

Second Quarter Update FY18

For the Period Ending 31 December 2017

31 January 2018

Quarter highlights

- **New sales in Australia, Europe and USA**
- **Significant growth in near-term pipeline**
- **Increase in sales team in Nov-Dec 2017**
- **Acquisition of Odotech Inc and its subsidiary in Chile**
- **Implementation of strategic marketing system**

CEO Overview

My first six months back in the CEO role have been fast moving as we position the company as a global technology business. In the first few months of this financial year we reviewed our strategy following the successful completion of the sale of the group's foundational consulting business. This review included a formal strategic sales and marketing overhaul, review of the management structure and the identification of key global sales priorities.

The key actions arising from the review were:

- **Rapidly expand our direct sales force in North America and Europe**

We still believe that in the medium-long term the growth through partners will be critical to our business, however we are determined to refine our marketing and partner support before further growing our existing network of leading industry partners.

- **Repackage our offering to make it more targeted around market sector**

We now emphasise market solutions rather than technical capabilities in the module basis approach we have taken to market in the past. We are successfully moving from a technical sale targeting environmental teams, to a commercial sale aimed at the operations teams within our target markets.

- **Implement a new strategic marketing system to align our messaging and allow for greater automation of the lead generation processes**

In September and October, we set about implementing these actions which were completed by the end of the December quarter. We had 3 sales people in October 2017 and by the end of December 2017 we had appointed a further six highly experienced and qualified sales people to join the organisation across Europe, UK and USA. As well as this a highly experienced Channels Manager has been hired in Australia to further expedite the partner program. We have repackaged our offering into seven distinct offerings targeting the main sectors of Mining, Waste Water, Regulatory, Ports, and Oil and Gas. We have also started implementing a new marketing system to direct leads into our CRM.

Complementing this effort, a fortuitous opportunity arose to cheaply acquire a competitor in the odour management space. Odotech Inc has been known to us for some time as a well-established supplier to the waste water industry. This acquisition has enabled us to expand our global foot print and hire key specialists in the waste water field. Odotech Inc has over 80 clients worldwide as well as existing contracts, intellectual property and other assets. During 2018 we will be working to migrate all clients to the Envirosuite platform.

We now have a team of 65 people across 7 countries, with offices in Brisbane, Madrid, San Francisco, Montreal and Santiago (Chile). Our sales team has increased from 3 to 13 during November and December and with this additional capacity comes increased opportunity. This has also increased the cost base however we are funded well into the 2019 financial year and we have made these moves to optimise our positioning to achieve accelerated growth.

Although we have added new clients during the quarter, the landed sales for the six months to 31 December 2017 have not been as high as hoped. This reflects the transition to a new CEO, corporate transformation (selling Pacific Environment Consulting and acquisition of Odotech) and the inevitable lag in the sales cycle for the newly recruited team. However, particularly with the new sales team, an unprecedented pipeline and new Odotech clients, we expect to see the number of licence wins increase significantly from hereon.

The near-term pipeline includes opportunities from both the established Envirosuite and the “new” Odotech businesses including:

- Thames Water, UK (third site)
- Middle East Government Waste Water
- Regulatory Management District – USA
- Multiple Municipal Authorities – Canada and USA
- Mining – South America
- Wastewater – New Zealand
- Ports – Australia

Our focus remains on winning corporation-wide multi-site licences once a significant number of sites have been converted with any one company or authority. Traditionally, we have offered the Envirosuite platform on a site basis, and multi-site licences offer the prospect of subscriptions in the hundreds of thousand dollars. For all clients, we continue to sell the Envirosuite platform on a recurring SaaS licence basis.

As indicated previously we are targeting a minimum of 100% growth in annuity revenues year on year for the 2018 and 2019 financial years.

Sales

Sales during the quarter included:

- Bay Area Air Quality Management District, San Francisco, USA
- SA Water, Adelaide, SA
- Construction Authority, Tbilisi, Georgia
- WWTP, New York, USA
- WWTP, Barcelona, Spain - (Odotech sale)
- Veolia site, Lyon, France
- Alliance New Zealand

SA Water

SA Water has an annual KPI implemented for resolving odour complaints as part of their routine operations. Previously, they have registered KPI's above their target. Investigations of these complaints have consumed considerable organisational resources in recording, following up and verifying the source of the odours and in many cases with inconclusive results. A large number of complaints investigated by the follow up technicians were logged as either no fault or unknown.

After signing up with Envirosuite's Incident Intelligence software, SA Water is now empowered to improve the process of validating the source of customer odour nuisance complaints. This will assist in responding to and resolving customers' complaints swiftly, and the ability to identify sources of complaints will support asset planners in building viable and robust business cases to invest in remediating the sources of odour.

Envirosuite will also directly impact SA Water's customer service in many ways by providing more timely and better quality information to field engineers to respond to issues faster and by improving transparency with streamlined reporting.

Wastewater treatment facility in Long Island, New York

A large wastewater treatment facility in Long Island, New York operated by the local sanitation district has recently signed on to Envirosuite. This particular operation is aiming to be 'good neighbours' to a new high-end apartment building development nearby that has recently replaced an industrial facility. There is also a bay close to the site that produces odour due to changes in tide. The client is aiming to be able to distinguish between odours from the bay and their own in order to provide transparency to the surrounding community.

This site will now benefit from Envirosuite's instantaneous backtracking and odour issue identification. If any odour complaint is submitted from their new neighbours, the plant will confirm responsibility for the incident or provide evidence that it was not due to their operations. They will now be able to run instantaneous reporting to enable preventive action. The plant will also benefit from running weather models combining hyper-local forecast data with spatial mapping and minute-level time stamping, so they can now use the weather to their operation's advantage.

BAAQMD and Envirosuite Incident Intelligence

To continuously balance growing industry with community well-being, Northern California's Bay Area Air Quality Management District (BAAQMD) has signed on to Envirosuite's Incident Intelligence module to improve the management of air quality across its jurisdiction in the San Francisco Bay Area.

BAAQMD is now empowered by Envirosuite's fully auditable workflow management system that enables logged community air quality and odour complaints to be instantly backtracked to their source. The community portal of Envirosuite's Incident Intelligence module also provides a platform for ongoing communication between the community and BAAQMD on each area of concern.

Envirosuite's Incident Intelligence is helping BAAQMD improve the management of air quality and meteorological data from their network by drastically reducing the time to investigate incidents or community complaints across the San Francisco Bay Area which is now home to approximately 8 million people.

Wastewater treatment facility in Barcelona

A wastewater treatment facility operated by a large water corporation in Barcelona has been experiencing issues with the impact of odour from surrounding neighbourhoods. Through Odotech's network, this site is the first of a select number that has agreed to sign on to an Envirosuite solution.

The facility has accepted the proposal of a solution to establish a platform for monitoring and responding to complaints from neighbours, recording observations from staff and assessing the offsite impact from the odour sources at the site using real-time atmospheric dispersion modelling. Several other sites owned by the corporation with similar issues are now considering Envirosuite to help with similar issues.

Technology Development

Envirosuite has now moved to offer complete business solutions to our clients. These solutions are:

Solution	Description
Environmental Compliance	Real-time and historical environmental monitoring and management to ensure the client stays within their licence levels.
Risk Management	High resolution weather forecasts for 2 to 7 days ahead combined with client risk factors allows for better risk and workflow management.
Incident Intelligence	Environmental incident tracking, modelling, workflow and detailed community engagement.
Source Identification	Real-time identification of a source causing an environmental issue which allows for immediate remedial action.
Impact Modelling	Forecasts the effect of major planned or unplanned events, to be used by the regulator and community.
Blast Management	Simulates the effects of fume and over pressure to allow for optimal timing and management of blasting in open-cut mines.
Environmental Intelligence	A comprehensive solution for major facilities to keep them up to date with world's best environmental management practice.

Integration of Odotech

Odotech Inc is a business based in Montreal, Canada that has been supplying technology to the Wastewater industry for nearly twenty years. Their product "Odowatch" helps clients monitor and predict the effects of odour from industrial activities on the local community.

Over the past 12 years Odowatch has been sold to over 100 clients globally and there remain approximately 80 clients worldwide. Envirosuite has retained the offices in Montreal and Santiago, Chile. Four key sales people have been retained as well as technical and support staff to service work in progress and ensure the continued momentum of the sales pipeline.

Importantly, the key features and client sought outcomes from the Odowatch platform are already able to be delivered by the existing Envirosuite platform. The Envirosuite development group will integrate the differentiating features of Odowatch into the Envirosuite platform in the coming quarter. This will create the best of both platforms available in one solution.

Envirosuite will then target the existing Odotech client base with the aim to migrate their technology to the newer Envirosuite platform and at the same time to upsell the additional Envirosuite features (Incident Intelligence, Source Identification etc).

The combination of Envirosuite and Odowatch has produced a world leading solution provider for the environmental management of odour-related issues.

Industry Update

USA - AB 617 in California

AB 617 is a new bill that has been implemented by the California's State Government in July 2017. It's three main points are enhanced community monitoring of air quality, development of combination emission reduction programs and an expedited schedule for all facilities under the CARB (California Air Resources Board) to expedite the implementation of Best Available Retrofit Technology (BARCT). Approximately \$237.5 million of funding from CARB has now been allocated to the top three major air districts in California including South Coast Air Quality Management District (SCAQMD) and Bay Area Air Quality Management District (BAAQMD).

Envirosuite is currently empowering government regulators with air quality data for a birds-eye view of their jurisdiction's compliance and to hold industry to account for their actions. Capabilities include visualising traditional regional monitoring networks, but more recently by visualising low-cost sensor networks that are currently being implemented under AB 617.

From an industry perspective under AB 617, Envirosuite will allow facilities in different air quality jurisdictions to predictively manage their environmental impact and avoid unwarranted scrutiny.

Europe - Growing urban environments encroaching on industry

As urban communities continue to grow in Europe, large industrial operations originally built on the outskirts of communities have gradually moved within buffer distances designed for odour control. Operations are facing regulations that continue to increase in their stringency and communities that continually demand more transparency and accountability from industry and regulators.

Industries are increasingly subject to costs related to unnecessary investment in expensive control technologies and high ongoing operating costs. To avoid these costs businesses are looking for new and more cost effective ways to improve odour management performance.

From our market soundings we believe that Envirosuite has been slightly ahead of its time. While we have gained new business from early adopters, we believe we have only so far seen a small slither of the potential market. Within the next 12-18 months there are significant pieces of legislation and regulatory controls slated for introduction that will quickly force industry to seek out comprehensive management solutions to maintain regulatory compliance. Envirosuite is exceptionally placed to be the preferred provider of solutions globally with unmatched breadth, depth and capacity to service industry and with a track record that instills confidence in prospective clients.

Financial update

As at 31 December the Group held in excess of \$5.5 million in cash and cash equivalents. Additionally an R&D rebate of approximately \$1million is expected to be received in the March quarter and a further \$565,000 remains in escrow that the Group anticipates will be released in full by 30 June 2018.

Following the recent new hires and integration of Odotech the average net monthly cash burn is currently tracking at \$425,000 which is expected to incrementally reduce each month on a business-as-usual basis.

As noted with the expansion of our target regions and industries we are seeing the extent of the potential deal sizes broadening. We are refining our traditional site-based pricing to optimise commercial outcomes, and we now allow for smaller facilities, as well as for the increased number of higher value deals entering the pipeline. The group moves forward into the 2018 calendar year with significantly improved regional positioning, messaging, team, strategy and focus in markets that are increasingly receptive to our offerings.

For further information please email investor@envirosuite.com