AQUABOTIX

Innovation for the Underwater World

Quarterly Report

For the Quarter Ended
31 December 2017

29 January 2018 **ASX Announcement**

Quarterly Report - For the Quarter Ended 31 December 2017

UUV Aquabotix Ltd (ASX:UUV) ("Aquabotix" or the "Company") is pleased to provide the following update on its activities during the three-month period ended 31 December 2017 and its Appendix 4C quarterly cash flow report for the same period.

Introduction

2017 was a transformational year for Aquabotix, transitioning from a closely-held private company to a rapidly-developing publicly-traded company. The Company invested to build a scalable and sustainable enterprise with some notable changes already evident, including a build-out of its distributor network, adding 10 distributors to its network in the last five months of 2017. The Company is working on substantially increasing sales through this distributor network going forward.

The Company is also looking at much more proactive engagement with potential key customers in a range of verticals (including the defence market) through its newly acquired human capital – experienced industry professionals.

The new management brought on-board during the year (including the new CEO who joined towards the end of the quarter) is also actively considering expanding the product range, to accommodate demand at various price points and in various verticals, and is engaged in discussions about exciting corporate partnerships in the industry.

Importantly, cash receipts from customers for the quarter were $227,754, up from $187,239 in the previous quarter ended 30 September 2017, and up from $35,592 in the second calendar quarter of 2017, contributing to a lower net cash outflow in the quarter compared to the previous quarter, which in turn was lower than the net cash outflow in the quarter preceding it.

Key Developments During the Quarter

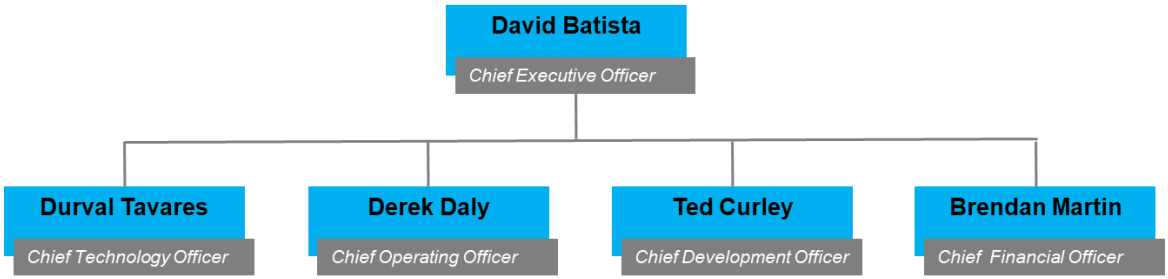
The key developments during the quarter, to the date of this report, include the following.

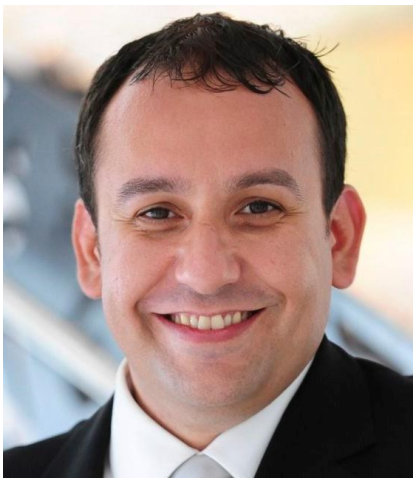
Corporate

- The Company appointed Mr. David Batista as its new Chief Executive Officer ("CEO") in late November 2017. The appointment provides the Company with strong leadership in the small-cap listed space, whilst enabling a smooth transition for the founder Durval Tavares to the role of Chief Technology Officer ("CTO") of the Company.

  At the time of his appointment Mr. David Batista, Aquabotix's incoming CEO, commented, "I am confident to be leaving an executive position with a successful independent financial services firm for this opportunity in a nascent and rapidly growing market. The underwater drone market is up for grabs in a number of industry verticals – military, security and law enforcement, energy, aquaculture, marine construction and maintenance, recreational, and others."

This restructure completes the build-out of the Company's executive function, depicted in the below organisational chart:





Mr. David Batista

Based in the United States, Mr. Batista, 47, has over 20 years' experience in working with small-cap listed companies, both in the United States and Australia. Most recently, David was Senior Managing Director of Viriathus Holdings LLC, an independent financial services firm, where he closed over 40 investment and M&A transactions for domestic and international clients, in addition to managing the day-to-day operations of the firm. David has previously held roles with HPC Capital Management Corp., SoundView Technology Group and Lehman Brothers Inc.

Mr. Batista attained a Bachelor of Science Degree in Business Administration and Certificate in International Marketing from C.W. Post College in addition to several post-graduate qualifications from The New York Institute of Finance.

Sales and Marketing

- As at the end of the period the distributors appointed by the Company are now:
    - *Deekay Marine Services* has joined Aquabotix as a representative for the Company in India. Deekay Marine has provided support and services to marine industries in India for more than three decades. The company is involved in various marine sectors, including defense, hydrography, oceanography, surveillance systems, coastal security systems, engineering and marine surveying services.
    - *Sadaret Ltd* has joined Aquabotix's distributor network as a representative for Aquabotix in the United Kingdom and Ireland to help the company better penetrate the UK and European regions. Sadaret specializes in the supply of survey and positioning equipment and services to a wide variety of markets, including marine and land survey, water inspection, oceanography, precision agriculture, GIS data collection, vehicle telematics and ocean ecosystem management (OEM).
    - *Seafloor Systems* has joined Aquabotix's distributor network as a representative for Aquabotix in California, Washington, Oregon and Alaska, in the U.S. With more than 20 years of experience in the hydrographic community, Seafloor Systems specializes in integrated hydrographic survey solutions, and has strong expertise in complete turnkey and integrated Multibeam and Single Beam solutions. Seafloor Systems maintains the U.S. Army Corps of Engineers, the United States Geological Survey (USGS), universities and survey companies as customers.

- *A2 Marine Solution* has joined Aquabotix's distributor network as a representative for Aquabotix in Brazil. With more than 15 years of experience, A2 Marine Solution focuses exclusively on solutions and equipment supply for hydrography applications, bathymetric surveys and precise positioning.

- *W.S. Darley & Co. ("Darley")* has joined Aquabotix's distributor network as a representative for Aquabotix in the USA. Darley is a designer, manufacturer and distributor of defense and emergency services equipment, with a specialty in department of defense supply. Darley Defense is a contract vendor in Defense Logistics Agency's ("DLA") Tailored Logistics Support ("TLS") Programs for both Fire & Emergency services Equipment and Special Operational Equipment. The TLS Programs allow authorised government agency customers to quickly and easily allocate funds to procure mission critical equipment and services.

- *SBS Teknikk AS* has joined Aquabotix's distributor network as a representative in the countries of Norway, Sweden and Denmark. SBS Teknikk specialises in the supply of specialist equipment and systems to the burgeoning Scandinavian aquaculture sector, including monitoring platforms, lights and sensors. They are a key supplier of ROVs to Marine Harvest ASA, one of the largest seafood companies in the world.

- *ROMOR Atlantic Ltd.,* has joined Aquabotix's distributor network as a representative for Aquabotix in Canada to further extend the Company's reach into the oceanographic, hydrographic and survey markets. ROMOR has over thirty years' experience as a leading supplier of ocean instrumentation, mooring design and custom oceanographic solutions.

- *Aquatech Services* has joined Aquabotix's distributor network as representative for Aquabotix in Australia and New Zealand, specifically to focus on the diving market. Aquatech has over twenty-five years' experience of servicing the diving community.

- *Hydro Systems Development, Inc., Tokyo branch*, which will represent Aquabotix in Japan. Hydro Systems Development, a developer of underwater sensing systems for both the marine and in-land water sectors, supports national hydrographic/oceanographic institutes, universities, governmental authorities and other private companies as customers. The company is the 10th new distributor appointed by Aquabotix within the past four months.

- *Seismic Asia Pacific Pty. Ltd.,* which will represent Aquabotix in Australia and New Zealand. Based in Salisbury, Queensland Australia, Seismic Asia Pacific is a leading provider of hydrographic, oceanographic and geophysical systems within Australia and throughout southeast Asia and the Pacific Rim. The company also provides hardware and software equipment and system solutions to local government, defense and resource specific sectors and has extensive experience selling and supporting the Royal Australian Navy.

- Aquabotix now has coverage in several important regions. Below is a visual representation of this coverage.

Aquabotix's global distributor network as at December 2017

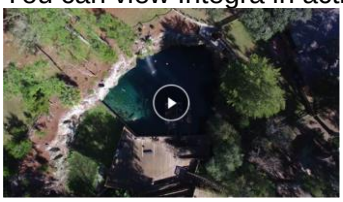
- During the quarter Aquabotix shipped its products to a variety of customers in a range of industries. Examples of users who received the Company's products during the quarter include the Korean Institute of Geo-science and Mineral Resources (KIGAM), the Australian water hygiene services company Morgan Environmental Ltd, and users in the hydrographic inspection market.

Products

- During the period the Company introduced its second-generation hybrid underwater vehicle, the Integra AUV/ROV (autonomous underwater vehicle/remotely operated vehicle). Single-person deployable, portable and battery-powered, the Integra AUV/ROV allows users to conduct multiple underwater missions, while providing a cost-efficient alternative to deploying separate AUVs and ROVs for individualised tasks.

Aquabotix's second-generation hybrid vehicle, the Integra AUV/ROV

You can view Integra in action by clicking on the video below:



The Integra AUV/ROV can be configured with multiple sensors and maneuvered by an easy-to-use intuitive platform accessible from any web-enabled device. The vehicle is designed for use across several sectors, including law enforcement, research, environmental assessment, defense and infrastructure, and can search wide areas using AUV mode (untethered) while conducting detailed inspections using ROV mode (tethered).

David Batista, CEO of Aquabotix, commented at the time of the launch that “because this vehicle has the brain power to conduct autonomous missions as well as detailed inspections in a single setting, operators have immediate and complete control. The introduction of the Integra AUV/ROV is the next step in the evolution of underwater vehicles and illustrates how Aquabotix continues to successfully meet the demands of underwater exploration and inspection.”

Other features of the Integra AUV/ROV include:

- Five high-torque motors
- Live Remote Control and data sharing
- Configurable sensor suite: Side scan sonar, multibeam sonar, scanning sonar, DVL, USBL, INS, Wi-Fi, Bluetooth and environmental sensors available
- Sensor package including depth, temperature, orientation and GPS
- 1080p true high-definition camera with pan and tilt
- Depth rating 100m or 300m models available
- 5 pounds of payload capability
- Up to 8 hours battery life
- High Intensity LED lighting (4400 Lumens)

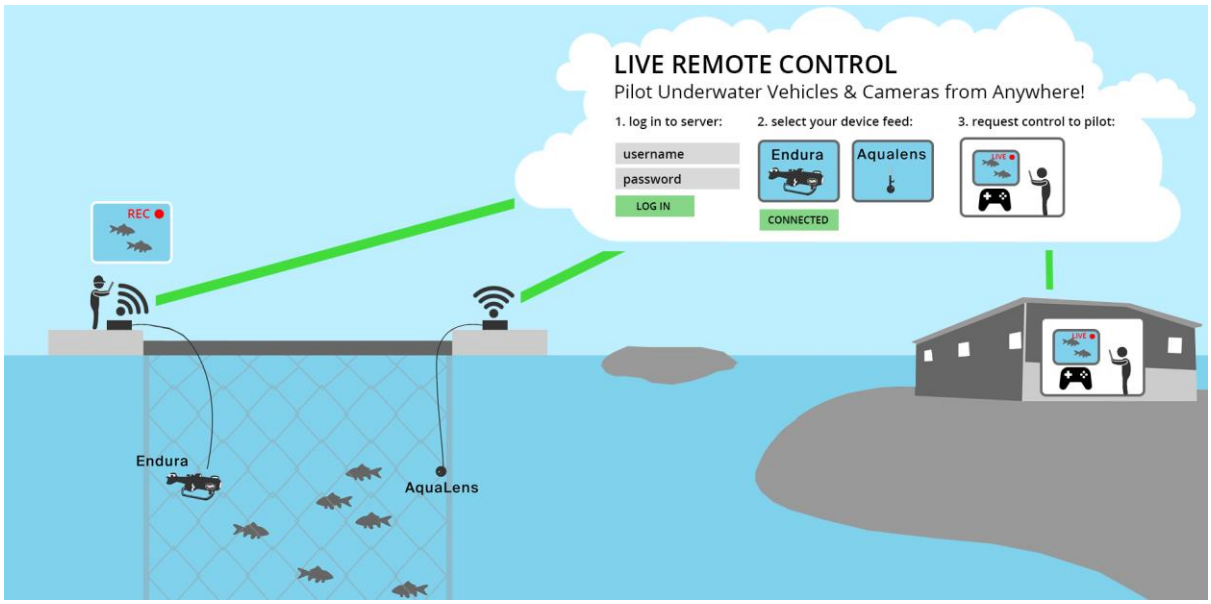
Aquabotix’s Integra AUV/ROV is designed for multiple underwater missions across several sectors

"Our second-generation hybrid, the Integra, leverages the strongest innovative capabilities of both types of underwater vehicles. Yet in utilising our hybrid digital platform, users no longer need two vehicles to explore and conduct tasks underwater. Now, they can activate AUV mode for broad range searches, while switching to ROV capabilities for more in-depth analysis of underwater conditions," said Durval Tavares, Chief Technology Officer of Aquabotix.

- Also during the quarter, Aquabotix introduced Live Remote Control, a new product feature hat allows users to pilot underwater vehicles and cameras from any modern device, through a web browser, from anywhere in the world. Any business, research centre, security force of defence unit with a multi-site presence in the underwater world will see an application for this class-leading technology.

  Live Remote Control enables users to operate Aquabotix's Endura ROV (remotely operated vehicle), Integra AUV/ROV (autonomous/remote vehicle) and AquaLens Connect (networked underwater camera system) during underwater explorations from any location, all through a web application that connects to browser-based devices such as computers, phones and iPads. Through this capability, browser-based and multiple-user functionality is supported in a new web-based interface.

  To access Live Remote Control, users login to a web server and select the respective device feeds they wish to pilot. These feeds stem from devices already connected and operating manually on-site. Once chosen, users can request control to pilot from their current location through their browser-enabled devices or controllers recognised by the system. Below is an artist's rendering of Live Remote Control's applicability to the aquaculture sector. For example, the technician could be sitting in head-office in Norway, and controlling an Endura in a fish net off the coast of Chile.



Artist's rendering of a sample use case in an aquaculture environment

"With Live Remote Control, any browser-based modern device can now interact with our system," said Durval Tavares, CEO of Aquabotix. "The smart computing power of our vehicles enables us to achieve innovations like these, which are at the forefront of technology. Having our customers and stakeholders be able to see what's happening underwater in a live, immediate fashion is a game-changer for the underwater robotics industry."

Live Remote Control is designed to expand the virtual presence of Aquabotix's product users, allowing them to better monitor what's happening at all times, while sharing data

across multiple sites. The web-driven innovation also reduces the need for increased or expensive on-site manpower during underwater or tank explorations.

Market

- The US Navy is rolling out a number of unmanned undersea vehicles and unmanned surface vehicle projects, as program officials are seeking to acquire new capabilities. The Naval Undersea Warfare Center (NUWC) in Newport, Rhode Island, is located just 30 kilometres from Aquabotix's facility in Fall River, Massachusetts. This is where much of the research and many of the military's UUVs will be acquired, housed, and maintained from.

- Media reports recently cite The Pentagon confirming that Russia has developed an unmanned underwater nuclear drone that has the potential to devastate US ports and harbours, according to a leaked government report of the draft of the US's Nuclear Posture Review, due for release next month. These developments are just one example of the real danger posed, and the continued need to develop world leading technologies to combat these threats.

- The US Department of Defense and Department of Homeland Security spend approximately US$22B per year on maritime surveillance at present. It is expected that more of this surveillance work will be conducted using unmanned vehicles and various acoustic devices, as opposed to traditional large vessel and man-power heavy methods that are currently in place.

- The underwater robotics industry is undergoing rapid consolidation at substantial valuations. In December 2016, Boeing acquired Liquid Robotics at a purchase price reported to be US$300 million. Other recent high-profile transactions in the sector included General Dynamics buying Bluefin Robotics, and L3 Technologies making two acquisitions, of OceanServer Technology and Open Water Power. Aquabotix is one of the very few remaining independents in the industry that is consolidating.

- The industry fundamentals remain strong with the Unmanned Underwater Vehicles (UUV) market is estimated at US$2.69 Billion in 2017 and is projected to reach US$5.20 Billion by 2022, at a CAGR of 14.07% from 2017 to 2022, according to Markets and Markets.

Finance

- Cash receipts from customers for the quarter were $227,754, up from $187,239 in the previous quarter ended 30 September 2017, and up from $35,592 in the second calendar quarter of 2017, contributing to a lower net cash outflow in the quarter compared to the previous quarter.

- As at 31 December 2017, Aquabotix had a cash balance of $3,887,828 as outlined in the accompanying Appendix 4C.

- As at 31 December 2017, 45,000,000 Performance Shares are on issue. No performance share vesting, or conversion, milestones were met during the period.

	Performance shares on issue at start of period (A)	Performance Shares issued during the period (B) [1]	Performance Shares converted to UUV shares during the period (C)	Performance Shares cancelled during the period (D)	Performance Shares on issue at end of period (A)+(B)-(C)-(D)
Class A [2]	15,000,000	0	0	0	15,000,000
Class B [3]	15,000,000	0	0	0	15,000,000
Class C [4]	15,000,000	0	0	0	15,000,000
Total	45,000,000	0	0	0	45,000,000

Further Information
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About UUV Aquabotix Limited
Based in Sydney, Australia and Fall River, Massachusetts, USA, Aquabotix is an established underwater robotics company which manufactures and sells commercial and industrial-grade underwater drones and networked underwater cameras for commercial, high-end consumer and military applications. It is also one of very few companies worldwide offering commercially-available hybrid underwater drones, which are capable of both autonomous and remote operation. The Company owns the intellectual property in a range of unmanned underwater vehicles and underwater camera products and is an early-mover in a nascent industry.

[1] Performance Shares were issued to all pre-IPO shareholders.
[2] Each Class A Performance Share will vest into one fully paid ordinary share upon the Shares achieving a 30-day volume weighted average price exceeding $0.30 and the Company securing no less than 20 paying customers of remotely operated underwater vehicles within 24 months of the date the Company is admitted to the Official List (Class A Milestone).
[3] Each Class B Performance Share will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, $7,000,000 of cumulative revenue or $2,500,000 of annual revenue in any given twelve-month period, within 36 months of the date the Company is admitted to the Official List (Class B Milestone).
[4] Each Class C Performance Share will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, $3,000,000 of cumulative earnings before interest and taxes (EBIT) or $1,000,000 of annual EBIT in any given financial year, within 36 months of the date the Company is admitted to the Official List (Class C Milestone).

+Rule 4.7B

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity	
UUV Aquabotix Ltd	
ABN	**Quarter ended ("current quarter")**
52 616 062 072	31 December 2017

Consolidated statement of cash flows		**Current quarter $A**	**Year to date (12 months) $A**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	227,755	689,191
1.2	Payments for		
	(a) research and development	(93,363)	(271,311)
	(b) product manufacturing and operating costs	(107,042)	(543,288)
	(c) advertising and marketing	(57,414)	(242,383)
	(d) leased assets	-	-
	(e) staff costs	(672,820)	(1,575,222)
	(f) administration and corporate costs	(155,429)	(796,315)
1.3	Dividends received (see note 3)	-	
1.4	Interest received	17,230	41,024
1.5	Interest and other costs of finance paid	-	(6,604)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	
1.9	**Net cash from / (used in) operating activities**	**(841,083)**	**(2,704,908)**

Consolidated statement of cash flows		Current quarter $A	Year to date (12 months) $A
2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(21,911)	(39,661)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	44,456
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	(327,395)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(21,911)**	**(322,599)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	-	7,066,302
3.2	Proceeds from issue of convertible notes	-	508,195
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(891,276)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter $A	Year to date (12 months) $A
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**-**	**6,683,221**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of quarter/year to date	4,707,716	347,527
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(841,083)	(2,704,908)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(21,911)	(322,599)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	6,683,221
4.5	Effect of movement in exchange rates on cash held	43,106	(115,413)
4.6	**Cash and cash equivalents at end of quarter**	**3,887,828**	**3,887,828**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A	Previous quarter $A
5.1	Bank balances	2,887,828	1,369,633
5.2	Call deposits	1,000,000	3,338,183
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**3,887,828**	**4,707,716**

6.	Payments to directors of the entity and their associates	Current quarter $A
6.1	Aggregate amount of payments to these parties included in item 1.2	193,172
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

N/A

7.	Payments to related entities of the entity and their associates	Current quarter $A
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

N/A

8.	Financing facilities available *Add notes as necessary for an understanding of the position*	Total facility amount at quarter end $A	Amount drawn at quarter end $A
8.1	Loan facilities	Nil	Nil
8.2	Credit standby arrangements	Nil	Nil
8.3	Other (please specify)	Nil	Nil

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

N/A

9.	Estimated cash outflows for next quarter	$A
9.1	Research and development	200,000
9.2	Product manufacturing and operating costs	140,000
9.3	Advertising and marketing	25,000
9.4	Leased assets	-
9.5	Staff costs	700,000
9.6	Administration and corporate costs	250,000
9.7	Other (provide details if material)	
9.8	**Total estimated cash outflows**	**1,315,000**

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity		
10.2	Place of incorporation or registration		
10.3	Consideration for acquisition or disposal		
10.4	Total net assets		
10.5	Nature of business		

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
2 This statement gives a true and fair view of the matters disclosed.

Sign here: ..... Date: 29 JANUARY 2018
(Director/Company secretary)

Print name: ANAND SUNDARAJ

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.