand stands for the conservation of water and the importance of providing solutions to potable and non-potable water leaks. Through our advertising and marketing the Group seeks to communicate to the public both the importance of sustainability, particularly with respect to water loss through leakage, and the importance for public health of remediating sewer blockages as consumers dispose of sanitary wipes in toilets during Covid-19. The Group took an active role not only in providing leak detection services to local government in Flint, Michigan – a community known for its lead in the water crisis – but also in working to educate community members on the importance of on-going water monitoring. During 2023, the Group donated to a non-profit group that is providing water and water infrastructure to rural villages in India. The Board has also sought to be active with respect to education and water. During 2019 and 2020, members of the Board have worked with Columbia University to contribute to its "Year of Water" education campaign.

By order of the Board

**Patrick DeSouza**  
*Executive Chairman*

26 June 2024

# Directors' Report

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The Directors present their report on the affairs of Water Intelligence plc and its subsidiaries, referred to as the Group, together with the audited Financial Statements and Independent Auditors' report for the year ended 31 December 2023.

## Principal Activities

The Group is a leading provider of minimally invasive leak detection and remediation services for potable and non-potable water. The Group's strategy is to be a "One-stop Shop" for services and product solutions 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 32 to 39.

2023 was marked by sustained and balanced multinational growth for both ALD and WII. Total revenue for Water Intelligence grew 7% to \$76 million (2022: \$71.3 million). ALD revenue grew 6% to \$68.4 million (2022: \$64.6 million). WII revenue grew 14% to \$7.6 million (2022: \$6.7 million). The splits between ALD and WI revenue remained consistent during 2022 when compared with 2022 with approximately 90% of total revenue attributable to ALD and 10% of total revenue attributable to WII.

Statutory profit before taxes (PBT) increased by 13% to \$6.2 million (2022: \$5.5 million). When profit before taxes is adjusted for amortization, non-cash share-based payments and non-core costs, PBTA grew 12% to \$8.7 million (2022: \$7.8 million). Statutory earnings before interest, taxes and depreciation (EBITDA) grew 7% to \$11.8 million (2022: \$11.1 million). When EBITDA is adjusted for non-cash expenses of share-based payments and non-core or non-recurring costs, EBITDA Adjusted increased by 9% to \$13.4 million (2022: \$12.4 million).

## Going Concern

The Directors have prepared a business plan and cash flow forecast for the period to December 2025. 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 Group generates increasing levels of cash driven by its profitable and growing US-based business, ALD. The Directors also note that the Group has diversified its operations with growth in WII. Moreover, given the Group's strong cash position at year-end and after oversubscribed capital raises in 2021 and expansion of its credit facilities in December 2023, the Directors believe that funding will be available on a case-by-case basis for additional initiatives.

Cash and cash investments at 31 December 2023 was \$15.8 million. On 31 December 2023, total debt (borrowings and deferred consideration from franchise acquisitions) was \$22.8 million with amortisation of such amount through 2028. Meanwhile, operating cash flows (EBITDA) in 2023 increased by 6% to \$11.8 million. Cash on the balance sheet plus an ability to generate significant cash relative to the amount of debt that comes due in any one year between 2023 and 2028 are important variables for Director considerations. Moreover, the Directors consider various scenarios that may influence cash availability such as inflationary pressures, the threat of recession from rising interest rates and the use of cash for investments, such as Salesforce.com and related software applications, geared to create operational efficiencies that enhance future organic cash generation.

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.



# Directors' Report

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## Research & Development; Commercialization

The Group's focus is currently on reinvestment for commercialization of technology and technology-based products not pure R&D. Expenditure on pure research, all of which is undertaken by third parties not related to the Group, was \$0 (2022: \$0). The Group has relationships at various leading universities such as Columbia and Yale to assist with pure research. The Group remains 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 (2022: \$nil).

## Share Price

On 31 December 2023, the closing market price of Water Intelligence plc ordinary shares was 405.0 pence. The highest and lowest prices of these shares during the year to 31 December 2023 were 680.0 pence and 312.0 pence respectively.

## Capital Structure

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

## Future Developments

Future developments are outlined throughout the Chairman's Statement on pages 3-7.

## Financial Risk Management

Financial risk management is outlined in the principal risks and uncertainties section of the Strategic Report on page 13.

## Subsequent Events

On 9 May 2024, the Group announced the reacquisition of its Fresno, California franchise territory within the Group's ALD franchise business. As Fresno is located between the Bay Area and Los Angeles in the Central Valley of California, the reacquisition reinforces the Group's strategy of establishing regional corporate hubs in the US that fuel growth in adjacent franchise locations. The cash consideration for the acquisition is \$2.9 million based on 2023 revenue of \$1.8 million, adjusted profit before tax of \$0.6 million and the transfer of all operating assets to the Group.

On 9 May 2024, the Group announced the sale of a new franchise for Albany and Saratoga, New York within the Group's ALD franchise business. Albany and Saratoga are key cities in upstate New York and comprise part of what is known as the Capital District of New York. The upfront consideration for launching this territory is \$0.1 million. ALD expects to receive royalty income from sales starting in July after the completion of training. More broadly, in terms of ALD's growth strategy, located between this new franchise location in Albany and ALD's corporate location on the Canadian side of Niagara Falls, there are several large cities – Buffalo, Syracuse, and Rochester – in upstate New York around which ALD can deliver future growth, whether through corporate operations or selling more franchises.

# Directors' Report

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## Directors

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

### Executive Directors

Patrick DeSouza – Executive Chairman

### Non-Executive Directors

Laura Hills

Bobby Knell

Michael Reisman Retired as of 6 November 2023

C. Daniel Ewell

Phil Meckley Appointed as of 6 November 2023

The biographical details of the Directors of the Company are set out on the Corporate Governance section of the report and on the Company's website [www.waterintelligence.co.uk](http://www.waterintelligence.co.uk)

# Directors' Report

## Directors' emoluments

2023

	Salary, Fees & Bonus	Benefits	Redundancy	Total
	\$	\$	\$	\$
<b>Executive Directors</b>				
P DeSouza	595,000	28,000	-	623,000
<b>Non-Executive Directors</b>				
L Hills	-	-	-	-
D Ewell	-	-	-	-
B Knell	40,000	-	-	40,000
M Reisman (retired 06/11/2023)	-	-	-	-
P Meckley (appointed 06/11/2023)	-	-	-	-
	<b>635,000</b>	<b>28,000</b>	<b>-</b>	<b>663,000</b>

\* In lieu of cash compensation, to be added to the above table, all of the directors received a combination of stock options awards and fully paid-up shares. The value of the options awarded on 7 July 2023 at an exercise price of \$6.35 to all directors in respect of their first half compensation was: P DeSouza \$19.9k, L Hills \$19.9K, D Ewell \$39.9k, B Knell \$19.9k, M Reisman \$19.9. In addition, in relation to their second half payments, as announced on 15 February 2024, certain directors were issued fully paid-up Ordinary Shares and the value of these Ordinary Shares issued were: P DeSouza \$37.5k, L Hills \$37.5K, D Ewell \$37.5k, P Meckley \$10k.

2022

	Salary, Fees & Bonus	Benefits	Redundancy	Total
	\$	\$	\$	\$
<b>Executive Directors</b>				
P DeSouza	591,473	-	-	591,473
<b>Non-Executive Directors</b>				
L Hills	49,231	-	-	49,231
D Ewell	-	-	-	-
B Knell	-	-	-	-
M Reisman	-	-	-	-
	<b>640,704</b>	<b>-</b>	<b>-</b>	<b>640,704</b>

\*In lieu of cash compensation, all of the directors were awarded stock options with an exercise price of \$8.18 as announced on 7, February 2023. (See Note 7) The value of the options is as follows: P DeSouza \$56k, L Hills \$28k, D Ewell \$28k, B Knell \$56k, M Reisman \$28k, for a total of \$196k.

## Directors' interests

The Directors who held office at 31 December 2023 and subsequent to year end had the following direct interest in the voting rights of the Company at 31 December 2023 and at the date of this report, excluding the shares held by Plain Sight Systems, Inc.

	Number of shares at 31 December 2023	% held at 31 December 2023	Number of shares at 26 June 2024	% held at 26 June 2024
Patrick DeSouza*/**	4,867,110	25.0	4,874,760	25.0
Laura Hills	122,723	0.7	130,373	0.7
Bobby Knell	27,000	0.1	27,000	0.1
Dan Ewell	33,670	0.2	41,320	0.2
Phil Meckley	-	-	2,050	0.0

# Directors' Report

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\*Included in the total above, Patrick DeSouza has (i) 180,000 Partly Paid Shares (2016), (ii) 750,000 (March 2018) (iii) 850,000 (May 2019) and (iv) 300,000 Partly Paid Shares (October 2020). 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.

\*\*Patrick DeSouza's interests include 1,965,000 shares held by The Patrick J. DeSouza 2020 Irrevocable Trust U/A Dtd 11/23/2020 and 605,936 shares held in The Patrick J. DeSouza GRAT #1 U/T/A Dtd 11/23/2020

## Share option schemes

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

## Substantial Shareholders

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

	Number of shares	% held
Plain Sight Systems, Inc.	2,430,410	12.5
Canaccord Genuity Group Inc.	2,134,432	11.0
Berenberg Asset Management	1,259,992	6.5
George D. Yancopoulos	880,920	4.5
Amati AIM VCT	814,660	4.2
Herald Investment Trust	642,526	3.3

## 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 U.K. 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

## Directors' Report

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- 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*  
26 June 2024

# Corporate Governance Statement

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As a Board, we believe that practicing 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](http://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 one executive and four non-executive directors and it oversees and implements the Company's corporate governance program. As Chairman, Dr. DeSouza is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. Dan Ewell, Bobby Knell and Phil Meckley are the Company's independent directors. The Board is supported by two committees: audit and remuneration. The Board does not consider that it is of a size at present to require a separate nominations committee, and all members of the Board are involved in the appointment of new directors.

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

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

Meetings held during the period between 1 January 2023 and 31 December 2023 and the attendance of directors is summarized below:

	<b>Board meetings Possible (attended)</b>	<b>Audit committee Possible (attended)</b>	<b>Remuneration committee Possible (attended)</b>
Patrick DeSouza	6/6		
Bobby Knell	5/6		2/2
Michael Reisman	3/4	2/2	2/2
Dan Ewell	6/6	2/2	
Laura Hills	6/6		
Phil Meckley	2/2		

## Board Committees

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

### (a) Audit Committee

Dan Ewell, Non-Executive Director, is Chairman of the Audit Committee. The other member of the Committee is Laura Hills. 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

Bobby Knell, 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.

# Corporate Governance Statement

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

## Board Experience

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

### Patrick J. DeSouza, Executive Chairman

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

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

### Laura Hills, Non-Executive Director

*Term of office:* Appointed 7 June 2021 as Executive Director but returned to non-executive director which she originally was appointed since 6 March 2018.

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

### Bobby Knell, Independent Non-Executive Director

*Term of office:* Appointed 7 June 2021, having previously been an executive director, non-executive director since 12 March 2019.

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

# Corporate Governance Statement

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## **Michael Reisman, Independent Non-executive Director**

*Term of office:* Appointed as a non-executive director on 30 July 2010; retired 6 November 2023.

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

## **C. Daniel Ewell, Independent Non-executive Director**

*Term of office:* Appointed as a non-executive director on 8 April 2021

*Background and suitability for the role:* Dan Ewell is currently a Senior Advisor at Morgan Stanley, where he has worked as an investment banker for over 33 years. Prior to assuming his current role, Mr. Ewell served as Vice Chairman and Head of Western Region Investment Banking for Morgan Stanley. Dan has extensive experience in advising companies and helping them grow through capital raising and strategic transactions. His experience spans a range of sectors including consumer/retails, industrial, healthcare and media/technology, and included companies with franchised business models. As the Group continues to scale its operations internationally, it has a need to broaden its institutional and strategic activity in capital markets. Mr. Ewell brings considerable expertise in this area. He is a graduate of University of California, Berkeley, Yale Law School and Yale School of Management.

## **Phillip Meckley, Independent Non-executive Director**

*Term of office:* Appointed as a non-executive director on 6 November 2023

*Background and suitability for the role:* Mr. Meckley currently owns fast-growing franchises in California and Texas. He brings over twenty-five years of operating experience in growing ALD locations and has provided significant leadership to the entire franchise System. In addition, Phil and his wife Robin have provided leadership with respect to ALD's charitable efforts to help disadvantaged communities in various parts of the world solve water infrastructure issues, most recently in rural India.

The Group has a non-Board Chief Financial Officer, Pat Lamarco Jr., who attends all Board meetings and reports regularly to the Board and assists in the preparation of Board materials and in reviewing the budget and ongoing performance.

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 on 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 Dan



# Corporate Governance Statement

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Ewell, 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 Board is 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. Laura Hills is responsible for oversight at the Board level. Ms. Hills 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.

# Corporate Governance Statement

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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 Dan Ewell (Chairman) and Laura Hills.

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 2023 annual accounts and the interim accounts to 30 June 2023. The Committee reviewed with the independent auditor its judgements as to the acceptability of the Company's accounting principles.

## **Remuneration Committee Annual Review**

The Remuneration Committee convenes not less than once a year and during the year it met on two occasions. The Committee comprises Laura Hills and Bobby Knell, with Bobby Knell 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](http://www.waterintelligence.co.uk).

# Statement of Directors' Responsibilities

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## 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 UK adopted International Accounting Standards.

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 Group for that period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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](http://www.waterintelligence.co.uk)) in accordance with legislation in the United Kingdom governing the preparation and dissemination of Financial Statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained there.

# Independent Auditors' report to the members of Water Intelligence plc

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## 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 2023, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2023;
- the Group and Parent Company statements of financial position as at 31 December 2023;
- the Group and Parent Company statements of changes in equity for the year then ended;
- the Group and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, including material accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK-adopted international accounting standards.

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 2023 and of the Group's profit for the period then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards;
- 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 and the Parent Company 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 as applied to listed entities, 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- review and challenge of management's business plan and cash flow forecasts covering a minimum of 12 months from the date of approval of these financial statements;
- tested the mathematical accuracy of the model used by management in their assessment;
- discussed with management and evaluated their assessment of the group and the company's liquidity requirement;
- assessed the reasonableness of management's budget/forecasts, including comparison to actual results achieved in the year; and
- Assessing the completeness and accuracy of the matters described in the going concern disclosures within the significant accounting policies as set out in Note 3.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

# Independent Auditors' report to the members of Water Intelligence plc

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## 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 \$370,000 (2022: \$330,000), based on approximately 6% of Group profit before tax (2022: 6% of Group profit before tax).

Materiality for the Parent Company financial statements was based on an asset-based figure which was restricted to \$120,000 (2022: \$100,000) for the parent.

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. This is set at £259,000 (2022: \$231,000) for the group and \$84,000 (2022: \$70,000) for the parent.

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

We agreed with the Audit Committee to report to it all identified errors in excess of \$18,500 (2022: \$16,500). 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, parent company and 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 perform the audit work in the US. We have planned, controlled, and reviewed the group audit under our direction. We have remotely reviewed the US work to carry out our review of component auditor working papers and have met with group management virtually.

### *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.

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<b><i>Key audit matter</i></b>	<b><i>How the scope of our audit addressed the key audit matter</i></b>
<i>Revenue recognition</i>	
Revenue is recognised in accordance with the accounting policy set out in the financial statements in Note 3. Revenue is a key performance indicator for the Group.	Our audit procedures included: <ul style="list-style-type: none"><li>• Evaluated the design and implementation of controls around revenue;</li></ul>

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# Independent Auditors' report to the members of Water Intelligence plc

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<i>Key audit matter</i>	<i>How the scope of our audit addressed the key audit matter</i>
<p>Impairment on goodwill and indefinite life intangible assets</p> <p>The carrying value of goodwill and indefinite life intangible assets relates to goodwill on franchisor activities, goodwill on acquisitions and owned stores goodwill for which an annual impairment review is required to be performed. Recoverability of these involves judgement regarding the future performance of the cash generating units to which these assets are allocated, consequently, we consider their recoverability to have a higher risk of material misstatement. This is set out in the financial statements in Note 3 and 13.</p>	<ul style="list-style-type: none"> <li>• Evaluating that the accounting policies are appropriate and in accordance with International Financial Reporting Standard 15 'Revenue from Contract with Customers' and performed audit procedures to provide evidence that revenue was accounted for in accordance with the policy as detailed in note 4;</li> <li>• Testing a sample of revenue transaction across the operating companies of the Group across each revenue stream by agreeing amounts to supporting documentation to ensure that the transactions are correctly accounted for, that the performance obligations have been satisfied and to cash receipts; and</li> <li>• Assessing the appropriateness of the related disclosures in the financial statements.</li> </ul> <p>We reviewed management's assessment of the carrying value of the group's intangible assets. Our procedures included:</p> <ul style="list-style-type: none"> <li>• Evaluated the design and implementation of controls around impairments;</li> <li>• Reviewing the discounted cash-flow forecasts for the group and the relevant cash generating units to ensure that the cash generating units were appropriately identified and an assessment of the key assumptions, which principally included discount rate and growth rates as discussed in Note 13;</li> <li>• We have checked the arithmetic accuracy of the forecast;</li> <li>• Applied stress tests to the model for reasonable possible changes in the assumptions; and</li> <li>• Performed a shadow calculation of the discount rate using our internal valuation specialist.</li> </ul>

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 contained within the annual report. 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

# Independent Auditors' report to the members of Water Intelligence plc

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information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 this gives rise to a material misstatement in the financial statements themselves. 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.

## **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 strategic report and the directors' 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 26, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of

# Independent Auditors' report to the members of Water Intelligence plc

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irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below however the primary responsibility for the prevention and detection of fraud lies with management and those charged with governance of the Parent Company.

Based on our understanding of the Group and the Company and industry, discussions with management and directors we identified financial reporting standards and Companies Act 2006 as having a direct effect on the amounts and disclosures in the financial statements.

- As part of our audit planning process, we assessed the different areas of the financial statements, including disclosures, for the risk of material misstatement. This included considering the risk of fraud where direct enquiries were made of management and those charged with governance concerning both whether they had any knowledge of actual or suspected fraud and their assessment of the susceptibility of fraud. We considered the risk was greater in areas that involve significant management estimate or judgement. Based on this assessment we designed audit procedures to focus on the key areas of estimate or judgement, this included specific testing of journal transactions, both at the year end and throughout the year.
- We used data analytic techniques to assist in identifying any unusual transactions or unexpected relationships.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The potential effects of inherent limitations are particularly significant in the case of misstatement resulting from fraud because fraud may involve sophisticated and carefully organised schemes designed to conceal it, including deliberate failure to record transactions, collusion or intentional misrepresentations being made to us.

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://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 Charlton (Senior Statutory Auditor)

for and on behalf of

**Crowe U.K. LLP**

Statutory Auditor

London

Date: 26 June 2024



# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2023

	Notes	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
<b>Revenue</b>	4	75,974,552	71,333,461
<b>Cost of sales</b>		(10,362,197)	(9,659,600)
<b>Gross profit</b>		65,612,355	61,673,861
Administrative expenses			
– Other income		59,422	130,405
– Share-based payments	7	(571,970)	(462,097)
– Amortisation of intangibles	13	(841,516)	(968,086)
– Other administrative costs		(57,074,745)	(53,528,825)
Total administrative expenses		(58,428,809)	(54,828,603)
<b>Operating profit</b>		7,183,546	6,845,258
Finance income	8	699,819	229,550
Finance expense	9	(1,643,978)	(1,570,592)
<b>Profit before tax</b>		6,239,387	5,504,216
Taxation expense	10	(1,605,585)	(1,837,737)
<b>Profit for the year</b>		4,633,802	3,666,479
<b>Attributable to:</b>			
Equity holders of the parent		4,398,681	3,566,540
Non-controlling interests		235,121	99,939
		4,633,802	3,666,479
<b>Other Comprehensive Income</b>			
Subsequently reclassified to the P&L			
Exchange differences arising on translation of foreign operations		199,826	(409,371)
Cash flow hedge movement		(171,912)	448,177
Not subsequently reclassified to the P&L			
Fair value adjustment on listed equity investment (net of deferred tax)		(21,927)	(690,885)
<b>Total comprehensive profit for the year</b>		4,639,789	3,014,400
<b>Attributable to:</b>			
Equity holders of the parent		4,404,668	2,914,461
Non-controlling interests		235,121	99,939
		4,639,789	3,014,400
<b>Profit per share attributable to equity holders of Parent</b>		<b>Cents</b>	<b>Cents</b>
Basic	11	25.3	20.5
Diluted	11	24.7	19.2

The results reflected above relate to continuing activities.  
The accompanying notes on pages 40 to 76 are an integral part of these financial statements.

# Consolidated Statement of Financial Position

as at 31 December 2023

	Notes	2023 \$	2022 \$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill and indefinite life intangible assets	13	49,791,203	44,966,672
Listed equity investment	24	447,231	474,613
Other intangible assets	13	7,840,157	6,019,360
Interest rate swap	23	276,265	448,177
Property, plant and equipment	14	10,538,135	9,224,955
Trade and other receivables	17	207,990	287,572
		69,100,981	61,421,349
<b>Current assets</b>			
Inventories	16	723,315	759,070
Trade and other receivables	17	11,063,253	11,393,584
Investments	18	6,875,250	-
Cash and cash equivalents	18	8,882,627	23,014,454
		27,544,445	35,167,108
<b>TOTAL ASSETS</b>		96,645,426	96,588,457
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to holders of the parent</b>			
Share capital	21	143,192	143,192
Share premium	21	35,417,072	35,417,072
Shares held in treasury	21	(1,139,404)	(1,139,404)
Merger reserve		1,001,150	1,001,150
Share based payment reserve		2,254,347	1,555,090
Foreign exchange reserve		(1,305,037)	(1,504,863)
Reverse acquisition reserve	21	(27,758,088)	(27,758,088)
Equity investment reserve		(666,140)	(644,213)
Cash flow hedge reserve		276,265	448,177
Retained earnings		51,495,814	47,097,133
		59,719,171	54,615,246
<b>Equity attributable to Non-Controlling interest</b>			
Non-controlling Interest		610,375	598,636
<b>Non-current liabilities</b>			
Borrowings	22/23	12,510,867	15,334,813
Deferred consideration	12	3,632,074	7,164,421
Deferred tax liability	20	2,618,605	1,915,581
		18,761,546	24,414,815
<b>Current liabilities</b>			
Trade and other payables	19	5,997,028	6,331,107
Borrowings	22/23	6,805,131	5,519,560
Deferred consideration	12	4,752,175	5,109,093
		17,554,334	16,959,760
<b>TOTAL EQUITY AND LIABILITIES</b>		96,645,426	96,588,457

The accompanying notes on pages 40 to 76 are an integral part of these financial statements

# Consolidated Statement of Financial Position

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as at 31 December 2023

The financial statements of Water Intelligence plc, company number 03923150, were approved by the Board of Directors and authorised for issue on 26 June 2024. They were signed on its behalf by:

**Patrick De Souza**  
*Executive Chairman*

# Company Statement of Financial Position

as at 31 December 2023

	Notes	2023 \$	2022 \$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	15	6,994,345	6,626,279
Trade and other receivables	17	22,673,254	22,605,908
Listed equity investment	24	447,231	474,613
		30,114,830	29,706,800
<b>Current assets</b>			
Trade and other receivables	17	4,620,777	4,349,554
Cash and cash equivalents	18	1,105,607	1,384,624
		5,726,384	5,734,178
<b>TOTAL ASSETS</b>		35,841,214	35,440,978
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to holders of the parent</b>			
Share capital	21	143,192	143,192
Share premium	21	35,417,072	35,417,072
Shares held in treasury	21	(1,139,404)	(1,139,404)
Merger reserve		1,001,150	1,001,150
Share based payment reserve		2,254,347	1,555,090
Foreign exchange reserve		(2,585,747)	(3,269,732)
Equity investment reserve		(666,140)	(644,213)
Retained earnings		1,526,798	2,406,266
		35,951,268	35,469,421
<b>Non-current liabilities</b>			
Deferred tax liability		(190,069)	(174,698)
		(190,069)	(174,698)
<b>Current liabilities</b>			
Trade and other payables	19	80,015	146,255
		80,015	146,255
<b>TOTAL EQUITY AND LIABILITIES</b>		35,841,214	35,440,978

The loss for the financial year in the financial statements of the parent Company was \$879,468 (2022: loss \$748,659), 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 26 June 2024. They were signed on its behalf by:

**Patrick De Souza**  
*Executive Chairman*

The accompanying notes on pages 40 to 76 are an integral part of these financial statements.

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2023

	Share Capital \$	Share Premium \$	Shares held in Treasury \$	Merger Reserve \$	Share based payment reserve \$	Foreign exchange reserve \$	Reverse Acquisition Reserve \$	Equity Investment Reserve \$	Cash Flow Hedge Reserve \$	Retained Earnings \$	Total \$	Non- controlling interest \$	Total Equity \$
<b>As at 1 January 2022</b>	<b>142,260</b>	<b>35,252,633</b>	<b>(468,427)</b>	<b>1,001,150</b>	<b>1,092,993</b>	<b>(1,095,492)</b>	<b>(27,758,088)</b>	<b>46,672</b>	<b>-</b>	<b>43,552,575</b>	<b>51,766,276</b>	<b>612,528</b>	<b>52,378,804</b>
Options exercised	932	164,439	(584,151)	-	-	-	-	-	-	-	(418,780)	-	(418,780)
Share-based payment expense	-	-	-	-	462,097	-	-	-	-	-	462,097	-	462,097
Share buyback	-	-	(86,826)	-	-	-	-	-	-	-	(86,826)	-	(86,826)
Purchase non-controlling interest	-	-	-	-	-	-	-	-	-	(21,983)	(21,983)	(76,017)	(98,000)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(37,812)	(37,812)
Profit for the year	-	-	-	-	-	-	-	-	-	3,566,541	3,566,541	99,937	3,666,478
Other comprehensive income	-	-	-	-	-	(409,371)	-	(690,885)	448,177	-	(652,079)	-	(652,079)
<b>As at 31 December 2022</b>	<b>143,192</b>	<b>35,417,072</b>	<b>(1,139,404)</b>	<b>1,001,150</b>	<b>1,555,090</b>	<b>(1,504,863)</b>	<b>(27,758,088)</b>	<b>(644,213)</b>	<b>448,177</b>	<b>47,097,133</b>	<b>54,615,246</b>	<b>598,636</b>	<b>55,213,882</b>
<b>As at 1 January 2023</b>	<b>143,192</b>	<b>35,417,072</b>	<b>(1,139,404)</b>	<b>1,001,150</b>	<b>1,555,090</b>	<b>(1,504,863)</b>	<b>(27,758,088)</b>	<b>(644,213)</b>	<b>448,177</b>	<b>47,097,133</b>	<b>54,615,246</b>	<b>598,636</b>	<b>55,213,882</b>
Share-based payment expense	-	-	-	-	571,970	-	-	-	-	-	571,970	-	571,970
Options granted as part of purchase price	-	-	-	-	67,287	-	-	-	-	-	67,287	-	67,287
Options granted in lieu of board fees	-	-	-	-	60,000	-	-	-	-	-	60,000	-	60,000
Contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	73,500	73,500
Distribution to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(296,882)	(296,882)
Profit for the year	-	-	-	-	-	-	-	-	-	4,398,681	4,398,681	235,121	4,633,802
Other comprehensive income	-	-	-	-	-	199,826	-	(21,927)	(171,912)	-	5,987	-	5,987
<b>As at 31 December 2023</b>	<b>143,192</b>	<b>35,417,072</b>	<b>(1,139,404)</b>	<b>1,001,150</b>	<b>2,254,347</b>	<b>(1,305,037)</b>	<b>(27,758,088)</b>	<b>(666,140)</b>	<b>276,265</b>	<b>51,495,814</b>	<b>59,719,171</b>	<b>610,375</b>	<b>60,329,546</b>

The accompanying notes on pages 40 to 76 are an integral part of these financial statements

## Company Statement of Changes in Equity

for the year ended 31 December 2023

	Share Capital \$	Share Premium \$	Shares held in Treasury \$	Merger Reserve \$	Share based payment reserve \$	Foreign exchange reserve \$	Equity Investment Reserve \$	Retained (Losses)/ Earnings \$	Total Equity \$
<b>As at 1 January 2022</b>	<b>142,260</b>	<b>35,252,633</b>	<b>(468,427)</b>	<b>1,001,150</b>	<b>1,092,993</b>	<b>(1,834,431)</b>	<b>46,672</b>	<b>3,154,925</b>	<b>38,387,775</b>
Options exercised	932	164,439	(584,151)	-	-	-	-	-	(418,780)
Share-based payment expense	-	-	-	-	462,097	-	-	-	462,097
Share buyback	-	-	(86,826)	-	-	-	-	-	(86,826)
Loss for the year	-	-	-	-	-	-	-	(748,659)	(748,659)
Other comprehensive income	-	-	-	-	-	(1,435,301)	(690,885)	-	(2,126,186)
<b>As at 31 December 2022</b>	<b>143,192</b>	<b>35,417,072</b>	<b>(1,139,404)</b>	<b>1,001,150</b>	<b>1,555,090</b>	<b>(3,269,732)</b>	<b>(644,213)</b>	<b>2,406,266</b>	<b>35,469,421</b>
<b>As at 1 January 2023</b>	<b>143,192</b>	<b>35,417,072</b>	<b>(1,139,404)</b>	<b>1,001,150</b>	<b>1,555,090</b>	<b>(3,269,732)</b>	<b>(644,213)</b>	<b>2,406,266</b>	<b>35,469,421</b>
Options granted as part of purchase price	-	-	-	-	67,287	-	-	-	67,287
Options granted in lieu of board fees	-	-	-	-	60,000	-	-	-	60,000
Share-based payment expense	-	-	-	-	571,970	-	-	-	571,970
Loss for the year	-	-	-	-	-	-	-	(879,468)	(879,468)
Other comprehensive loss	-	-	-	-	-	683,985	(21,927)	-	662,058
<b>As at 31 December 2023</b>	<b>143,192</b>	<b>35,417,072</b>	<b>(1,139,404)</b>	<b>1,001,150</b>	<b>2,254,347</b>	<b>(2,585,747)</b>	<b>(666,140)</b>	<b>1,526,798</b>	<b>35,951,268</b>

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.
Equity investment reserve	Fair value adjustments on the listed equity investment (net of deferred tax).
Retained profits/(losses)	Cumulative net profits/(losses) recognised in the Financial Statements.

The accompanying notes on pages 40 to 76 are an integral part of these financial statements

# Consolidated Statement of Cash Flows

for the year ended 31 December 2023

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
<b>Cash flows from operating activities</b>		
Profit before tax	6,239,387	5,504,216
Adjustments for non-cash/non-operating items:		
Depreciation of plant and equipment	3,745,773	3,236,683
Amortisation of intangible assets	841,516	968,086
Share based payments	571,970	462,097
Finance costs	1,643,978	1,570,591
Finance income	(699,819)	(229,550)
<b>Operating cash flows before movements in working capital</b>	<b>12,342,805</b>	<b>11,512,123</b>
Decrease / (Increase) in inventories	35,755	(81,852)
Decrease / (Increase) in trade and other receivables	409,913	(2,820,793)
(Decrease) / Increase in trade and other payables	(490,886)	1,932,825
<b>Cash generated by operations</b>	<b>12,297,587</b>	<b>10,542,303</b>
Income taxes paid	(897,106)	(1,670,816)
<b>Net cash generated from operating activities</b>	<b>11,400,481</b>	<b>8,871,487</b>
<b>Cash flows from investing activities</b>		
Purchase of plant and equipment	(1,269,867)	(1,202,705)
Disposal of plant and equipment	191,178	-
Purchase of intangible assets	(3,370,700)	(2,424,395)
Acquisition of subsidiaries	-	(3,850,000)
Reacquisition of franchises	(4,203,500)	(1,600,000)
Purchase of investments	(6,875,250)	-
Purchase of listed equity investment	-	(153,700)
Purchase of non-controlling interest	-	(98,000)
Finance income	699,818	229,550
<b>Net cash used in investing activities</b>	<b>(14,828,321)</b>	<b>(9,099,250)</b>
<b>Cash flows from financing activities</b>		
Share buyback	-	(86,826)
Options exercised	-	(418,780)
Dividend paid to non-controlling interest	-	(37,812)
Contribution from non-controlling interest	73,500	-
Distribution to non-controlling interest	(296,882)	-
Finance costs	(1,360,057)	(1,202,378)
Proceeds from borrowings	2,811,353	12,356,696
Repayment of borrowings	(4,986,658)	(3,815,204)
Repayment of notes	(5,229,265)	(5,759,978)
Repayment of lease liabilities	(1,715,978)	(1,595,853)
<b>Net cash (used) from financing activities</b>	<b>(10,703,987)</b>	<b>(560,135)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(14,131,827)</b>	<b>(787,898)</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>23,014,454</b>	<b>23,802,352</b>
<b>Cash and cash equivalents at end of year</b>	<b>8,882,627</b>	<b>23,014,454</b>

The accompanying notes on pages 40 to 76 are an integral part of these financial statements

# Company Statement of Cash Flows

for the year ended 31 December 2023

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
<b>Cash flows from operating activities</b>		
Loss before tax	(879,468)	(748,659)
Adjustments for non-cash/non-operating items:		
Share based payment expense	571,970	462,097
<b>Operating cash flows before movements in working capital</b>	<b>(307,498)</b>	<b>(286,562)</b>
(Increase)/Decrease in trade and other receivables	(271,281)	1,096,473
Increase/(Decrease) in trade and other payables	299,762	(631,779)
<b>Cash used by operations</b>	<b>(279,017)</b>	<b>178,132</b>
Income taxes paid	-	-
<b>Net cash used by operating activities</b>	<b>(279,017)</b>	<b>178,132</b>
<b>Cash flows from investing activities</b>		
Purchase of listed equity investment	-	(153,700)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(153,700)</b>
<b>Cash flows from financing activities</b>		
Share buyback	-	(86,826)
Options exercised	-	(418,780)
<b>Net cash generated from financing activities</b>	<b>-</b>	<b>(505,606)</b>
<b>(Decrease) in cash and cash equivalents</b>	<b>(279,017)</b>	<b>(481,174)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>1,384,624</b>	<b>1,865,798</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,105,607</b>	<b>1,384,624</b>

The accompanying notes on pages 40 to 76 are an integral part of these financial statements



# Notes to the Financial Statements

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## 1 General information

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

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

The Company is listed on AIM of the London Stock Exchange. These Financial Statements were authorised for issue by the Board of Directors on 26 June 2024.

## 2 Adoption of a new International Financial Reporting Standards

No new standards and interpretations adopted by the UK endorsement board had a significant impact on the consolidated financial statements.

Standards, amendments, and interpretations to published standards not yet effective

The Directors have considered those standards and interpretations, which have not been applied in the financial statements but are relevant to the Group's operations, that are in issue but not yet effective and do not consider that they will have a material impact on the future results of the Group

## 3 Material 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 except for certain financial instruments at fair value and in accordance with UK adopted International Accounting Standards (IFRS). The Parent Company's Financial Statements have also been prepared in accordance with UK adopted International Accounting Standards as applied by 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 Directors have prepared a business plan and cash flow forecast for the period to December 2025. 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 Group generates increasing levels of cash driven by its profitable and growing US-based business, ALD. The Directors also note that the Group has diversified its operations further with growth in WII. Moreover, after oversubscribed capital raises in July and November 2021 and expansion of its credit facilities in December 2023 the Directors believe that funding will be available on a case-by-case basis for additional initiatives.

## Notes to the Financial Statements

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Cash and cash investments at 31 December 2023 was \$15.8 million. At 31 December 2023, total debt (borrowings and deferred consideration from franchise acquisitions) was \$22.8 million with amortisation of such amount through 2028. Meanwhile, operating cash flows (EBITDA) in 2023 increased by 6% to \$11.8 million (2022: \$11.1 million). Cash on the balance sheet plus an ability to generate significant cash relative to the amount of debt that comes due in any one year between 2023 and 2028 are important variables for Director considerations. Moreover, the Directors consider various scenarios that may influence cash availability such as inflationary pressures, the threat of recession from rising interest rates and the use of cash for investments, such as Salesforce.com and related software applications, geared to create operational efficiencies that enhance organic cash generation.

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.

### **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 2023. The Consolidated Statement of Comprehensive Income includes the results of all subsidiary undertakings for the period from the date on which control passes. Control is achieved where the Group (or one of its subsidiary undertakings) obtains the power to govern the financial and operating policies of an investee entity so as to derive benefits from its activities.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling 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 2023 is \$879,468 (2022: \$748,659).

### **Inventories**

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

### **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.

# Notes to the Financial Statements

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## **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 are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## **Foreign currencies**

### **(i) Functional and presentational currency**

Items included in the Financial Statements are measured using the currency of the primary economic environment in which each entity operates

### **Transactions and balances**

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

### **(ii) Group Companies**

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

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

## **Leases**

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

## **Nature of the Business**

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

# Notes to the Financial Statements

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## Customers and Sources of Revenue

### Residential.

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

### Business-to-Business.

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

### Municipal.

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

### Franchise Sales, Equipment and On-going Royalty Payments.

ALD is a franchisor and leak detection services are delivered not only by corporate-operated locations but also by ALD's franchise System. Franchisees are independently owned and operated.

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

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

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

# Notes to the Financial Statements

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## **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.

Investments in equity instruments are initially designated at FVTOCI and are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment's revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, including interest rate swaps.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

## **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.

## **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 ECLs for trade receivables and contract assets. ECLs 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.

# Notes to the Financial Statements

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## **Equity instruments**

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

## **Derecognition of financial liabilities**

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

## **Property, plant and equipment**

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

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

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

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

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

## **Goodwill**

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

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

## **Other intangible assets**

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

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

	Years
Covenants not to compete	1-6
Customer lists	5
Salesforce CRM platform	5
Trademarks	20
Patents	10
Product development	4

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.

## Notes to the Financial Statements

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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 UK adopted International Accounting 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

## Notes to the Financial Statements

of any impairment in investments, intangibles, goodwill or receivables and whether deferred tax assets should be recognized for tax losses.

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

### 4 Segmental Information

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

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

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

Revenue	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
Franchise royalty income	6,738,816	6,746,928
Franchise related activities	11,163,422	10,624,268
US corporate operated locations	50,459,736	47,296,711
International corporate operated locations	7,612,578	6,665,554
<b>Total</b>	<b>75,974,552</b>	<b>71,333,461</b>

Profit/(Loss) before tax	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
Franchise royalty income	2,156,421	1,956,609
Franchise related activities	925,126	964,667
US corporate operated locations	8,411,622	8,252,651
International corporate operated locations	443,180	85,599
Unallocated head office costs	(4,627,640)	(4,915,011)
Non-core costs	(1,069,322)	(840,299)
<b>Total</b>	<b>6,239,387</b>	<b>5,504,216</b>



## Notes to the Financial Statements

<b>Assets</b>	<b>Year ended 31 December 2023 \$</b>	<b>Year ended 31 December 2022 \$</b>
Franchise royalty income	24,761,073	29,945,794
Franchise related activities	3,028,788	3,166,036
US corporate operated locations	52,394,708	47,356,148
International corporate operated locations	16,460,857	16,120,479
<b>Total</b>	<b>96,645,426</b>	<b>96,588,457</b>

  

<b>Amortisation</b>	<b>Year ended 31 December 2023 \$</b>	<b>Year ended 31 December 2022 \$</b>
US corporate operated locations	797,292	942,911
International corporate operated locations	44,224	25,175
<b>Total</b>	<b>841,516</b>	<b>968,086</b>

  

<b>Depreciation</b>	<b>Year ended 31 December 2023 \$</b>	<b>Year ended 31 December 2022 \$</b>
Franchise royalty income	-	-
Franchise related activities	-	-
US corporate operated locations	3,185,141	2,665,878
International corporate operated locations	560,632	570,805
<b>Total</b>	<b>3,745,773</b>	<b>3,236,683</b>

  

<b>Finance Expense</b>	<b>Year ended 31 December 2023 \$</b>	<b>Year ended 31 December 2022 \$</b>
US corporate operated locations	716,739	756,164
International corporate activities	15,603	11,282
Unallocated head office costs	911,636	803,146
<b>Total</b>	<b>1,643,978</b>	<b>1,570,592</b>

### **Geographic Information**

As noted herein, the Group has two wholly-owned subsidiaries – ALD and WII. ALD, the Group's core business, has US franchise-operated and corporate-operated locations and international franchises in Australia and Canada. Meanwhile, WII has corporate-operated activities outside the US. We may also regroup the same information into US and Outside the US to capture the Group's effort to be multinational company. For 2023, outside the US sales have grown 15% to \$7.7 million (2022: \$6.7 million). Sales in the US have grown 5% to \$68.3 million (2022: \$64.5 million). The percentage of International sales to total sales has increased to 10% (2022: 9%).

## Notes to the Financial Statements

### Total Revenue

	Year ended 31 December 2023			Year ended 31 December 2022		
	US \$	International \$	Total \$	US \$	International \$	Total \$
Franchise royalty income	6,638,442	100,374	6,738,816	6,636,512	110,416	6,746,928
Franchise related activities	11,163,422	-	11,163,422	10,624,268	-	10,624,268
US Corporate owned Stores	50,459,736	-	50,459,736	47,296,711	-	47,296,711
International corporate activities	-	7,612,578	7,612,578	-	6,665,554	6,665,554
<b>Total</b>	<b>68,261,600</b>	<b>7,712,952</b>	<b>75,974,552</b>	<b>64,557,491</b>	<b>6,775,970</b>	<b>71,333,461</b>

### 5 Expenses by nature

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

	Note	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
Raw materials and consumables used		4,178,795	4,826,483
Employee costs	6	30,530,324	29,050,991
Depreciation charge		3,745,773	3,236,683
Amortisation charge		841,516	968,086
Marketing costs		216,257	213,260
R&D		-	-
Foreign exchange loss		4,561	38,896

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
<b>Auditors remuneration</b>		
Fees payable to the Company's auditor for audit of Parent Company and Consolidated Financial Statements	72,000	54,000
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 \$161,478 (2022: \$214,863) for the audit of these companies and \$34,483 (2022: \$40,499) for other services.

## Notes to the Financial Statements

### 6 Employees and Directors

The Employees and Directors of the Company contribute to the execution and management of the business.

	Year ended 31 December 2023	Year ended 31 December 2022
<i>Short-Term employee benefits</i>		
Directors fees, salaries and benefits	663,000	640,704
Employee wages and salaries	26,923,972	25,809,809
Employer payroll taxes	2,371,382	2,138,381
<i>Long-Term employee benefits</i>		
Share based payments	571,970	462,097
	30,530,324	29,050,991

Information regarding Directors' emoluments are as follows:

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
Directors' fees, salaries and benefits	663,000	640,704
Employer payroll taxes	20,857	20,039
	683,857	660,743

The highest paid Director (Executive) received emoluments of \$595,000 (2022: \$591,473).

In lieu of cash compensation, to be added to the above table, all of the directors received a combination of stock options awards and fully paid-up shares. The value of the options awarded on 7 July 2023 at an exercise price of \$6.35 to all directors in respect of their first half compensation was: P DeSouza \$19.9k, L Hills \$19.9k, D Ewell \$39.9k, B Knell \$19.9k, M Reisman \$19.9k. In addition, in relation to their second half payments, as announced on 15 February 2024, certain directors were issued fully paid up Ordinary Shares and the value of these Ordinary Shares issued were: P DeSouza \$37.5k, L Hills \$37.5k, D Ewell \$37.5k, P Meckley \$10k

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

	Year ended 31 December 2023	Year ended 31 December 2022
Directors (executive and non-executive)	5	5
Management	55	44
Field Services	305	271
Franchise Support	19	19
Administration	98	97
	482	436

## Notes to the Financial Statements

### 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 2023	Weighted average exercise price (\$) 2023	Number of share options 2022	Weighted average exercise price (\$) 2022
Outstanding at beginning of year	2,228,000	6.02	2,238,000	5.74
Granted during the year	545,000	6.70	95,000	12.04
Forfeited/lapsed during the year	-	-	(35,000)	12.56
Exercised during the year	-	-	(70,000)	2.36
Outstanding at end of the year	2,773,000	6.15	2,228,000	6.02
Exercisable at end of the year	1,102,500	3.52	627,500	1.59

#### ***Fair value of share options***

During the year, the Group granted 545,000 Share Options pursuant to certain employees, with exercise prices ranging from £5.00 to £6.60 (\$6.35 to \$8.18).

The fair value of options granted during the current year has been calculated using the Black Scholes model which has given rise to fair values per share ranging from \$1.45 to \$2.69. This is based on risk-free rate of 3.61% and volatility of 37.2% to 47.4%.

The Black Scholes calculations for the options granted during the year resulted in a charge of \$571,970 (2022: \$462,097) which has been expensed in the year.

The weighted average remaining contractual life of the share options as at 31 December 2023 was 6.1 years (2022: 6.02 years).

## Notes to the Financial Statements

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	2023	2022	Date of Grant	Exercise price	Exercise period From	To
ALDHC Plan	67,500	67,500	67,500	01/12/2013	\$1.14	01/12/2013	01/12/2024
2013 Directors	100,000	100,000	100,000	01/08/2013	\$1.30	01/08/2013	01/08/2024
2015 Options	117,500	117,500	117,500	08/06/2015	\$0.67	08/06/2015	08/06/2025
2016 Directors	100,000	100,000	100,000	13/06/2016	\$1.26	13/06/2016	13/06/2026
2016 Employee	25,000	25,000	25,000	19/12/2016	\$1.24	19/12/2019	19/12/2026
2016 Employee	82,500	82,500	82,500	19/12/2016	\$1.56	19/12/2019	19/12/2026
2018 Acquisition	135,000	135,000	135,000	06/03/2018	\$3.15	06/03/2021	06/03/2028
2019 Employee	425,000	425,000	425,000	04/04/2019	\$6.24	04/04/2023	04/04/2029
2019 Acquisition	50,000	50,000	50,000	04/04/2019	\$4.59	04/04/2023	04/04/2029
2020 Employee	485,000	485,000	485,000	31/07/2020	\$5.60	31/07/2024	31/07/2030
2020 Acquisition	25,000	25,000	25,000	30/09/2020	\$6.20	30/09/2024	30/09/2030
2021 Acquisition	45,500	45,500	45,500	01/01/2021	\$6.80	01/01/2025	01/01/2031
2021 Directors	300,000	300,000	300,000	15/03/2021	\$10.40	15/03/2025	15/03/2031
2021 Acquisition	100,000	100,000	100,000	20/04/2021	\$11.38	20/04/2025	20/04/2031
2021 Acquisition	75,000	75,000	75,000	01/07/2021	\$12.56	01/07/2025	01/07/2031
2022 Acquisition	20,000	20,000	20,000	31/05/2022	\$10.30	31/05/2026	31/05/2032
2022 Acquisition	75,000	75,000	75,000	30/06/2022	\$12.50	30/06/2026	30/06/2032
2023 Directors (1)	105,000	105,000	-	06/02/2023	\$8.18	06/02/2027	06/02/2033
2023 Directors (2)	90,000	90,000	-	04/07/2023	\$6.35	04/07/2027	04/07/2033
2023 Employee (3)	350,000	350,000	-	04/07/2023	\$6.35	04/07/2027	04/07/2033
<b>Total</b>	<b>2,773,000</b>	<b>2,773,000</b>	<b>2,228,000</b>				

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

- (1) On 6 February 2023, in lieu of compensation board members received options to purchase 105,000 New Ordinary Shares at a price of \$8.18. These options have a four-year vesting requirement.
- (2) On 4 July 2023, certain directors were granted options to purchase 90,000 New Ordinary Shares at a price of \$6.35. These options have a four-year vesting requirement.
- (3) On 4 July 2023, certain employees were granted options to purchase 350,000 New Ordinary Shares at a price of \$6.35. These options have a four-year vesting requirement.

Patrick DeSouza received (i) 180,000 Partly Paid Shares at an exercise price of \$1.07 during 2016, (ii) 750,000 Partly Paid Shares at an exercise price of \$2.71 in March 2018, (iii) 850,000 Partly Paid Shares at an exercise price of \$4.82, in May 2019 and (iv) 300,000 Partly Paid Shares at an exercise price of \$6.13 in October 2020 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.

## Notes to the Financial Statements

### 8 Finance income

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
Interest income	699,819	229,550

### 9 Finance expense

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
Interest expense	1,453,399	1,381,162
Interest on lease liabilities	190,579	189,430
<b>Total interest expense</b>	<b>1,643,978</b>	<b>1,570,592</b>

### 10 Taxation

Group	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
Current tax:		
Current tax on profits in the year	875,062	1,262,651
Adjustment in respect of prior year	23,045	(696)
<b>Total current tax</b>	<b>898,107</b>	<b>1,261,955</b>
Deferred tax current year	707,478	575,782
Deferred tax prior year	-	-
<b>Deferred tax expense</b> (note 20)	<b>707,478</b>	<b>575,782</b>
<b>Income tax expense</b>	<b>1,605,585</b>	<b>1,837,737</b>

The tax on the Group's profit 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	6,239,387	5,504,216
Tax calculated at domestic rate applicable profits in respective countries (2023: 17% versus 2022: 23%)	1,037,228	1,242,058
Tax effects of:		
Non-deductible expenses	188,271	95,621
Other tax adjustments, reliefs and transfers	(22,278)	154,095
State taxes net of federal benefit	359,308	339,601
Adjustment in respect of prior year	23,045	(696)
Changes in rates	20,011	7,058
<b>Taxation expense recognized in income statement</b>	<b>1,605,585</b>	<b>1,837,737</b>

## Notes to the Financial Statements

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

As also set forth, in Note 20, at the balance sheet date, the Group's UK trading operations had unused tax losses of £3,830,192 (2022: £3,449,063) available for offset against future profits. £957,548 (2022: £862,266) represents unrecognized deferred tax assets thereon at 25%. The deferred tax asset has not been recognized due to uncertainty over timing of utilization.

The effective rate across all jurisdictions for tax for 2023 is 17% (2022: 23%).

### 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 2023 \$	Year ended 31 December 2022 \$
Profit for the year attributable to equity holders of the Parent (\$)	4,398,681	3,566,540
Weighted average number of ordinary shares	17,358,688	17,360,189
Diluted weighted average number of ordinary shares	17,833,235	18,554,459
<b>Profit per share (cents)</b>	25.3	20.5
<b>Diluted profit per share (cents)</b>	24.7	19.2

### 12 Acquisitions

These can be summarised as follows:

The Group announced the reacquisition of its Nashville, Tennessee franchise territory within the Group's ALD franchise business. The acquisition is pursuant to the Group's growth strategy of creating regional hubs and adds further corporate scale to operations in the Midwest, United States. The cash consideration for the acquisition is \$3.25 million based on a 2022 Adjusted Income Statement of \$2.4 million in revenue and \$550,000 in profit before tax and includes the transfer of all operating assets to the Group. The date of acquisition was February 1, 2023.

The Group announced the reacquisition of its Covina, California franchise territory within the Group's ALD franchise business. The purchase price of \$1.5 million in cash at closing includes all assets required to conduct operations, including trucks and equipment. The purchase price is based on the trailing twelve months pro forma of \$1.3 million in revenue and \$0.3 million in profit before tax, as well as total assets of \$0.2 million. The transaction is accretive for the Group's shareholders. The date of acquisition was July 19, 2023.

The Group announced the reacquisition of its Pittsburgh, Pennsylvania franchise territory within the Group's ALD franchise business. The purchase price of \$0.5 million is based on pro forma sales of \$0.5 million and net income of \$0.12 million. The Group believes that the Pittsburgh location was underperforming as a franchise and sees an opportunity to increase its growth trajectory. The date of acquisition was September 29, 2023.

## Notes to the Financial Statements

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The Group acquired its Western Colorado franchise territory within the Group's Colorado ALD LLC subsidiary business. The cash consideration for the acquisition is \$0.15 million and includes the transfer of all operating assets to the Group. The date of acquisition was September 1, 2023.

The Group acquired Evergreen Plumbing Company within the Group's ALD franchise business. The cash consideration for the acquisition is \$0.13 million and includes the transfer of all operating assets to the Group. The date of acquisition was November 22, 2023.

Net sales from the date of acquisition through December 31, 2023 attributable to these acquisitions was approximately \$2,442,569. Net income from the date of acquisition through December 31, 2023 attributable to these acquisitions was approximately \$212,005.

Nashville:	Sales \$1,880,882, net income \$141,637
Covina:	Sales \$ 446,765, net income \$ 58,145
Pittsburgh:	Sales \$ 114,922, net income \$ 12,223

Sales and net income for Western Colorado and Evergreen Plumbing cannot be determined as they were combined with existing locations.

It is not feasible to obtain revenue and net income that would have been included if the full year was consolidated.



## Notes to the Financial Statements

### 2023 Acquisitions

	Nashville	Covina	Pittsburgh	Western Colorado	Evergreen Plumbing	Totals
	\$	\$	\$	\$	\$	\$
<b>Fair value of assets and liabilities acquired</b>						
Equipment	176,824	66,750	53,995	26,750	15,425	339,744
Vehicles	256,392	96,110	22,302	-	24,575	399,379
Non-compete	30,000	-	30,000	60,000	60,000	180,000
Liabilities / Other	(200,154)	-	-	-	-	(200,154)
Net assets acquired	263,062	162,860	106,297	86,750	100,000	718,969
<b>Consideration</b>						
Cash	2,125,000	1,500,000	363,500	150,000	65,000	4,203,500
Note payable	1,125,000	-	150,000	-	65,000	1,340,000
Total consideration	3,250,000	1,500,000	513,500	150,000	130,000	5,543,500
Intangible assets arising on acquisition (see note 13)	2,986,938	1,337,140	407,203	63,250	30,000	4,824,531

The intangible assets arising on the above acquisitions of \$4,824,531 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 .

## Notes to the Financial Statements

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### 2022 Acquisitions

	Sub. Aqu. Fort Worth	Central Texas	Shanahan	Adjustments	Totals
	\$	\$	\$	\$	\$
<b>Fair value of assets and liabilities acquired</b>					
Equipment	366,109	38,562	143,931	-	548,602
Vehicles	330,877	50,480	175,220	-	556,577
Non-compete	132,434	30,000	60,000	-	222,434
Liabilities / Other	(140,080)	-	572,711	-	432,631
Net assets acquired	689,340	119,042	951,862	-	1,760,244
<b>Consideration</b>					
Cash	3,850,000	700,000	900,000	50,000	5,500,000
Note payable	3,850,000	50,000	100,000	(41,553)	3,958,447
Total consideration	7,700,000	750,000	1,000,000	8,447	9,458,447
Intangible assets arising on acquisition (see note 13)	7,010,660	630,958	48,138	8,447	7,698,203

## Notes to the Financial Statements

The amount of deferred consideration for 2023 acquisitions as well as the remaining deferred consideration for acquisitions made in 2018, 2019, 2020, 2021 and 2022 can be summarized as follows:

<b>Current</b>	<b>Year acquired</b>	<b>Year ended 31 December 2023 \$</b>	<b>Year ended 31 December 2022 \$</b>
South Florida	2018	29,831	28,101
Tucson	2019	48,468	113,550
Minneapolis	2020	-	327,670
San Jose	2020	51,074	49,074
Seattle	2020	-	100,000
Melbourne, Florida	2020	-	350,000
Baton Rouge	2020	-	175,000
Las Vegas and Phoenix	2021	1,862,802	1,640,698
Daytona	2021	150,000	850,000
PlumbRight	2021	-	175,000
Fort Worth	2022	1,270,000	1,300,000
Nashville	2023	1,125,000	-
Pittsburgh	2023	150,000	
Evergreen Plumbing	2023	65,000	
<b>Total current deferred consideration</b>		<b>4,752,175</b>	<b>5,109,093</b>

<b>Non-Current</b>	<b>Year acquired</b>	<b>Year ended 31 December 2023 \$</b>	<b>Year ended 31 December 2022 \$</b>
South Florida	2018	59,510	89,341
Tucson	2019	-	48,468
San Jose	2020	21,313	72,386
Seattle	2020	300,000	300,000
Las Vegas and Phoenix	2021	1,976,251	3,954,226
Daytona	2021	-	150,000
Fort Worth	2022	1,275,000	2,550,000
<b>Total non-current deferred consideration</b>		<b>3,632,074</b>	<b>7,164,421</b>

## Notes to the Financial Statements

### 13 Intangible assets

The calculation of amortisation 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 \$	Goodwill relating to Owned & Operated stores \$	Goodwill on franchisor activities \$	Totals \$
<b>Cost</b>				
At 1 January 2022	4,223,967	33,989,020	636,711	38,849,698
Additions	7,010,660	687,543	-	7,698,203
<b>At 31 December 2022</b>	<b>11,234,627</b>	<b>34,676,563</b>	<b>636,711</b>	<b>46,547,901</b>
Additions (see note 12)	-	4,824,531	-	4,824,531
<b>At 31 December 2023</b>	<b>11,234,627</b>	<b>39,501,094</b>	<b>636,711</b>	<b>51,372,433</b>
<b>Impairment</b>				
At 1 January 2022	1,506,229	75,000	-	1,581,229
Impairment in year	-	-	-	-
<b>At 31 December 2022</b>	<b>1,506,229</b>	<b>75,000</b>	<b>-</b>	<b>1,581,229</b>
Impairment in year	-	-	-	-
<b>At 31 December 2023</b>	<b>1,506,229</b>	<b>75,000</b>	<b>-</b>	<b>1,581,229</b>
<b>Carrying amount</b>				
At 31 December 2022	9,728,398	34,601,563	636,711	44,966,672
<b>At 31 December 2023</b>	<b>9,728,398</b>	<b>39,426,094</b>	<b>636,711</b>	<b>49,791,203</b>

The increase in carrying value of Goodwill Acquisitions at 31 December 2023 relate to goodwill additions arising on the acquisitions outlined in Note 12 above during 2023.

Goodwill and indefinite life intangible assets on owned & operated stores comprises legacy owned stores together with additions arising from reacquisitions of franchise operations from 2015 through 2023. Details on additions in 2023 can be found in note 12 above.

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 2015 - 2023 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 a 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.

## Notes to the Financial Statements

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

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

Goodwill on Acquisitions is allocated to separate cash generating units.

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

Goodwill on Franchisor Activities is considered to be related to a single 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 2023 were as follows:

	%
Pre-tax 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 2023 (2022: \$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.

## Notes to the Financial Statements

### 13 Intangible assets continued Other Intangible assets table

	Product development \$	Covenants not to compete \$	Customer Lists \$	Trademarks \$	Patents \$	Salesforce \$	Enterprise Solution Development \$	Total \$
<b>Cost</b>								
At 1 January 2022	515,351	670,881	132,857	5,233,817	116,667	1,558,208	102,000	8,329,782
Additions	598,058	222,434	572,711	-	18,242	1,758,095	-	3,169,540
Disposals	-	-	-	-	-	-	-	-
<b>At 31 December 2022</b>	<b>1,113,409</b>	<b>893,315</b>	<b>705,568</b>	<b>5,233,817</b>	<b>134,908</b>	<b>3,316,304</b>	<b>102,000</b>	<b>11,499,322</b>
Additions	3,370,700	180,000	-	-	-	-	-	3,550,700
Completed development	(888,232)	-	-	-	-	-	-	(888,232)
Disposals	-	(7,164)	-	-	-	(167,513)	-	(174,677)
Reallocation	1,590,583	-	-	-	-	(1,590,583)	-	-
<b>At 31 December 2023</b>	<b>5,186,460</b>	<b>1,066,151</b>	<b>705,568</b>	<b>5,233,817</b>	<b>134,908</b>	<b>1,558,208</b>	<b>102,000</b>	<b>13,987,113</b>
<b>Accumulated amortisation</b>								
At 1 January 2022	-	84,889	132,857	4,143,440	5,833	129,851	14,875	4,511,745
Amortisation expense	-	167,818	25,454	261,691	8,469	479,154	25,500	968,086
Disposals	-	-	-	-	-	-	-	-
Exchange differences	-	113	-	-	19	-	-	131
<b>At 31 December 2022</b>	<b>-</b>	<b>252,819</b>	<b>158,311</b>	<b>4,405,131</b>	<b>14,321</b>	<b>609,005</b>	<b>40,375</b>	<b>5,479,962</b>
Amortisation expense	-	195,481	38,181	261,691	9,021	311,642	25,500	841,516
Disposals	-	(7,164)	-	-	-	(167,513)	-	(174,677)
Exchange differences	-	182	-	-	(28)	-	-	155
<b>At 31 December 2023</b>	<b>-</b>	<b>441,318</b>	<b>196,492</b>	<b>4,666,822</b>	<b>23,314</b>	<b>753,134</b>	<b>65,875</b>	<b>6,146,956</b>
<b>Carrying amount</b>								
At 31 December 2022	1,113,409	640,496	547,257	828,686	120,588	2,707,298	61,625	6,019,360
<b>At 31 December 2023</b>	<b>5,186,460</b>	<b>624,833</b>	<b>509,076</b>	<b>566,995</b>	<b>111,594</b>	<b>805,074</b>	<b>36,125</b>	<b>7,840,157</b>

All intangible assets have been acquired by the Group.

The calculation of amortisation 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.

\$1.6m of Salesforce costs were re-allocated to Product development as these costs were still in progress

## Notes to the Financial Statements

### 14 Property, plant and equipment

	Equipme nt & displays \$	Motor Vehicles \$	Leasehold Improvem- ents \$	Buildings \$	Right of Use Vehicles \$	Right of Use Offices \$	Total \$
<b>Cost</b>							
At 1 January 2022	4,693,694	3,350,021	87,820	156,259	3,114,413	2,029,904	13,432,111
Acquired on acquisition of subsidiary	366,109	330,877	-	-	-	-	696,986
Additions	781,433	1,008,632	-	-	1,005,570	1,427,888	4,223,523
Purchase ROU Vehicles	-	315,140	-	-	(315,140)	-	-
Exchange differences	(79,908)	(72,121)	-	(7,354)	(3,055)	(21,887)	(184,325)
Disposals	(29,103)	(187,367)	(15,000)	-	-	(1,032,961)	(1,264,431)
<b>At 31 December 2022</b>	<b>5,732,225</b>	<b>4,745,181</b>	<b>72,820</b>	<b>148,905</b>	<b>3,801,787</b>	<b>2,402,944</b>	<b>16,903,863</b>
Additions	796,986	2,449,710	-	-	-	1,115,204	4,361,900
Capitalised costs	888,232	-	-	-	-	-	888,232
Purchase ROU Vehicles	-	517,540	-	-	(517,540)	-	-
Exchange differences	33,502	25,336	-	(66)	1,143	5,688	65,603
Disposals	(2,000)	(380,208)	-	(148,839)	(19,048)	(514,782)	(1,064,878)
<b>At 31 December 2023</b>	<b>7,448,945</b>	<b>7,357,559</b>	<b>72,820</b>	<b>-</b>	<b>3,266,342</b>	<b>3,009,054</b>	<b>21,154,720</b>
<b>Accumulated depreciation</b>							
At 1 January 2022	2,002,288	1,572,391	38,875	62,787	934,704	1,013,838	5,624,883
Eliminated on disposals	(8,790)	(115,844)	(7,046)	-	-	(953,584)	(1,085,264)
Purchase ROU Vehicles	-	315,140	-	-	(315,140)	-	-
Depreciation expense	946,921	648,080	16,026	4,127	790,553	830,975	3,236,683
Exchange differences	(47,251)	(34,097)	-	(2,301)	(1,252)	(12,491)	(97,393)
<b>At 31 December 2022</b>	<b>2,893,168</b>	<b>2,385,670</b>	<b>47,855</b>	<b>64,613</b>	<b>1,408,865</b>	<b>878,738</b>	<b>7,678,909</b>
Eliminated on disposals	(233)	(267,409)	-	(66,749)	(19,048)	(493,226)	(846,665)
Purchase ROU Vehicles	-	458,495	-	-	(458,495)	-	-
Depreciation expense	1,069,236	952,173	15,117	2,174	742,943	964,130	3,745,773
Exchange differences	24,061	13,408	-	(38)	946	191	38,568
<b>At 31 December 2023</b>	<b>3,986,232</b>	<b>3,542,337</b>	<b>62,972</b>	<b>-</b>	<b>1,675,211</b>	<b>1,349,833</b>	<b>10,616,585</b>
<b>Carrying amount</b>							
At 31 December 2022	2,839,057	2,359,511	24,965	84,292	2,392,922	1,524,208	9,224,955
<b>At 31 December 2023</b>	<b>3,462,713</b>	<b>3,815,222</b>	<b>9,848</b>	<b>-</b>	<b>1,591,131</b>	<b>1,659,221</b>	<b>10,538,135</b>

2022 depreciation was reallocated

Included within additions are additions of \$739,123 (2022: \$408,193), which were acquired on the acquisition of franchises.

## Notes to the Financial Statements

### 15 Investment in subsidiary undertakings

Company	Subsidiary Undertakings \$
<b>Cost</b>	
At 31 December 2022	13,027,185
Exchange difference	368,066
<b>At 31 December 2023</b>	<b>13,395,251</b>
<b>Impairment</b>	
At 31 December 2022	6,400,906
Exchange difference	-
<b>At 31 December 2023</b>	<b>6,400,906</b>
<b>Carrying amount</b>	
At 31 December 2022	6,626,279
<b>At 31 December 2023</b>	<b>6,994,345</b>

The Directors annually assess the carrying value of the investment in the subsidiary and in their opinion no further impairment provision is currently necessary. See notes 12 and 13 for the assumptions and sensitivities in assessing the carrying value of the goodwill and acquired intangible assets that underpins the varying value of the investments.

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%
Wat-er-save Services Limited	Agriculture house, Acland Rd, Dorchester DT1 1EF		100%
Water Intelligence Australia Pty	1 Farrer Place, Sydney, NSW 2000	Australia	100%
American Leak Detection Holding Corp. (holding company of ALD Inc.) *	199 Whitney Avenue, New Haven, Connecticut 06511 US	US	100%
American Leak Detection, Inc. (leak detection product and services)	199 Whitney Avenue, New Haven, Connecticut 06511 US	US	100%
Canadian Leak Detection, Inc.	8-4696 Bartlette Rd. Beamsville, Ontario L0R 1B1	Canada	100%
Colorado ALD LLC	199 Whitney Avenue, New Haven, Connecticut 06511 US	US	51%
American Leak Detection Irrigation, Inc	199 Whitney Avenue, New Haven, Connecticut 06511 US	US	75%
Qonnectis Group Limited (dormant)	27-28 Eastcastle Street, London, United Kingdom, W1W 8DH	England and Wales	100%
NRW Utilities Limited (Dormant)	27-28 Eastcastle Street, London, United Kingdom, W1W 8DH	England and Wales	100%

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



## Notes to the Financial Statements

The Company's strategy involves acquisitions, especially of franchisees. Not all acquisitions are 100% owned. American Leak Detection had a 60% stake in a reacquired franchise in Bakersfield, California. American Leak Detection purchased the remaining 40% in 2022. American Leak Detection also has a 51% stake in a former franchise located in Denver, Colorado. Finally, American Leak Detection owns 75% of the IntelliDitch subsidiary that was set up as part of the acquisition of IP assets from FastDitch in 2021.

### 16 Inventories

	Group	
	Year ended	Year ended
	31 December	31 December
	2023	2022
	\$	\$
Group Inventories	723,315	759,070

During the year ended 31 December 2023, an expense of \$10,362,197 (2022: \$9,659,600) was recognized in the Consolidated Statement of Comprehensive Income, including business to business expenses of \$9,677,633 (2022: \$9,142,777). There has been no write down of inventories during 2023.

### 17 Trade and other receivables

	Group		Company	
	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December
	2023	2022	2023	2022
	\$	\$	\$	\$
Trade notes receivable	207,990	287,572	-	-
Due from Group undertakings	-	-	22,673,254	22,605,908

All trade notes receivables are due within five years from the end of the reporting period.

	Group		Company	
	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December
	2023	2022	2023	2022
	\$	\$	\$	\$
Trade receivables	7,204,731	7,211,414	-	-
Prepayments	1,180,945	1,226,295	11,170	19,745
Prepaid taxes	850,007	835,164	-	-
Due from Group undertakings	-	-	4,609,607	4,329,809
Accrued royalties receivable	608,891	566,731	-	-
Trade notes receivable	209,716	256,613	-	-
Other receivables	717,435	988,215	-	-
Due from related party	291,528	309,152	-	-
<b>Current portion</b>	<b>11,063,253</b>	<b>11,393,584</b>	<b>4,620,777</b>	<b>4,349,554</b>

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.

## Notes to the Financial Statements

The average credit period taken on sales is 35 days (2022: 39 days).

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

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
US Dollar	9,373,691	10,261,789
UK Pound	1,176,455	807,038
Australian Dollar	454,421	286,546
Canadian Dollar	58,686	38,211
	11,063,253	11,393,584

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

### 18 Cash and cash equivalents

	Group		Company	
	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
Cash at bank and in hand	8,882,627	23,014,454	1,105,607	1,384,624
Cash with period over 90 days	6,875,250	-	-	-

### 19 Trade and other payables

	Group		Company	
	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
Trade payables	1,401,653	1,519,128	4,642	305
Accruals and other payables	4,595,375	4,811,979	75,373	145,950
	5,997,028	6,331,107	80,015	146,255

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 38 days (2022:16 days).

### 20 Deferred Tax

The analysis of deferred tax liabilities is as follows:

Group	2023 \$	2022 \$
Deferred tax (liability)/assets	(2,618,605)	(1,915,581)

The movement in deferred tax liabilities is as follows:

## Notes to the Financial Statements

<b>2023</b>	<b>Opening balance</b>	<b>Recognized in the income statement</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing balance</b>
	\$	\$	\$	\$
Temporary differences:	-	-	-	-
Net operating profit (loss) (non-current)	-	-	-	-
Short term temporary differences	(1,915,581)	(707,478)	4,454	(2,618,605)
	(1,915,581)	(707,478)	4,454	(2,618,605)

  

<b>2022</b>	<b>Opening balance</b>	<b>Recognized in the income statement</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing balance</b>
	\$	\$	\$	\$
Temporary differences:	-	-	-	-
Net operating profit (loss) (non-current)	-	-	-	-
Short term temporary differences	(1,576,872)	(575,782)	237,073	(1,915,581)
	(1,576,872)	(575,782)	237,073	(1,915,581)

Deferred tax recognized in OCI is purely related to the revaluation of the listed shares.

As also set forth, in Note 10, at the balance sheet date, the Group's UK trading operations had unused tax losses of £3,830,192 (2022: £3,449,063) available for offset against future profits. £957,548 (2022: £862,266) represents unrecognized deferred tax assets thereon at 25%. 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

	<b>Ordinary Shares Number</b>	<b>Shares held in treasury Number</b>	<b>Total Number</b>
<b>At 31 December 2022</b>	17,358,688	129,000	17,487,688
<b>At 31 December 2023</b>	17,358,688	129,000	17,487,688

#### Group & Company

	<b>Share capital \$</b>	<b>Share premium \$</b>	<b>Shares in Treasury \$</b>
<b>At 31 December 2022</b>	143,192	35,417,072	(1,139,404)
<b>At 31 December 2023</b>	143,192	35,417,072	(1,139,404)

The Group has ordinary B shares of 2,080,000 issued and unpaid shares in 2023 and 2022

The ordinary shares and ordinary B shares have a par value of \$0.01

# Notes to the Financial Statements

## Reverse acquisition reserve

The reverse acquisition reserve was created in accordance with IFRS3 Business Combinations and relates to the reverse acquisition of Qconnectis 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. Qconnectis Plc was renamed Water Intelligence Plc on completion of the reverse acquisition on 29 July 2010.

## 22 Lease liability

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
<b>Lease liabilities in statement of financial position</b>		
Amounts due within one year	1,394,147	1,427,510
Amount due after more than one year	2,025,653	2,593,065
	3,419,800	4,020,575
<b>Amount recognized in the statement of comprehensive income</b>		
Interest on leasehold liabilities	190,579	189,430
<b>Amount recognized in the statement of cash flows</b>		
Repayment of lease liabilities	1,715,978	1,595,853

## 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 2023 no trading in financial instruments was undertaken (2022: none). The Group did enter into interest rate swap agreements as detailed in the derivatives section below.

The Group uses financial instruments including cash, loans, 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.

## Notes to the Financial Statements

### **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 2023 the Group held significant cash, cash equivalents and cash investments with 2 counterparties, 16.92% was held with one counterparty with a credit rating of A+ and a further 56.23% was held with another counterparty with a credit rating of BBB+.

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 2023, trade receivables of \$1,137,671 (2022: \$1,948,729) were past due but not impaired. These relate to corporate store 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 2023 \$	Year ended 31 December 2022 \$
60-90 days	361,416	331,989
90+ days	776,255	1,616,740
	1,137,671	1,948,729
Average age (days)	95	95

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

### **Credit risk management**

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

### **Exposure to credit risk**

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

## Notes to the Financial Statements

### Categories of financial instruments

	Group		Company	
	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
<b>Loans and receivables</b>				
Cash and cash equivalents	8,882,627	23,014,454	1,105,607	1,384,624
Investments	6,875,250	-	-	-
Trade and other receivables – current	11,063,253	11,393,584	4,620,777	4,349,554
Trade and other receivables – non-current	207,990	287,572	22,673,254	22,605,908
<b>Financial Liabilities measured at amortised cost</b>				
Trade and other payables	5,997,028	6,331,107	80,015	146,255
Borrowings – current	6,805,131	5,519,560	-	-
Borrowings – non-current	12,510,867	15,334,813	-	-
Deferred consideration – current	4,752,175	5,109,093	-	-
Deferred consideration – non-current	3,632,074	7,164,421	-	-

### Borrowings

#### **Bank Debt**

The Group has a commercial banking relationship with M&T Bank (M&T) with various facilities: a working capital line of credit (“WCL”); acquisition lines of credit (“ALOCs”), and term loans (“Term Loans”).

A \$2,000,000 WCL is secured by substantially all of the assets of the Group. On December 5, 2023, the WCL was extended to a maturity date of December 5, 2025 and bore an annual variable interest rate equal to SOFR plus 3.00%. At December 31, 2023 and 2022, the interest rate was 8.35% and 4.17%, respectively. Monthly interest only payments are to be made on any unpaid balance. The balance outstanding at both December 31, 2023 and 2022 was \$0.

In October 2020, M&T provided the Group with a term loan in the amount of \$4,607,000 (“Term Loan”). The Term Loan bears interest at a rate equal to 3.58% and requires installments consisting of principal of \$85,315 plus accrued interest to be paid monthly beginning in November 2020 until maturity in May 2025. The loan is secured by substantially all of the assets of the Group. The balance outstanding at December 31, 2023 and 2022 was \$1,450,352 and \$2,474,130, respectively and is included within notes payable on the balance sheets.

In October 2020, M&T provided the Group with an ALOC (“ALOC”) in the amount of \$6,000,000. The ALOC has a two year draw period. The line bears interest at a rate equal to LIBOR plus 3.00%. As of December 31, 2023 and 2022, the interest rate was 3.59% and requires installments of principal and interest amounting to \$39,816 to be paid per month beginning in November 2020 until maturity in October 2025. As part of the agreement, the ALOC advance would be converted into a term loan if any ALOC advance exceeded \$500,000 or automatically at the end of each draw period. Upon conversion, the term loan would bear interest at a rate per annum equal to three (3) percentage points in excess of M&T’s five year cost of funds interest rate; with a floor of 3.25%. ALOC is secured by substantially all of the assets of the Group. The balance outstanding at December 31, 2023 and 2022 was \$875,957 and \$1,353,751, respectively and is included within notes payable on the balance sheets.

In February 2021, the Group was advanced \$3,200,000 from the ALOC which converted the ALOC into a new term loan (“New Term Loan”). The New Term Loan bears interest at a rate equal to 3.64% and

## Notes to the Financial Statements

requires installments consisting of principal and interest amounting to \$53,333 to be paid monthly beginning in March 2021 until maturity in February 2026. The New Term Loan is secured by substantially all of the assets of the Group. The balance outstanding at December 31, 2023 and 2022 was \$1,386,667 and \$2,026,667, respectively and is included within notes payable on the balance sheets.

In March 2022, M&T provided the Group with a new ALOC (“New ALOC”) in the amount of \$15,000,000. The New ALOC has a two year draw period. As part of the agreement, M&T advanced the Group \$9,463,647 related to the New ALOC. The line bears interest at a rate equal to 5.39% and requires installments consisting of principal of \$157,727 plus interest to be paid monthly beginning in April 2022 until maturity in March 2027. The balance outstanding at December 31, 2023 and 2022 was \$6,151,371 and \$8,044,100, respectively and is included within notes payable on the balance sheets. In May 2022 and December 2022, the Group was advanced \$600,000 and \$2,125,000, respectively, from the New ALOC. The advances bear interest at a rate equal to 2.85% plus SOFR and require monthly installments consisting of interest only to be paid until the end of the first draw period. This total balance of \$2,725,000 was repaid in 2023. In March 2023, the Group was advanced \$5,536,353 from the New ALOC which converted into a new term loan (“2023 Term Loan”). The 2023 Term Loan bears interest at a rate equal to 5.68% and requires installments consisting of principal of \$92,273, plus interest, to be paid monthly beginning in April 2023 until maturity in March 2028. The balance outstanding at December 31, 2023 and 2022 was \$4,798,173 and \$0, respectively and is included within notes payable on the balance sheets. The New ALOC has related swap agreements which mature at the same time as the underlying loans.

As noted above, the Group expanded its credit facilities in March 2022. The interest rate for the new acquisition line of credit was established using the SOFR index. Additionally, the existing working capital line of credit interest rate was amended upon renewal in December 2023 to be calculated using the SOFR index. Therefore, the Group will not be impacted by the IBOR reform.

In December 2023, the New ALOC was amended to increase the line to \$20,000,000; however, all other terms are the same except the draw period end date is now December 3, 2025. As part of the agreement, any New ALOC advances would be converted into term loans automatically at the end of each draw period. Upon conversion, the term loan would bear interest at a rate per annum equal to three (3) percentage points in excess of SOFR. The New ALOC has a related swap agreement which matures at the same time as the underlying loans. The New ALOC is secured by substantially all of the assets of the Group.

In connection with the M&T line of credit, ALOC, and term note facilities, the Group is required to comply with certain financial and non-financial covenants. The most restrictive of these covenants includes a debt service coverage ratio to be tested quarterly and a maximum total funded debt to EBITDA ratio minimum to be tested quarterly. The Group was in compliance with those requirements at December 31, 2023.

	Current		Non-Current	
	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
<b>Financial Instruments</b>				
Working Capital Line of Credit	-	-	-	-
External borrowings	5,491,647	4,162,819	10,606,671	12,869,822
Less: Loan Closing Costs	(80,663)	(70,769)	(121,457)	(128,074)
Lease Liabilities	1,394,147	1,427,510	2,025,653	2,593,065
<b>Total</b>	<b>6,805,131</b>	<b>5,519,560</b>	<b>12,510,867</b>	<b>15,334,813</b>

# Notes to the Financial Statements

## Capital risk management

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

The capital structure of the Group currently consists of cash and cash equivalents, short and medium term borrowings and equity comprising issued capital, reserves and retained earnings. Other than with respect to Bank Debt, the Group is not subject to any externally imposed capital requirements. See KPI on page 12.

## Material 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 2023 were \$100,374 (2022: \$110,416). No foreign exchange contracts were in place at 31 December 2023 (2022: Nil).

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

	Group		Company	
	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$
<b>Assets</b>				
Sterling, Australian and Canadian Dollars	3,736,952	3,462,037	28,399,637	28,340,086
<b>Liabilities</b>				
Sterling, Australian and Canadian Dollars	1,144,750	1,066,160	80,015	146,255

As shown above, at 31 December 2023 the Group had Sterling, Australian and Canadian denominated monetary current assets of \$3,736,952 (2022: \$3,462,037). If the foreign currency weakens by 10% against the US dollar, this would decrease net assets by \$373,695 (2022: \$346,204) with a corresponding impact on reported losses. Changes in exchange rate movements resulted in a gain from exchange differences on a translation of foreign exchange of \$199,826 in 2023 (2022: loss of \$409,340), resulting primarily from the share issuance from prior years in Pound Sterling and subsequent intercompany transfers 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 majority of borrowings are subject to fixed rates with only the WCL subject to variable rates. Borrowings for which there are interest rate swaps at year-end are \$10,949,543 (2022: \$10,769,100) and borrowings for which there are no interest rate swaps are 4,946,654 (2022: 6,064,698).



## Notes to the Financial Statements

### Interest rate sensitivity analysis

The gains/losses recorded by both the Group and the Company for the year ended 31 December 2023 would not materially change if market interest rates had been 1% higher/lower throughout 2023 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 forecast for the period to 31 December 2025. 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 corporate-operated profits and franchisee 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 \$	1-2 years \$	2-5 years \$	>5 years \$	Total \$
<b>2023</b>						
Payables	5,997,028	-	-	-	-	5,997,028
Lease liabilities	776,522	617,625	1,062,989	962,664	-	3,419,800
Borrowings	2,705,869	2,705,113	4,782,400	5,702,815	-	15,896,197
Deferred consideration	3,551,079	1,201,096	3,604,235	27,840	-	8,384,250

Group	0-6 months \$	6-12 months \$	1-2 years \$	2-5 years \$	>5 years \$	Total \$
<b>2022</b>						
Payables	6,331,107	-	-	-	-	6,331,107
Lease liabilities	773,239	654,271	1,929,195	663,870	-	4,020,575
Borrowings	2,045,305	2,046,745	7,520,762	5,220,986	-	16,833,798
Deferred consideration	3,245,144	1,863,949	7,136,582	27,839	-	12,273,514

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

Group	0-6 months \$	6-12 months \$	>12 months \$	Total \$
<b>2023</b>				
Payables	-	-	-	-
Lease liabilities	79,756	59,265	112,691	251,712
Borrowings	304,289	257,946	604,426	1,166,661
Deferred consideration	129,849	89,442	34,344	253,635

## Notes to the Financial Statements

### Derivatives

The Group recognized that there was inherent risk related to interest rates in the economic environment. Therefore, the Group utilized interest rate swaps to fix its future rates and thereby eliminated the risk against the numerous increases in interest rates that occurred.

The Group entered into a swap agreement with M&T Bank which fixed the Daily Simple SOFR interest at 2.39% through March 30, 2027. The interest rate swap had a notional amount of \$9,463,647, an effective date of March 30, 2022, and a fair value of \$162,660 at December 31, 2023, which was included as an asset on the balance sheets.

The Group entered into an additional swap agreement with M&T Bank which fixed the Daily Simple SOFR interest at 2.68% through March 30, 2028. The interest rate swap had a notional amount of \$5,536,353, an effective date of March 30, 2023, and a fair value of \$113,605 at December 31, 2023, which was included as an asset on the balance sheets.

The interest rate swaps meet the criteria necessary to qualify as effective cash flow hedges as defined in the accounting standards. Accordingly, the Group has reflected the changes in the fair value within other comprehensive income in the statement of comprehensive income.

### Fair values

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

### Reconciliation of liabilities arising from financing activities

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

	Long-term borrowings \$	Short-term borrowings \$	Lease Liabilities \$	Total \$
At 1 January 2023	12,741,748	4,092,050	4,020,575	20,854,373
<b>Cash flows</b>				
- Repayment	(4,986,658)	-	(1,715,978)	(6,702,636)
- Proceeds	2,811,353	-	-	2,811,353
<b>Non-cash</b>				
- New Leases	-	-	1,115,203	1,115,203
- New Loans	1,237,705	-	-	1,237,705
- Reclassification	(1,318,933)	1,318,933	-	-
<b>As at 31 December 2023</b>	10,485,215	5,410,983	3,419,800	19,315,998

	Long-term borrowings \$	Short-term borrowings \$	Lease Liabilities \$	Total \$
At 1 January 2022	6,128,605	2,163,701	3,210,167	11,502,473
<b>Cash flows</b>				
- Repayment	(3,815,204)	-	(1,595,853)	(5,411,057)
- Proceeds	12,356,696	-	-	12,356,696
<b>Non-cash</b>				
- New Leases	-	-	2,406,261	2,406,261
- Reclassification	(1,928,349)	1,928,349	-	-
<b>As at 31 December 2022</b>	12,741,748	4,092,050	4,020,575	20,854,373

The New non-cash loans in the period are related to the financing for motor vehicles acquired in the period and these are all fixed term borrowings

## Notes to the Financial Statements

### 24 Fair value measurement

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

Assets measured at fair value	Date of valuation	Fair value measurement using			
		Total	Quoted process in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		\$	\$	\$	\$
<b>Listed equity investments</b>					
SEEN investment	31 December 2023	447,231	447,231	-	-
SEEN investment	31 December 2022	474,613	474,613	-	-
<b>Derivative financial assets</b>					
Interest rate swap	31 December 2023	276,265	-	276,265	-
Interest rate swap	31 December 2022	448,177	-	448,177	-

To estimate fair value, the lower end of the bid-offer spread as at 31 December 2023 was used to calculate the value of the holding. There is an active market for the Group's liquid equity investment.

### 25 Contingent liabilities

The Directors are not aware of any material contingent liabilities.

### 26 Related party transactions

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

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

As described in Note 23, the Company's parent (and the Company as co-borrower) have different credit facilities with M&T Bank. For the PSS guarantee, ALDHC 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 \$17,747 and \$19,089 for the years December 31, 2023 and 2022, respectively. The guarantee fee expense for the PSS guarantee amounted to \$123,748 and \$99,146

## Notes to the Financial Statements

for the years ended December 31, 2023 and 2022, respectively. During 2023 the Company paid expenses on behalf of PSS in the amount of \$88,377. The related receivable/prepaid balance remaining is \$291,528 and \$309,152 at December 31, 2023 and 2022, respectively.

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

<b>Water Intelligence International Limited</b>	<b>\$</b>
Balance at 31 December 2022	4,329,809
Net loans to subsidiary	-
Other expenses recharged and exchange differences	279,797
Balance at 31 December 2023	4,609,606

<b>ALDHC</b>	<b>\$</b>
Balance at 31 December 2022	-
Loans prepaid by WI capital raise	-
Balance at 31 December 2023	-

<b>ALD Inc.</b>	<b>\$</b>
Balance at 31 December 2022	22,605,908
Loans incurred due to WI capital raise	-
Loans paid to WI	-
Other expenses recharged and exchange differences	67,346
Balance at 31 December 2023	22,673,254

### 27 Exemption from audit by parent guarantee

The following subsidiaries of this entity are exempt from the requirement of the Companies Act 2006 relating to the audit of individual financial statements by virtue of s479A:

Name of subsidiary	Company number
Water Intelligence International Limited	03634838
Wat-er-save Services Limited	02498598

### 28 Subsequent events

On 9 May 2024, the Group announced the reacquisition of its Fresno, California franchise territory within the Group's ALD franchise business. As Fresno is located between the Bay Area and Los Angeles in the Central Valley of California, the reacquisition reinforces the Group's strategy of establishing regional corporate hubs in the US that fuel growth in adjacent franchise locations. The cash consideration for the acquisition is \$2.9 million based on 2023 revenue of \$1.8 million, adjusted profit before tax of \$0.6 million and the transfer of all operating assets to the Group. As at the date of issuance the acquisition accounting has not been completed and the disclosures required by IFRS 3 par B66 can not be provided

On 9 May 2024, the Group announced the sale of a new franchise for Albany and Saratoga, New York within the Group's ALD franchise business. Albany and Saratoga are key cities in upstate New York and comprise part of what is known as the Capital District of New York. The upfront consideration for launching this territory is \$0.1 million. ALD expects to receive royalty income from sales starting in July after the completion of training. More broadly, in terms of ALD's growth strategy, located between this new franchise location in Albany and ALD's corporate location on the

## Notes to the Financial Statements

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Canadian side of Niagara Falls, there are several large cities – Buffalo, Syracuse, and Rochester – in upstate New York around which ALD can deliver future growth, whether through corporate operations or selling more franchises.

### **29 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.