


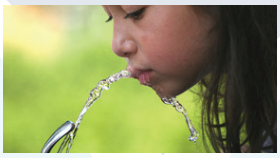
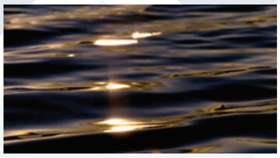

Water Intelligence plc

Group Annual Report and Financial Statements
for the Year Ended 31 December 2011

Company number 03923150

Group Annual Report and Financial Statements

for the Year Ended 31 December 2011

Contents

Company Information

Directors & Advisers

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

Company Secretary and Registered Office

Simon Barrell
Hexagon Business Centre
Hexagon House
Station Lane
Witney
Oxfordshire
OX28 4BN

Company number

Registered in England and Wales number 03923150

Nominated adviser and broker

Merchant Securities Limited
51-55 Gresham Street
London
EC2V 7EL

Independent Auditor

H W Fisher & Company
Acre House
11-15 William Road
London
NW1 3ER

Registrar

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

Bankers

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

Chairman's Statement

Overview

2011 was the first full year of operations for Water Intelligence plc (WI) after the reverse acquisition in July 2010 by American Leak Detection Holding Corp (ALDHC). The object of the acquisition was to create a market leader within a growing and increasingly salient global water infrastructure market. We are executing our corporate strategy to provide integrated water management solutions for utilities and commercial and residential customers. The Group's smart metering products offered by Qonnectis Networks Limited (QN) alert customers to leaks and complement non-invasive water leak detection and remediation services provided by American Leak Detection Inc (ALD). Our operating priority has been to ensure strong, sustainable and balanced growth and then scale rapidly with the introduction of new products to the existing customer base. The full year results for 2011 show we are moving in the right direction on our key performance indicators to meet this operating priority. Moreover, the first quarter of 2012 has further reinforced 2011 improvements as noted by our recent trading update and new *Leakfrog* sale to Thames Water announced on 17 May 2012. We seek to commercialise our next generation products during the second half of 2012.

The year to 31 December 2011 saw revenue growth of 12 per cent. over 2010. The operating performance of the Company steadily improved with a return to positive operating profits of $98,727 for the year to 31 December 2011 (2010 loss $567, 298). Finance costs meant that losses before tax were still incurred of $197,043 but this was a dramatic improvement over 2010 (Loss $870,826). Moreover, adjusted for one-off costs of $221,348, the severance costs of the former Chief Executive Officer, the Company returned to break-even heading into 2012, which as noted above, produced first quarter results reinforcing the positive direction.

The Company also returned to positive operating cash flows for the year at $653,231 (2010: ($315,010). The interest and loan repayments meant that total cash resources reduced by $276,314 for the year. Our balance sheet position improved as net debt was also reduced by approximately $400,000.

Continued Market Demand for Leakage Solutions

The worldwide market demand for our water saving products and services continues to develop and grow; the current water shortage in certain parts of the UK has highlighted the need for cost effective solutions such as ours. The £250,000 Leakfrog order from Thames in May 2012 is an indication of an extended sales life cycle to bridge current demand before the deployment of next generation solutions. The development of our Domestic Reporter and Commercial Reporter products, announced in 2011, has progressed with testing accelerating on Domestic Reporter due to customer needs. We have some exciting market opportunities in sight for both products. The same market trends exist in the US, which is the Company's most developed market, and in Australia, our fastest growing international franchisee market. During 2011 all regions of the US experienced sales growth at the same time and this has continued into the current year.

Public recognition of the importance of saving water is only growing providing pressure on governments to make the necessary spend on products and services such as ours. The UK's OFWAT (water regulatory agency) indicated that as late as 2009-2010, the water companies in England and Wales lost approximately 3.3 billion litres per day from leakage (Source: BBC News Magazine, 4 April 2012 "Eight Radical Solutions for the Water Shortage"). In the U.S. and Canada, it has been reported that approximately 15 per cent. of daily drinking water is lost to leakage; and in China and India, loss of drinking water from leaky pipes may reach up to 40 per cent. (Source: National Bank Financial, What the Looming Global Water Crisis Means for Investors August 2011). We are well-positioned to provide solutions, especially with our product and services mix for the residential market.

UK Product Market. In developing our Domestic Reporter and Commercial Reporter products, we have chosen to work with potential customers in designing and refining the functionality of our products. Hence testing has taken longer than expected but we are hoping to be more responsive to the requirements of big customers. Domestic Reporter is a wireless product to allow households to monitor water usage, usage over the previous day, week or month and the projected cost of their annual water bill based on the usage at the time, as well as, alerting the homeowner to leaks. Our development partners have 10.4 million customers combined which, together with other water utility companies, offers a huge market opportunity for an easy to use product designed to help reduce water consumption and to address the continuing problem of water leakage. We anticipate commercialization of Domestic Reporter to commence in the second half of the 2012. Meanwhile, our Commercial

Reporter is a low cost data logger and automatic meter reading unit that allows corporate water users to closely monitor water usage and can be used by water utilities to intensively monitor usage in a specific geographic area and offer their customers managed services. We are working with channel partners on a go-to-market plan and making adjustments to functionality to respond to market demand.

U.S. Services Market. All regions of the US experienced sales growth. Royalty income grew by 6.6 per cent. to $4,131,459 and we are pleased to see this trend is continuing into 2012. During March 2012, the US Environmental Protection Agency (EPA) celebrated its fourth annual "Fix a Leak Week" and called attention to the importance of fixing residential leaks. The EPA estimated that approximately 1 trillion gallons of water is lost annually from residential leaks or an amount equal to the annual water use in Los Angeles, Chicago and Miami combined. Moreover, the EPA has pointed out that 10 per cent. of the homes in the US waste approximately 90 gallons of water per day due to leakage and that homeowners could save 10 per cent. on their water bills by fixing leaks. As macroeconomic conditions continue to improve in the United States, more homeowners are calling ALD to help save water. Our nationwide footprint of franchise operations in 42 states of the US makes us a market leader in a fragmented market for solution providers and we are working towards achieving national accounts for the enhanced deployment of our leak detection services. We are currently working with a channel partner to extend our leak detection services in a greater way to the municipal market.

Financial Results and Operating Priorities

As noted above, we are headed in the right direction with improved operating performance. Strong, sustainable and balanced growth is our priority. Revenues increased 12 per cent. to $6,358,272 in 2011 as compared to $5,698,024 in 2010. Moreover, the Group returned to operating profits and, as noted, excluding the one-time costs, it reached breakeven with respect to profit before tax. This result was a big change from 2010. Our key performance indicators – franchise royalties, corporate stores, and net debt – all improved over 2010. Franchise royalties increased 6.6 per cent. to $4,131,459 which represented 65 per cent. of total revenues. It is pleasing that the other areas of the business also increased resulting in overall franchise income representing a decrease in the proportion of total revenues when compared to 2010. Hence, while, our core franchise business is growing, we are also becoming more diversified with growth in product and equipment sales. We see these segmental trends towards robust diversified sources of revenue continuing especially in light of Thames's recent purchase of £250,000 of Leakfrogs, and the anticipated introduction of our next generation Reporter products.

Outlook

We have a big opportunity ahead of us and a return to profitability was a prerequisite. Hence, while we might have proceeded faster with our product development, we feel that we took measured steps with our potential customers to manage working capital properly. In this light, 2011 was a good start with a return to operating profits and the positioning of the Company for scalable growth through the development of new smart metering products that will augment our services business. We are pushing ahead with our operating priorities to build sustainable shareholder value. We are experiencing in our core US based business continued growth in 2012 adding momentum to the progress made in 2011. Now that the development phase of our UK products is complete and we plan to begin commercialization, we will reinforce our ALD base for the future with the right investments during the second half of 2012.

Given market demand for water solutions, we are well-positioned relative to other companies in sectors that are more susceptible to choppy macroeconomic conditions and companies in our own sector that do not have our suite of product offerings and existing services footprint. With board, management and franchisees aligned, we look forward to sustainable, long-term growth.

Dr. Patrick DeSouza

27 June 2012

Directors' Report

The Directors present their report on the affairs of Water Intelligence plc (the Company) and its subsidiaries, referred to as the Group, together with the audited Financial Statements and Independent Auditors' report for the year ended 31 December 2011.

These will be laid before shareholders at the Annual General Meeting (AGM) to be held at 10.00 hours on Tuesday 31 July 2012 at Merchant Securities Limited, 51-55 Gresham Street, London EC2V 7EL. Details of the business to be considered at the AGM, together with an explanation of all the resolutions, are set out in the separate Notice of Meeting.

Principal Activities

The Group is a leading provider of water monitoring products, leak detection equipment and remediation services. The Group's strategy is to focus on providing a critical mass of water management products and services and to be a "one-stop" shop for leak alerts, precision, non-invasive leak detection and remediation.

Business Review

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

Royalty income has grown in all regions compared to 2010 as follows:

Revenue	**Year ended 31 December 2011 $'000**	**Year ended 31 December 2010 $'000**	**Change %**
California, Arizona & Nevada	1,217	1,154	5.5%
Rest of USA	2,665	2,484	7.3%
Total USA	3,882	3,638	6.7%
International	249	238	4.6%
Total Group Royalty income	4,131	3,876	6.6%

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

	Year ended 31 December 2011 $'000	**Year ended 31 December 2010 $'000**
Revenue	1,367	1,361
Contribution	(105)	(140)

Whilst the performance of the corporate stores has improved in the year the board is working to ensure that there is further improvement made in 2012. The majority of the negative contribution in the year relates to the set up of a new store in Connecticut.

Net Debt

Net debt has reduced over the year by the repayment of the short term loan from the Bank of Southern Connecticut. Based on its repayment schedule the loan will be repaid in 2016.

Group	Year ended 31 December 2011 $'000	Year ended 31 December 2010 $'000
6 Year term loan	3,183	3,718
Promissory notes	7	102
	3,190	3,820
Less: Cash		
Held in US Dollars	323	447
Held in £ Sterling	41	159
	364	606
Total Net Debt	2,826	3,214

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 15 to 21.

96 per cent. of the Group's revenue in the year ended 31 December 2011 (2010: 94 per cent.) came from its wholly-owned subsidiary ALD, with the remainder from UK operations.

Principal Risks and Uncertainties

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

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

Market Risk
The Group's activities expose it to the financial risk of changes in foreign currency exchange rates as it undertakes certain transactions denominated in foreign currencies. There has been no change to the Group's exposure to market risks. The Group and the Company had no material foreign exchange transactional exposure at 31 December 2011.

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

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

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

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

Going Concern

The Directors have prepared a business plan and cash flow forecast for the period to 30 June 2013. The forecast contains certain assumptions about the level of future sales and the level of gross margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term trading is reliant on cash generation from its US-based royalty income. The achievement of a successful product development and subsequent sales initiative will require additional working capital finance to be put in place. The Directors believe that the funding will be able to be made available on a case by case basis such that the group will have adequate cash resources. The Directors have taken steps to satisfy themselves about the robustness of the forecasts. The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly, continue to adopt the going concern basis in preparing the financial statements.

Further information on going concern is included in Note 3.

Research Design & Development

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

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

	2011 $	2010 $
Plain Sight Systems Inc (PSS) licence fees*	–	474,026
Third parties	79,434	155,883
	79,434	629,909

* The amount paid to PSS was under a Commercial Agreement with the majority owner of ALD until the Admission to AIM in July 2010. The Commercial Agreement was amended on Admission to be royalty-free for the first $5 million of sales of products created with the technology. Currently the technology is not used in the business and therefore no royalties are expected for the near future.

Dividends

The Directors do not recommend the payment of a dividend (2010: $nil).

Share Price

On 31 December 2011, the closing market price of Water Intelligence plc ordinary shares was 34 pence. The highest and lowest prices of these shares during the year to 31 December 2011 were 57 pence and 28 pence.

Capital Structure

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

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

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

Supplier Payment Policy

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

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

Subsequent Events

There are no material post balance sheet events.

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

Directors

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

Executive Directors

Patrick DeSouza – Executive Chairman	
Stanford Berenbaum – Chief Executive Officer	*Resigned 26 April 2011*

Non-Executive Directors

Stephen Leeb	
Michael Reisman	
Harry Offer	*Resigned 11 August 2011*
Ric Piper	*Resigned 22 June 2011*
Robert Mitchell	Appointed 11 August 2011
David Silverstone	Appointed 11 November 2011

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

Directors' emoluments

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

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

All of the remuneration for P DeSouza was paid to Plain Sight Systems Inc. (PSS). Of the directors' remuneration for the year, $41,425 of P DeSouza's remuneration has been accrued and not yet paid and all of Messrs Leeb, Reisman, Mitchell and Silverstone's fees have been accrued and not yet paid.

Directors' interests

The Directors who held office at 31 December 2011 had the following interests in the ordinary shares of the Company:

	Number of shares at 31 December 2011	% held at 31 December 2011
Patrick DeSouza*	2,840,718	29.58%
Michael Reisman*	147,378	1.53%
Stephen Leeb *	73,689	0.77%

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

Share option schemes

In order to provide incentive for the management and key employees of the Group the Directors announced at the time of the Reverse Acquisition that the share option scheme issued to ALD employees was to be replaced. This action has yet to be undertaken and this will be completed by the end of 2012.

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

Substantial Shareholders

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

	Number of shares	% held
Plain Sight Systems, Inc.	2,204,971	22.96%
Stanford Berenbaum	800,000	8.33%
Maven Capital Partners LLP	519,758	5.41%
Terry Tyrell	481,151	5.01%

Corporate Responsibility

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

The Community including Charitable and Political Donations

During the year the Group made charitable donations of $1,155 (2010: $4,249). The Group made no donations for political purposes either in the UK or overseas during the year. The Directors consider the impact on the community in making their decisions.

Employees

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

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

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

Independent Auditors

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

By order of the Board

Patrick DeSouza
Executive Chairman

27 June 2012

Cautionary Statement

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

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

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

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

Corporate Governance Statement

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

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

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

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

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

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

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

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

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

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

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

Directors' Reponsibilities

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

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

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

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

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

Website publication

The Directors are responsible for ensuring the Annual Report and Financial Statements are made available on a website. Financial Statements are published on the Group's website (*www.waterintelligence.co.uk*) in accordance with legislation in the United Kingdom governing the preparation and dissemination of Financial Statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

Statement of disclosure to the Independent Auditor

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

Patrick DeSouza
Executive Chairman

27 June 2012

Report of the Independent Auditor

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

We have audited the Group and Parent Company Financial Statements of Water Intelligence plc for the year ended 31 December 2011 (the "Financial Statements"), which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows, together with the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditors

As explained more fully under 'Statement of Directors' Responsibilities' on page 12 the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

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

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Parent Company Financial Statements have been properly prepared in accordance with the IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Gary Miller (Senior Statutory Auditor)
For and on behalf of H W Fisher & Company

Chartered Accountants
Statutory Auditor

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

27 June 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Revenue	4	6,358,272	5,698,024
Cost of sales		(498,704)	(355,342)
Gross profit		5,859,568	5,342,682
Administrative expenses			
– Share-based payments	8	(36,643)	(20,399)
– Impairment of goodwill	13	(75,000)	–
– Reverse acquisition costs		–	(681,893)
– Amortisation of intangibles	14	(264,062)	(322,395)
– Other administrative costs		(5,385,136)	(4,885,293)
Total administrative expenses		(5,760,841)	(5,909,980)
Operating profit/(loss)	5	98,727	(567,298)
Finance income	9	22,808	19,103
Finance expense	10	(318,578)	(322,631)
Loss before tax		(197,043)	(870,826)
Taxation (expense)/credit	11	(264,145)	1,658
Loss for the year		(461,188)	(869,168)

Other Comprehensive Income		
Exchange differences arising on translation of foreign operations	34,031	(18,833)
Total comprehensive loss for the year	(427,157)	(888,001)

Loss per share		**Cents**	**Cents**
Basic	12	(4.5)	(21.9)
Diluted	12	(4.5)	(21.9)

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

The accompanying notes on pages 22 to 50 are an integral part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2011

	Notes	2011 $	2010 $
Assets			
Non-current assets			
Goodwill	13	2,294,940	2,369,940
Other intangible assets	14	3,709,060	3,973,122
Property, plant and equipment	15	35,692	76,729
Deferred tax asset	22	55,218	279,388
Trade and other receivables	18	44,839	52,439
		6,139,749	6,751,618
Current assets			
Inventories	17	91,270	242,049
Trade and other receivables	18	779,840	825,487
Corporation tax		62,724	35,335
Cash and cash equivalents	19	364,099	606,382
		1,297,933	1,709,253
Total Assets		7,437,682	8,460,871
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	23	12,716,863	12,716,863
Share premium	23	4,203,812	4,203,812
Capital redemption reserve	23	6,517,644	6,517,644
Merger reserve		8,501,150	8,501,150
Other reserves		69,925	601
Reverse acquisition reserve		(27,758,088)	(27,758,088)
Retained loss		(1,167,365)	(706,177)
		3,083,941	3,475,805
Non-current liabilities			
Borrowings	25	2,582,964	3,086,408
Promissory notes	25	–	85,222
Provision for onerous contracts	21	72,359	193,218
		2,655,323	3,364,848
Current liabilities			
Trade and other payables	20	970,984	884,264
Borrowings	25	600,521	632,439
Promissory notes	25	7,272	16,880
Provision for onerous contracts	21	119,641	86,635
		1,698,418	1,620,218
Total equity and liabilities		7,437,682	8,460,871

These Financial Statements were approved and authorised for issue by the Board of Directors on 27 June 2012 and were signed on its behalf by:

Patrick DeSouza
Executive Chairman

The accompanying notes on pages 22 to 50 are an integral part of these financial statements.

Company Statement of Financial Position

as at 31 December 2011

	Notes	2011 $	2010 $
Assets			
Non-current assets			
Investment in subsidiaries	16	8,490,074	8,544,065
		8,490,074	8,544,065
Current assets			
Trade and other receivables	18	206,067	190,918
Cash and cash equivalents	19	29,677	173,844
		235,744	364,762
Total assets		8,725,818	8,908,827
Equity and liabilities			
Equity attributable to holders of the parent			
Share capital	23	12,716,863	12,716,863
Share premium	23	4,203,812	4,203,812
Capital redemption reserve	23	6,517,644	6,517,644
Merger reserve		8,501,150	8,501,150
Other reserves		(38,459)	(19,186)
Retained losses		(23,964,476)	(23,258,424)
		7,936,534	8,661,859
Current liabilities			
Trade and other payables	20	789,284	246,968
		789,284	246,968
Total equity and liabilities		8,725,818	8,908,827

These Financial Statements were approved and authorised for issue by the Board of Directors on 27 June 2012 and were signed on its behalf by:

Patrick DeSouza
Executive Chairman

The accompanying notes on pages 22 to 50 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Share Capital $	Share Premium $	Capital Redemption Reserve $	Reverse Acquisition Reserve $	Merger Reserve $	Other Reserves $	Retained Profit/(Loss) $	Total Equity $
As at 1 January 2010	**84**	**1,924,895**	**–**	**–**	**–**	**–**	**162,991**	**2,087,970**
Parent Company equity reflected on reverse acquisition	18,853,090	2,510,565	–	–	–	–	–	21,363,655
Issue of shares	237,908	–	–	–	–	–	–	237,908
Issue of consideration shares	114,880	–	–	(27,758,088)	8,501,150	–	–	(19,142,058)
Reverse acquisition adjustment	(84)	(1,924,895)	–	–	–	–	–	(1,924,979)
Issue of open offer shares	3,525	260,857	–	–	–	–	–	264,382
Issue of shares to advisers and creditors	1,289	95,337	–	–	–	–	–	96,626
Issue of re sub-underwriting shares	13,748	1,017,341	–	–	–	–	–	1,031,089
Conversion of loan notes	10,067	583,972	–	–	–	–	–	594,039
Cost of raising equity	–	(264,260)	–	–	–	–	–	(264,260)
Cancellation deferred shares	(6,517,644)	–	6,517,644	–	–	–	–	–
Share based payment expense	–	–	–	–	–	19,434	–	19,434
Total comprehensive loss	–	–	–	–	–	(18,833)	(869,168)	(888,001)
As at 1 January 2011	**12,716,863**	**4,203,812**	**6,517,644**	**(27,758,088)**	**8,501,150**	**601**	**(706,177)**	**3,475,805**
Share based payment expense	–	–	–	–	–	36,643	–	36,643
Foreign exchange						(1,350)		(1,350)
Total comprehensive loss	–	–	–	–	–	34,031	(461,188)	(427,157)
As at 31 December 2011	**12,716,863**	**4,203,812**	**6,517,644**	**(27,758,088)**	**8,501,150**	**69,925**	**(1,167,365)**	**3,083,941**

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

Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Capital redemption	Non-distributable reserve in relation to cancellation of deferred shares
Retained profit/(losses)	Cumulative net losses recognised in the Financial Statements
Reverse acquisition	Non-distributable amount arising on the reverse acquisition.
Other reserves	Amounts recognised for the fair value of share options granted in accordance with IFRS 2 and exchange differences on translating foreign operations.
Merger reserve	Non-distributable reserve arising on reverse acquisition

The accompanying notes on pages 22 to 50 are an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2011

	Share Capital $	Share Premium $	Capital Redemption Reserve $	Merger Reserve $	Other Reserves $	Retained Losses $	Total Equity $
As at 1 January 2010	**18,853,090**	**2,510,565**	**–**	**–**	**–**	**(20,946,663)**	**416,992**
Issue of shares	237,908	–	–	–	–	–	237,908
Issue of consideration shares	114,880	–	–	8,501,150	–	–	8,616,030
Issue of open offer shares	3,525	260,857	–	–	–	–	264,382
Issue of shares to advisers and creditors	1,289	95,337	–	–	–	–	96,626
Issue of re sub-underwriting shares	13,748	1,017,341	–	–	–	–	1,031,089
Conversion of loan notes	10,067	583,972	–	–	–	–	594,039
Costs of raising equity	–	(264,260)	–	–	–	–	(264,260)
Cancellation deferred shares	(6,517,644)	–	6,517,644	–	–	–	–
Share based payment expense	–	–	–	–	86,162	–	86,162
Foreign exchange	–	–	–	–	(71,965)	–	(71,695)
Total comprehensive loss	–	–	–	–	(33,383)	(2,311,761)	(2,345,144)
As at 1 January 2011	**12,716,863**	**4,203,812**	**6,517,644**	**8,501,150**	**(19,186)**	**(23,258,424)**	**8,661,859**
Share based payment expense	–	–	–	–	36,643	–	36,643
Foreign exchange	–	–	–	–	(29,139)		(29,139)
Total comprehensive loss	–	–	–	–	(26,777)	(706,052)	(732,829)
As at 31 December 2011	**12,716,863**	**4,203,812**	**6,517,644**	**8,501,150**	**(38,459)**	**(23,964,476)**	**7,936,534**

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

Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Capital redemption reserve	Non-distributable reserve in relation to cancellation of deferred shares.
Retained losses	Cumulative net losses recognised in the Financial Statements.
Other reserves	Amounts recognised for the fair value of share options granted in accordance with IFRS 2 and foreign exchange differences on re-translation
Merger reserve	Non-distributable reserve arising on reverse acquisition

The accompanying notes on pages 22 to 50 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Net cash generated from/(used in) operating activities	26	653,231	(315,010)
Cash flows from investing activities			
Interest received		22,808	19,103
Interest paid		(318,578)	(322,631)
Purchase of plant and equipment		(3,883)	(7,124)
Sale of fixed assets		300	801
Trade notes issued		–	105,993
Net cash used in investing activities		(299,353)	(203,858)
Cash flows from financing activities			
Proceeds from borrowings		–	4,000,000
Principal payments on long term debt and promissory notes		(630,192)	(4,776,392)
Repayment of obligations under finance leases		–	(16,617)
Proceeds from issue of shares		–	1,295,471
Fees associated with share issue capitalised		–	(264,260)
Proceeds from issue of convertible loan notes		–	452,883
Net cash (used in)/from financing activities		(630,192)	691,085
Net (decrease)/increase in cash and cash equivalents		(276,314)	172,217
Cash and cash equivalents at the beginning of year		606,382	369,650
Cash acquired on Reverse acquisition		–	83,348
Effect of foreign exchange rate changes		34,031	(18,833)
Cash and cash equivalents at end of year		364,099	606,382

The accompanying notes on pages 22 to 50 are an integral part of these financial statements.

Company Statement of Cash Flows

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Net cash used in operating activities	26	(165,827)	(784,046)
Cash flows from investing activities			
Interest received		4	15
Interest paid		(5,121)	(21,133)
Net cash used in investing activities		(5,117)	(21,118)
Cash flows from financing activities			
Proceeds from issue of shares		–	1,533,379
Expenses of share issue		–	(264,260)
Proceeds from issue of convertible loans notes		–	452,883
Amounts loaned to subsidiary		–	(750,932)
Repayment of loan note		–	(114,319)
Net cash from financing activities		–	856,751
(Decrease)/increase in cash and cash equivalents		(170,944)	51,587
Cash and cash equivalents at the beginning of period		173,844	155,640
Effect of foreign rate changes		26,777	(33,383)
Cash and cash equivalents at end of period		29,677	173,844

The accompanying notes on pages 22 to 50 are an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2011

1 General information

The Group is a leading provider of water monitoring products, leak detection equipment and remediation services. The Group's strategy is to focus on providing a critical mass of water management products and services and to be a "one-stop" shop for leak alerts, precision, non-invasive leak detection and remediation.

The Company is a public limited company domiciled in the United Kingdom and incorporated under registered number 03923150 in England and Wales. The Company's registered office is Hexagon Business Centre, Hexagon House, Station Lane, Witney, Oxfordshire, OX28 4BN.

The Company is listed on AIM of the London Stock Exchange. These Financial Statements were authorised for issue by the Board of Directors on the 27 June 2012.

2 Adoption of new and revised International Financial Reporting Standards

No new IFRS standards, amendments or interpretations became effective in 2011 which had a material effect on these Financial Statements.

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

Standard	**Description**	**Effective for annual periods beginning on or after:**
IFRS 7	Amendment – Transfer of financial assets	1 Jul 2011
IFRS 9	Financial instruments	1 Jan 2013
IFRS 10	Consolidated Financial Statements	1 Jan 2013
IFRS 11	Joint Arrangements	1 Jan 2013
IFRS 12	Disclosure of interests in other entities	1 Jan 2013
IFRS 13	Fair value measurement	1 Jan 2013
IAS 12	Deferred Tax: Recovery of Underlying Assets	1 Jan 2012
IAS 19	Employee benefits	1 Jan 2013

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

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

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

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

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

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

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

3 Significant accounting policies

Basis of preparation

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

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

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

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

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Directors' Report and the Chairman's Statement.

The Directors have prepared a business plan and cash flow forecast for the period to 30 June 2013. The forecast contains certain assumptions about the level of future sales and the level of gross margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term trading is reliant on cash generation from its US-based royalty income. The achievement of a successful product development and subsequent sales initiative will require additional working capital finance to be put in place. The Directors believe that the funding will be able to be made available on a case by case basis such that the group will have adequate cash resources.

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

Basis of consolidation

The Group financial statements consolidate the accounts of Water Intelligence plc and all of its subsidiary undertakings made up to 31 December 2011. The Consolidated Statement of Comprehensive Income includes the results of all subsidiary undertakings for the period from the date on which control passes. Control is achieved where the Company (or one of its subsidiary undertakings) obtains the power to govern the financial and operating policies of an investee entity so as to derive benefits from its activities.

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

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

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

3 Significant accounting policies continued

Parent Company income statement
The Company has taken advantage of Section 408 of the Companies Act 2006 in not presenting its own Statement of Comprehensive Income. The Company's loss for the year ended 31 December 2011 of $732,829 (2010: $2,311,761). The 2010 loss included $1,338,371 for provisions against inter-company balances $291,472 for reverse acquisition expenses. The loss is included within the Consolidated Statement of Comprehensive Income.

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

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

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

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

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

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

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

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

3 Significant accounting policies continued

Foreign currencies

(i) Functional and presentational currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which each entity operates ("the functional currency") which is considered by the Directors to be Pounds Sterling (£) for the Parent Company and US Dollars ($) for ALDHC. The Financial Statements have been presented in US Dollars which represents the dominant economic environment in which the Group operates and is considered to be the functional currency of the group. The effective exchange rate at 31 December 2011 was £1 = US$1.5455 (2010: £1 = US$1.5553).

(ii) Transactions and balances

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

(iii) Group Companies

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

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

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

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

Leases

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

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

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

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

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

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

Borrowing costs

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

3 Significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

3 Significant accounting policies continued

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

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

Goodwill

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

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

Other intangible assets

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

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

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

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.

3 Significant accounting policies continued

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

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that is subject to risks and returns that are different from those of other business segments, a geographical segment is engaged in providing products or services within a particular environment that subject to risks and returns that are different from those of segments operating in other economic environments.

Pension contributions
There are no pension schemes in the Group.

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

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

Critical accounting estimates and judgements
The preparation of Financial Statements in conformity with International Financial Reporting Standards requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the relevant notes.

4 Revenues

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

The Group mainly operates in the US, with operations in the UK and certain other countries. In 2011 96 per cent. (2010 94 per cent.) of its revenue came from the US based operations, the remaining 4 per cent. (2010 6 per cent.) of its revenue came from either UK or overseas based operations.

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

Segment information

Information reported to the Group's Chief Operating Decision Maker (being the Executive Chairman), for the purpose of resource allocation and assessment of division performance is separated into four segments:

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

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

Revenue

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Royalties from franchisees	4,131,459	3,876,047
Corporate-operated Stores	1,367,645	1,361,324
Other activities	859,168	460,653
Total	6,358,272	5,698,024

Loss before tax

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Royalties from franchisees	883,051	585,242
Corporate-operated Stores	(105,164)	(139,679)
Other activities	(243,785)	(342,999)
Unallocated head office costs	(731,145)	(973,390)
Total	(197,043)	(870,826)

Assets

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Royalties from franchisees	5,157,602	5,315,158
Corporate-operated Stores	300,424	431,631
Other activities	1,979,656	2,714,082
Total	7,437,682	8,460,871

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

4 Revenues continued

Geographic information

Total revenue

Total revenue from activities by geographical area is detailed below:

Revenue by geography

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
US	5,856,369	5,367,232
International	501,903	330,792
Total	6,358,272	5,698,024

Revenue from franchisor activities by geographical area is detailed below.

Royalties from franchisees

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
US	3,882,459	3,638,047
International	249,000	238,000
Total	4,131,459	3,876,047

5 Expenses by nature

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

	Note	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Raw materials and consumables used		539,171	355,341
Employee costs	6	2,802,231	2,486,529
Costs in respect of termination of Chief Executive Officer		77,479	–
Operating lease rentals		17,393	21,521
Finance lease rentals		–	5,511
Depreciation charge		45,414	68,392
Marketing costs		476,439	549,990
R & D		79,434	629,909
Plain Sight Systems licence fees		–	474,026
Third parties		79,434	155,883
Reverse acquisition costs		–	681,893

5 Expenses by nature continued

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

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Auditors remuneration		
Fees payable to the Company's auditor for audit of Parent Company and Consolidated Financial Statements	50,000	90,000
Fees payables to the Company's auditor for other services:	15,000	–

6 Employees and Directors

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Directors fees, salaries and benefits	456,752	332,344
Wages and Salaries	1,996,902	1,943,124
Redundancy	143,869	–
Social Security Costs	168,065	190,662
Share based payments	36,643	20,399
	2,802,231	2,486,529

Information regarding Directors emoluments are as follows:

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Directors fees	84,040	34,457
Salaries and benefits	372,712	297,887
Redundancy	143,869	–
Social Security Costs	15,307	30,922
	615,928	363,266

The highest paid Director received emoluments of $284,004 (2010: $207,308). Of the amounts above directors fees of $53,402 (2010 $nil) and salaries of $41,425 (2010: $nil) have been accrued and not yet paid.

The average number of employees (including Executive Directors) in the Group during the year was 40 (2010: 39).

	Year ended 31 December 2011	Year ended 31 December 2010
Directors (executive and non executive)	5	6
Management	8	7
Field Services	14	14
Franchise Support	8	7
Administration	5	5
	40	39

7 Directors share options

None of the Directors had options in WI at 31 December 2011 (2010: nil) and at the date of this report.

8 Share options

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

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

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

	Number of share options 2011	**Weighted average exercise price ($) 2011**	**Number of share options 2010**	**Weighted average exercise price ($) 2010**
Outstanding at beginning of year	301,957	2.81	18,366	36.07
Granted during the year	–	–	287,526	1.41
Forfeited/lapsed during the year	(8,288)	(36.68)	(3,935)	(51.03)
Exercised during the year	–	–	–	–
Outstanding at end of the year	293,669	1.86	301,957	2.81
Exercisable at end of the year	293,669	1.86	301,957	2.81

Fair value of share options

The weighted average fair value of the exercise price of the share options granted in the financial year was nil (2010: $1.41 (£0.75)).

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

	Weighted average exercise price ($) 2010
Weighted average share price	1.0433
Weighted average exercise price	1.1544
Expected volatility	35%
Expected life	3 years
Risk free rate	2.08%
Expected dividend yields	Nil

There were no share options issued during 2011 and therefore no Black Scholes calculation has been performed.

A charge of $36,643 (2010: $20,399) relating to share-based payments has been recognised in the year and is included in the Consolidated Statement of Comprehensive Income. The Company has recognised a charge of $36,643 (2010: $86,162) relating to share-based payments in the year.

On 31 December 2011, the closing market price of Water Intelligence plc ordinary shares was 34 pence. The highest and lowest prices of these shares during the year to 31 December 2011 were 57 pence and 28 pence.

8 Share options continued

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

Scheme	2011	2010	Date of Grant	Exercise price	Exercise period From	To
EMI	–	185	18/02/2005	$51.00	18/02/2005	30/01/2011
	–	417	29/05/2007	$34.08	29/05/2007	30/01/2011
	–	833	29/01/2009	$22.68	29/01/2009	30/01/2011
Unapproved	–	3,333	18/02/2005	$51.03	18/02/2005	30/01/2011
	–	1,020	29/05/2007	$34.02	29/05/007	30/01/2011
	6,143	6,143	23/04/2008	$22.68	23/04/2008	22/04/2013
	–	2,500	29/01/2009	$22.68	29/01/2009	30/01/2011
	70,000	70,000	16/07/2010	$0.99	16/07/2010	16/07/2014
	187,526	187,526	28/07/2010	$1.18	28/07/2010	28/07/2014
	30,000	30,000	05/10/2010	$1.60	05/10/2010	04/10/2012
Total	293,669	301,957				

All share options are equity settled on exercise.

Under ALDHC's 2006 Employee, Director and Consultant Stock Plan ("ALDHC Option Plan"), certain directors and employees of ALD, were granted an aggregate of 738,750 options to acquire stock in ALDHC with an exercise price of $1.14 per share. Following Admission, all options under the ALDHC Option Plan were to be cancelled or waived in return for the grant of options over New Ordinary Shares with the same economic value as existing options under the ALDHC Option Plan. These options have still to be issued and it is intended that the options, that have not been cancelled due to leavers, amounting to 461,250 over new ordinary shares will be granted to certain eligible US employees of the Group with an exercise price of 72p per share.

9 Finance income

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Interest income	22,808	19,103

10 Finance expense

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Interest payable	318,578	322,631

11 Taxation

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Group		
Current tax:		
Current tax on profits/(losses) in the year	39,975	(35,335)
Total current tax	39,975	(35,335)
Deferred tax (note 22)	224,170	33,677
Income tax expense/(credit)	264,145	(1,658)

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

Loss before tax on ordinary activities	(197,043)	(870,826)
Tax calculated at domestic rate applicable profits in respective countries	4,228	(463,601)
Tax effects of:		
Non deductible expenses	111,837	160,496
State taxes net of federal benefit	44,931	1,000
Depreciation (less than)/in excess of capital allowances	(152,465)	1,199
Addition/(deduction) for research and development	2,339	(30,515)
Tax losses unrelieved	195,624	329,763
Prior year adjustments	57,651	–
Taxation expense/(credit) recognised in income statement	264,145	(1,658)

The Group is subject to income taxes in two jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

12 Loss per share

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

Basic

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Loss attributable to shareholders of the Company ($)	(427,158)	(869,168)
Weighted average number of ordinary shares	9,604,417	3,962,211
Loss per share (cents)	(4.5)	(21.9)
Diluted loss per share (cents)	(4.5)	(21.9)

The diluted loss per share is the same as the basic loss per share as the conversion of share options decreases the basis loss per share, thus being anti-dilutive.

13 Goodwill

Group

	Goodwill $	Owned and Operated stores $	Franchisor activities $	Totals $
Cost				
At 1 January 2010	–	239,500	636,711	876,211
Additions	1,493,729	–	–	1,493,729
At 31 December 2010	1,493,729	239,500	636,711	2,369,940
Additions	–	–	–	–
At 31 December 2011	1,493,729	239,500	636,711	2,369,940
Impairment				
At 1 January 2010	–	–	–	–
Impairment in year	–	–	–	–
At 31 December 2010	–	–	–	–
Impairment in year	–	75,000	–	75,000
At 31 December 2011	–	75,000	–	75,000
Carrying amount				
At 31 December 2010	1,493,729	239,500	636,711	2,369,940
At 31 December 2011	1,493,729	164,500	636,711	2,294,940

An impairment review is undertaken annually or whenever changes in circumstances or events indicate that the carrying amount may not be recovered. For the purpose of impairment testing, goodwill is allocated to each of the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not recovered in a subsequent period.

13 Goodwill continued

Calculation of each cash generating unit's recoverable amount requires the use of estimates, with regards to forecast cash flows and discount rates. An impairment charge was recognised in the year to 31 December 2011 of $75,000 (2010: $nil) as the recoverable amount of one of the cash generating units did not exceed its carrying amount. No impairment is recognised for the remaining cash generating units and had the estimated cost of capital used in determining the discount rate used in these calculations been 10 per cent. higher than management's estimates, the Group would still not have incurred any impairment.

14 Other intangible assets

	Covenants not to compete $	Customer Lists $	Trademarks $	Patents $	Total $
Cost					
At 1 January 2010	270,000	217,500	5,293,817	23,692	5,805,009
Additions	–	–	–	–	–
At 31 December 2010	270,000	217,500	5,293,817	23,692	5,805,009
Additions	–	–	–	–	–
At 31 December 2011	270,000	217,500	5,293,817	23,692	5,805,009
Accumulated amortisation					
At 1 January 2010	261,666	167,500	1,063,149	17,178	1,509,493
Amortisation expense	8,334	50,000	261,690	2,370	322,394
At 31 December 2010	270,000	217,500	1,324,839	19,548	1,831,887
Amortisation expense	–	–	261,691	2,371	264,062
At 31 December 2011	270,000	217,500	1,586,530	21,918	2,095,948
Carrying amount					
At 31 December 2010	–	–	3,968,978	4,144	3,973,122
At 31 December 2011	–	–	3,707,287	1,773	3,709,060

All intangible assets have been acquired by the Group.

The calculation of amortisation on intangible assets requires the use of estimates and judgement, related to the expected useful lives of the assets. If the useful lives of the trademarks were decreased by 10 per cent., this would have resulted in an additional amortisation charge of $26,000.

15 Property, plant and equipment

	Equipment & displays $	Motor vehicles $	Leasehold improvements $	Total $
Cost				
At 1 January 2010	545,570	350,933	123,418	1,019,921
Additions	7,123	–	–	7,123
Company assets consolidated on reverse acquisition	140,270	–	–	140,270
Exchange differences	(1,171)	–	–	(1,171)
Disposals	–	(5,500)	–	(5,500)
At 31 December 2010	691,792	345,433	123,418	1,160,643
Additions	3,883	–	–	3,883
Fully depreciated assets written off	(220,776)	–	–	(220,776)
Exchange differences	(1,451)	–	–	(1,451)
Disposals	–	(20,533)	–	(20,533)
At 31 December 2011	473,448	324,900	123,418	921,766
Accumulated depreciation				
At 1 January 2010	483,897	317,182	101,555	902,634
Eliminated on disposals	–	(5,500)	–	(5,500)
Company assets consolidated on reverse acquisition	119,380	–	–	119,380
Depreciation expense	28,087	18,422	21,863	68,372
Exchange differences	(972)	–	–	(972)
At 31 December 2010	630,392	330,104	123,418	1,083,914
Eliminated on disposals	–	(20,533)	–	(20,533)
Fully depreciated assets written off	(220,776)	–	–	(220,776)
Depreciation expense	35,855	9,559	–	45,414
Exchange differences	(1,945)	–	–	(1,945)
At 31 December 2011	443,526	319,130	123,418	886,074
Carrying amount				
At 31 December 2010	61,400	15,329	–	76,729
At 31 December 2011	29,922	5,770	–	35,692

The calculation of depreciation on property, plant and equipment requires the use of estimates and judgement, related to the expected useful lives of the assets. The depreciation expense in the year to 31 December 2011 is not material to the accounts, and therefore any change in estimate related to expected useful lives would not have a material effect on the Financial Statements.

The value of the assets charged as security for the bank debt is $35,102 (2010: $60,271).

16 Investment in subsidiary undertakings

Company	Subsidiary undertaking $
Cost	
At 31 December 2010	14,706,942
Exchange difference	(92,669)
At 31 December 2011	14,614,273
Amortisation	
At 31 December 2010	6,162,877
Exchange difference	(39,308)
At 31 December 2011	6,123,569
Carrying amount	
At 31 December 2010	8,544,065
At 31 December 2011	8,490,704

The Directors annually assess the carrying value of the investment in the subsidiary and in their opinion no impairment provision is currently necessary.

The principal subsidiary undertakings during the year were as follows:

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

* Subsidiaries owned directly by the Parent Company.

17 Inventories

	Group 31 December 2011 $	31 December 2010 $
Group inventories	91,270	242,049

The Company does not hold inventory. During the year ended 31 December 2011 an expense of $nil (2010: $14,862) was recognised in the Consolidated Statement of Comprehensive Income related to a write down of inventories.

18 Trade and other receivables

Non current

	Group		Company	
	31 December 2011 $	**31 December 2010 $**	**31 December 2011 $**	**31 December 2010 $**
Trade notes receivable	44,839	52,439	–	–

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

Current

	Group		Company	
	31 December 2011 $	**31 December 2010 $**	**31 December 2011 $**	**31 December 2010 $**
Trade receivables	165,127	163,684	–	15,753
Prepayments	104,192	89,067	33,453	1,594
Due from Group undertakings	–	–	172,614	173,571
Accrued royalties receivable	305,282	303,826	–	–
Loans receivable	–	80,119	–	–
Trade notes receivable	44,896	27,680	–	–
Other receivables				
Due from related party	138,806	145,805	–	–
VAT debtor	21,537	15,306	–	–
Current portion	779,840	825,487	206,067	190,918

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

The average credit period taken on sales is 39 days (2010: 26 days).

As at the 31 December 2011, trade receivables of $19,327 (2010: $12,800) were past due but not impaired. These relate to a number of customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

Ageing of past due but not impaired receivables

	Year ended 31 December 2011 $	**Year ended 31 December 2010 $**
60-90 days	8,343	7,563
90+ days	10,984	5,237
	19,327	12,800
Average age (days)	141	112

18 Trade and other receivables continued

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

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
US Dollar	695,097	637,166
UK Pound	84,743	188,321
	779,840	825,487

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

19 Cash and cash equivalents

	Group		Company	
	31 December 2011 $	31 December 2010 $	31 December 2011 $	31 December 2010 $
Cash at bank and in hand	364,099	606,382	29,677	173,844

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

20 Trade and other payables

	Group		Company	
	31 December 2011 $	31 December 2010 $	31 December 2011 $	31 December 2010 $
Trade payables	461,342	194,157	291,932	80,010
Other payables	4,074	4,638	7,068	–
Accruals	468,787	447,790	237,326	166,803
Due to Group undertakings	–	–	252,958	155
Deferred Income	36,781	237,679	–	–
	970,984	884,264	789,284	246,968

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 41 days (2010: 30 days).

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

21 Provision for Onerous Contracts

	$
Balance at 31 December 2010	279,853
Provisions utilised	(87,853)
Balance at 31 December 2011	192,000
Current	72,359
Between two and five years	119,641
Balance at 31 December 2011	192,000

The provision for onerous contracts relates to the provision for ongoing services under 5 year contracts where the costs of providing those services outweighs the revenue generated. The last of the contracts will expire in March 2015.

22 Deferred Tax

The analysis of deferred tax assets is as follows:

Group

	2011 $	2010 $
Deferred tax assets	55,218	279,388

The movement in deferred tax assets is as follows:

2011

	Opening balance $	Recognised in the income statement $	Closing balance $
Temporary differences:			
Net operating loss (non-current)	186,895	(74,895)	112,000
Property, plant and equipment	(8,569)	11,735	3,166
Intangible assets	(73,345)	(286,732)	(360,077)
Doubtful debts	13,475	(11,550)	1,925
Other – vacation accrual	76,232	1,972	78,204
Research and development	84,700	135,300	220,000
	279,388	(224,170)	55,218

2010

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

22 Deferred Tax continued

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The group did not recognise deferred income tax assets relating to carried forward tax losses of $7,100,000 (2010: $6,500,000) arising in the UK as there is insufficient evidence that the asset will be recovered. The deferred income tax asset relating to these losses is $1,800,000 (2010: $1,700,000).

In 2010 a deferred tax asset of $92,493 was shown in the Consolidated Statement of Financial Position as a current asset. In accordance with IAS 1 this amount has been reclassified to be shown as a non-current asset.

23 Share capital

The issued share capital in the year was as follows:

Company

	Ordinary Shares Number	Deferred Shares Number	A Deferred Shares Number	B Deferred Shares Number
At 1 January 2010	393,608,023	808,450,760	3,542,472,207	–
Issue of share capital	151,688,080	–	–	–
Subdivision of ordinary shares	(544,841,689)	–	–	–
Deferment 1:1 ordinary shares	–	–	–	454,414
Issue of share capital	9,150,003	–	–	–
Cancellation deferred shares	–	–	(3,542,472,207)	(454,414)
At 31 December 2010	9,604,417	808,450,760	–	–
And At 31 December 2011	9,604,417	808,450,760	–	–

Company

	Share Capital $	Share Premium $	Capital Redemption $
At 1 January 2010	18,853,090	2,510,565	–
Issue of share capital	237,908	–	–
Issue of share capital	143,509	1,957,508	–
Cost of raising equity	–	(264,261)	–
Cancellation deferred shares	(6,517,644)	–	6,517,644
At 31 December 2010	12,716,863	4,203,812	6,517,644
And At 31 December 2011	12,716,863	4,203,812	6,517,644

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

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

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

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

24 Obligations under operating leases

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

2011

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

2010

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

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

25 Financial instruments

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

i. Market risk

ii. Foreign currency risk

iii. Interest rate risk

iv. Credit risk

v. Liquidity risk

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

The Directors determine, as required, the degree to which it is appropriate to use financial instruments or other hedging contracts or techniques to mitigate risk. The main risk affecting such instruments is foreign currency risk which is discussed below. Throughout the year ending 31 December 2011 no trading in financial instruments was undertaken (2010: none) and the Group did not have any derivative or hedging instruments.

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

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

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

25 Financial instruments continued

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

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

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

Ageing of past due but not impaired receivables

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
60-90 days	8,343	7,563
90+ days	10,984	5,237
	19,327	12,800
Average age (days)	141	112

Categories of financial instruments

	Group		Company	
	31 December 2011 $	31 December 2010 $	31 December 2011 $	31 December 2010 $
Financial Assets				
Cash and cash equivalents	364,099	606,382	29,677	173,844
Trade and other receivables – current	779,840	825,487	206,067	190,918
Corporation tax recoverable	62,725	35,335	–	–
Trade and other receivables – non-current	44,839	52,439	–	–
Financial Liabilities				
Trade and other payables	970,985	884,264	794,284	246,968
Borrowings – current	600,521	632,439	–	–
Borrowings – non-current	2,582,964	3,086,408	–	–
Promissory notes – current	7,272	16,880	–	–
Promissory notes – non-current	–	85,222	–	–

25 Financial instruments continued

Borrowings

Bank Loan

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

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

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

Promissory Notes

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

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2010
	Current		Non-current	
Financial Instruments	**$**	**$**	**$**	**$**
Borrowings	600,521	632,439	2,582,964	3,086,408
Promissory notes	7,272	16,880	–	85,222
Total	607,793	649,319	2,582,964	3,171,630

The company had no borrowings during the year (2010 $nil).

Capital risk management

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

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

Significant accounting policies

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

Market risk

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

25 Financial instruments continued

Foreign currency risk management
The Group undertakes transactions denominated in foreign currencies (other than the functional currency of the Company and its UK operations, being £ Sterling), with exposure to exchange rate fluctuations. These transactions relate predominately to royalties receivable in the US denominated in currencies other than US$ being Canadian Dollars, Australian Dollars and Euro; royalties from such sources in 2011 were $249,000 (2010: $238,000). No foreign exchange contracts were in place at 31 December 2011 (2010: Nil).

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

	Group		Company	
	31 December 2011 $	**31 December 2010 $**	**31 December 2011 $**	**31 December 2010 $**
Assets				
Sterling	188,430	382,056	235,188	52,123
Liabilities				
Sterling	838,383	911,910	789,284	246,968

As shown above, at 31 December 2011 the Group had Sterling denominated monetary net liabilities of $649,953. (2010: $529,854) If Sterling strengthens by 10 per cent. against the US dollar, this would increase liabilities by $64,995 (2010: $52,985) with a corresponding impact on reported losses.

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

Interest rate sensitivity analysis
The Group's borrowings are at fixed rates. Approximately 99 per cent. of the borrowings at 31 December 2011 were a Bank Loan of $3,183,485. The Bank Loan is repayable in full on or before 16 July 2016 with monthly repayments of principal and interest at 8 per cent. per annum until the principal balance is reduced to US$2.0 million when the interest rate becomes 2 per cent. above "Wall Street Journal Prime" adjusted annually.

The losses recorded by both the Group and the Company for the year ended 31 December 2011 would not materially change if market interest rates had been 1 per cent. higher/lower throughout 2011 and all other variables were held constant.

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

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

25 Financial instruments continued

Liquidity risk management

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

The Directors have prepared a business plan and cash flow forecast for the period to 30 June 2013. The forecast contains certain assumptions about the level of future sales and the level of gross margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term trading is reliant on cash generation from both its predominantly US-based royalty income and from the achievement of a successful product development and subsequent sales initiative.

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

Group

	0-6 months $	6-12 months $	>12 months $	Total $
2011				
Fixed interest rate instruments principal	429,540	422,205	3,095,937	3,947,682
2010				
Fixed interest rate instruments principal	458,205	474,164	3,949,932	4,882,301

The Company has no non-derivative financial liabilities.

Derivatives

The Group and Company have no derivative financial instruments.

Fair values

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

26 Notes to the statement of cash flows

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Cash flows from operating activities		
Group		
Profit/(Loss) before interest and taxation	98,727	(567,298)
Adjustments for:		
Depreciation of plant and equipment	45,414	68,373
Amortisation of intangible assets	264,061	322,394
Impairment	75,000	–
Gain on disposal of fixed asset	(300)	(600)
Share based payments	36,643	20,399
Provision for bad debts	–	19,491
Operating cash flows before movements in working capital	519,545	(137,241)
Decrease/(Increase) in inventories	150,779	(141,348)
Decrease in trade and other receivables	59,594	702,025
Decrease in trade and other payables	(2,978)	(791,436)
Cash generated by/(used in) operations	726,940	(368,000)
Income taxes	(73,709)	52,990
Net cash generated from/(used in) operating activities	653,231	(315,010)

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Cash flows from operating activities		
Company		
Loss from operations	(727,712)	(2,290,643)
Adjustments for:		
Write off of intercompany balances	–	1,338,370
Share based payment expense	36,643	86,162
Operating cash flows before movements in working capital	(691,069)	(866,111)
Increase in trade and other receivables	(15,148)	(14,977)
Increase in trade and other payables	540,390	97,042
Cash used by operations	(165,827)	(784,046)
Income taxes	–	–
Net cash used in operating activities	(165,827)	(784,046)

27 Contingent liabilities

The Directors are not aware of any material contingent liabilities.

28 Related party transactions

Under the terms of a Letter Agreement on Commercial Relations dated 28 February 2006 ("the Commercial Relations Agreement"), PSS licensed to ALD the patent portfolio owned by PSS. The Commercial Relations Agreement contained provisions for licence fees payable at a minimum of $250,000 but not to exceed $1,500,000 per annum, royalties from future development of PSS products sold by ALD payable quarterly at an amount to be determined, and professional fees for PSS personnel payable monthly. During the year ended 31 December 2011, PSS charged fees pursuant to the Commercial Relations Agreement amounting to $nil (2010: $474,026) which were included under research and development expenses.

Fees charged by PSS under the Letter of Agreement were:

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
R&D licence fees	–	474,026
Total	–	474,026

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

As set out in Note 25, on 7 June 2010, the Bank of Southern Connecticut ("the Bank") lent ALDHC $4.0 million to pay off financing associated with ALDHC's purchase of ALD in 2006. The loan is secured over, inter alia, all of ALD's plant and machinery, inventory and accounts receivable. In addition, PSS, inter alia, granted assignments over contents and intellectual property and entered into agreements of guarantee and suretyship with the Bank guaranteeing the obligations of ALDHC under the loan agreement. The guarantee has been joined by a significant shareholder, the Executive Chairman. On 1 July 2011, ALDHC agreed to pay a guarantee fee to PSS of 0.75 per cent. per annum on the outstanding balance on the loan, calculated at the end of each month. The amount charged in respect of this in the year was $12,710 (2010: $nil).

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

	$
Balance at 31 December 2010	145,776
Loan guarantee fees paid to PSS	(12,710)
Interest charges on outstanding balance	5,685
Other payments	7
Executive Chairman's compensation and expenses charged	282,763
Executive Chairman's compensation and expenses paid	(278,763)
Balance at 31 December 2011	138,758

28 Related party transactions continued

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

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

During the period WI purchased services from Restoration Partners Limited relating to Mr Piper, a non-executive director of WI until his resignation on 22 June 2011, totalling $9,624 (2010: 46,371). In addition the Company purchased services from Restoration Partners Limited of which Mr Piper is a Director of $57,748, of which all is outstanding at the year end.

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

QN

	$
Balance at 31 December 2010	–
Loans to subsidiary	49,927
VAT transferred under group registration	103,997
Other expenses recharged	18,690
Balance at 31 December 2011	172,614

ALD

	$
Balance at 31 December 2010	173,572
Loans to WI	(405,223)
Other expenses recharged	(21,307)
Balance at 31 December 2011	(252,958)

29 Subsequent events

There have been no subsequent events.

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

30 Control

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

Notice of Annual General Meeting

Water Intelligence plc

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING ("AGM") of the Company will be held at:

Merchant Securities Limited, 51-55 Gresham Street, London, EC2V 7EL at 10 am on Tuesday 31 July 2012.

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

Ordinary resolutions

1. THAT the Company's annual accounts for the financial year ended 31 December 2011, together with the last directors' report and the auditor's report on those accounts and the directors' report, be received and adopted.

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

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

4. To re-appoint the following directors who retire by rotation:

   Stephen Leeb
   Michael Reisman

5. To re-appoint as a director David Siliverstone, who was appointed by the board on 11 November 2011.

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

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

Special resolution

7. THAT, subject to and conditional upon the passing of Resolution 6, in substitution for any existing and unexercised authorities, the Directors be and they are hereby empowered pursuant to section 570 of the Act to allot equity securities wholly for cash, within the meaning of section 560(1) of the Act, pursuant to the general authority conferred by Resolution 6 above as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

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

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

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

BY ORDER OF THE BOARD

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

Registered Office:
Hexagon Business Centre, Hexagon House, Station Lane, Witney, Oxfordshire OX28 4BN

Dated: 27 June 2012

Notes:

1. Shareholders entitled to attend and vote at the AGM ("Shareholders") may appoint a proxy or proxies to attend and speak and, on a poll, vote on their behalf. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form enclosed. A proxy need not be a member of the Company. A Shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that Shareholder. Investors who hold their shares through a nominee may wish to attend the AGM as a proxy, or to arrange for someone else to do so for them, in which case they should discuss this with their nominee or stockbroker. Shareholders are invited to complete and return the enclosed proxy form. To appoint more than one proxy you may photocopy the proxy form. Completion of the proxy form will not prevent a Shareholder from attending and voting at the AGM if subsequently he/she finds they are able to do so. To be valid, completed proxy forms must be received at the offices of the Company's registrars, Capita Registrars Limited, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by not later than 10am on Friday 27 July 2012 (being 48 hours prior to the time fixed for the AGM, excluding weekends and public holidays) or, in the case of an adjournment, as at 48 hours prior to the time of the adjourned AGM (weekends and public holidays excluded).
2. Representatives of Shareholders which are corporations attending the AGM should produce evidence of their appointment by an instrument executed in accordance with section 44 of the Companies Act 2006 or signed on behalf of the corporation by a duly authorised officer or agent.
3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares in the capital of the Company registered in the register of members of the Company at 6pm on Friday 27 July 2012.
4. The Register of Directors' Interests, together with the Directors' service agreements, the letters of appointment of non-executive directors and a copy of the Company's Articles of Association, will be available for inspection at the Company's registered office during usual business hours on any weekday (weekends and public holidays excluded) until the date of the AGM and also at the AGM from 9.30am on the day of the AGM until the conclusion of the AGM.

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