AQUABOTIX

ANNUAL REPORT

31 December 2018

LEADING THE WAY IN SMART ULTRA-PORTABLE & EASILY DEPLOYABLE TECHNOLOGIES FOR SURFACE AND UNDERWATER MISSIONS

ABN 52 616 062 072

UUV Aquabotix Limited | Sydney, Australia and Fall River, Massachusetts, USA

ASX:UUV (shares) and ASX:UUVO (options)

Appendix 4E

For the year ended 31 December 2018
UUV Aquabotix Limited

1. Company details

Name of entity:	UUV Aquabotix Limited
ABN:	52 616 062 072
Reporting period:	For the year ended 31 December 2018
Previous period:	For the year ended 31 December 2017

2. Results for announcement to the market

	Up/Down	% Movement		AUD$
Revenues from ordinary activities	Down	79.3%	to	154,494
Loss from ordinary activities	Down	6.0%	to	(4,833,146)
Loss for the year	Down	6.0%	to	(4,833,146)
Dividends: No dividends are being proposed or have been paid	Nil	Nil		Nil

Commentary related to the above results
Refer to the Directors Report in the attached Annual Report for commentary on the above results.

3. Net tangible assets

	As at 31 December 2018	As at 31 December 2017
	Cents	Cents
Net tangible assets per ordinary security	0.42	2.90

4. Details of entities over which control has been gained in the period

Not applicable.

5. Loss of control over entities

Not applicable.

6. Details of associates and joint venture entities

Not applicable.

7. Audit qualification or review

The financial statements have been audited and an unqualified opinion containing a material uncertainty related to the going concern has been issued.

8. Attachments

The Annual Report of UUV Aquabotix Limited for the year ended 31 December 2018 is attached.

9. Signed

Peter James
Chairman

Sydney

Contents

Corporate Information

Directors & Management

Peter James (Non-Executive Chairman)
Jay Cohen (Non-Executive Director)
Robert Clisdell (Non-Executive Director)

Chief Executive Officer

Whitney Million

Company Secretary

Jonathan Swain

Registered Office

C/o Sundaraj & Co
Level 36, Australia Square, 264 George Street,
Sydney, 2000 NSW
Australia

Telephone: +61 2 8072 1400
Email: investors@aquabotix.com

Website: www.aquabotix.com

Principal Place of Business

21 Father DeValles Boulevard,
Suite 106
Fall River
Massachusetts

02723 USA

Telephone: +1 508 306 9503 ext 400

Auditors

RSM Australia Partners
Level 13, 60 Castlereagh Street
Sydney NSW 2000

Bankers

Commonwealth Bank of Australia
Level 21, 201 Sussex Street
Sydney, NSW 2000
Australia

Silicon Valley Bank
3003 Tasman Drive, Santa Clara,

CA 95054, USA

Solicitors

Steinepreis Paganin
16 Milligan Street
Perth, WA 6000
Australia

K&L Gates
70 West Madison Street, Suite 300
Chicago, IL 60602
USA

Moses & Singer
The Chrysler Building
405 Lexington Avenue
New York, NY 10174, USA

Share Registry

Link Market Services Limited
Level 4, 152 St Georges Terrace

Perth, WA 6000

Australia
Telephone: +61 1300 554 474

Enquiries (within Australia): 1300 288 664
Enquiries (outside Australia): +61 8 9324 2099

Stock Exchange Listing

UUV Aquabotix Limited shares (ASX code: UUV) and options (ASX code: UUVO) are listed on the Australian Securities Exchange.

Website: www.aquabotix.com

Corporate Governance Statement:
https://www.aquabotix.com/investors.html

Chairman's Review

Dear Fellow Shareholders,

The 2018 financial year was marked with a building in momentum for UUV Aquabotix Limited and its subsidiary Aquabotix Technology Corporation (together "Aquabotix" or "the Company"), with a number of key achievements and developments occurring during the year.

Following the first quarter of the fiscal year, the Company restructured its management and operations and then implemented a new strategy for market approach. This new strategy focuses on the development and marketing of the Company's SwarmDiver™ product, a distinct offering and the first of its kind as a micro-sized hybrid autonomous unmanned underwater and surface vehicle, for the defence industry and on pursuing customer funding to support innovation efforts. Aquabotix is demonstrating noteworthy early successes with this fresh approach.

With a narrowing of focus to specifically target defence customers, including governments and large defence companies, the Company has shifted away from its reliance on distributors and technology-led development schemes to direct customer relationship management and development based on customer requirements, end-user need, and usability in challenging environments. These key changes have enabled the Company to seek and receive non-dilutive funding from customers to support its innovation efforts. Since this shift in strategy took place, Aquabotix has secured two United States Navy funded contracts for the continued development of SwarmDiver™, and the Company is continuing to pursue additional government funding.

While Aquabotix's two initial United States Navy funded contracts are small, these contracts have established the Company as a trusted partner to the United States military, demonstrated the Company's credibility to both domestic and international customers, and positioned the Company well to receive additional government funds. Since government funds are oftentimes awarded in progressive stages with smaller initial investments and more substantial awards following, these initial wins are critical in developing the pipeline for more sizeable future orders.

With the Company continuing to sharpen its focus on short-term wins for the SwarmDiver™ family of products and de-emphasising the manufacturing and sales of its legacy products, the Company discontinued sales of its legacy products and received cash instead from the customer-funded development efforts described above. There is an expectation of cash and follow on orders from customer-funded projects in the coming fiscal year.

Bolstering this expectation is the Company's signed strategic cooperation agreement with Thales, a global defence company. This agreement covers the joint research, design, and development of rapidly deployable mine countermeasures and military hydrographic autonomous system mission solutions. This agreement was executed only seven months following Aquabotix's stated intent to approach the market directly, making it a quick and meaningful win for the Company. Aquabotix is continuing to advance discussions with other key customers and to capitalise on the Company's unique positioning in the underwater robotics domain.

On behalf of the Board, I would like to thank our executive team for their significant contributions this year.

I would also like to thank our fellow shareholders for your support as we look forward to the growing success of the Company.

Peter James

Independent Non-Executive Chairman


AQUABOTIX
SWARMDIVER
KEEPING THE OPERATOR OUT OF HARM'S WAY

About UUV Aquabotix Limited

History of UUV Aquabotix Limited and its subsidiaries

Formed on 4 March 2011, as Aquabotix Technology Corporation, the Company is based in Sydney and Fall River, Massachusetts, and is a unique and established underwater robotics company. It is a leader in the nascent underwater drone market, with a specific focus on micro-sized, swarming products for a broad range of defence applications.

On 22 November 2016, UUV Aquabotix Limited was incorporated in Australia for the primary purpose of acquiring Aquabotix Technology Corporation, listing on the ASX and engaging in the business of offering products designed, developed, and manufactured by Aquabotix globally, as well as managing and operating Aquabotix's business.

UUV Aquabotix Limited listed on the ASX, on 28 April 2017, raising AUD$7 million through the issue of 35 million shares at an issue price of $0.20 per share. A share placement in July 2018 raised a further AUD$1.25 million through the issue of 25 million shares at an issue price of $0.05 per share.

The Company owns valuable intellectual property in a range of unmanned, autonomous surface and underwater vehicles and underwater camera products and is an early-mover in this emerging industry. With key design and system elements protected by patents, the Company continues to build on its flexible and unique offerings.

Aquabotix focuses on providing innovative, autonomous solutions to address the notoriously challenging shallow water and surf zone environments. The Company's swarm capabilities allow single operators to interact with multiple vehicles as a single entity and provide an inherent level of redundancy for the missions in which these solutions are applied. These distinguishing offerings address a range of defence and government challenges for which urgent needs exist.

Aquabotix's SwarmDiver™ is the first of its kind - a micro-sized, hybrid unmanned surface vehicle and underwater vehicle (USV/UUV) with swarming capabilities. SwarmDivers™ are surf zone operable and deployable from any platform of opportunity. This flexible system is highly versatile and has dozens of uses. A few applications for this product include: intelligence and reconnaissance, harbor management and port security, disruption through explosives delivery, mine and unexploded ordnance detection and classification, stealthy data transfer, and hydrographic surveys.

With SwarmDiver's product characteristics being unique and the product having had successful demonstrations supporting a variety of mission sets, there has been substantial interest in the SwarmDiver™ family of vehicles on a global scale. The units are priced at approximately USD$10-20k each, depending on specification, and with units being sold in multiples for swarm functionality there is significant potential for high-value wins for this family of products.

Business Model

The Company refined its business approach during 2018. Historically, Aquabotix sold commercial/industrial-grade underwater drones and networked underwater cameras, supported by its proprietary software, to customers. The Company shifted focus and resources towards the high growth prospects in autonomous and swarming unmanned underwater and surface products, especially in those areas where limited competition and no commercially viable alternatives exist. This culminated with the release in April 2018 of SwarmDiver™, a micro, hybrid unmanned surface vehicle and underwater vehicle.

This product is in a class of its own and is, to the best of our knowledge, the only micro-sized hybrid vehicle of this type and the only swarming unmanned vehicle with diving capabilities commercially available to both corporate and government users. This product has been well received, and the level of interest generated in SwarmDiver™ from potential partners and customers has exceeded the Company's expectations. The Company is actively exploring various applications, potential sales and co-operation agreements, as well as non-dilutive funding options with a range of interested parties, and a general emphasis on development with the United States and allied defence communities.

This narrowed focus is key to the Company's near-term strategy. With the generated interest in and competitive advantages of SwarmDiver™, the Company is well positioned to partner with both government and large defence companies for mission-specific product development. It is anticipated these types of partnerships will enable the Company to continue advancing its technology and differentiating itself from competitors with customer support,

Image Above: SwarmDiver STEALTH for military use.

About UUV Aquabotix Limited *(continued)*

limiting reliance on funding methods that would dilute shareholder's equity or add debt for the Company. Additionally, these offerings, especially when developed further to meet specific user challenges, fall into high growth prospect markets, namely swarm intelligence and autonomous unmanned underwater vehicles, so exploiting the intellectual property developed in these arenas is fundamental to the Company's future trajectory.

Underwater robotics is a relatively nascent industry, and Aquabotix is one of the early movers in it. There is a limited number of underwater drone solutions that are readily commercially-available to end-users in the market and are reliable, demonstrable, proven over time, and cost-effective. Demand for Aquabotix's products is driven by the fact that it is one of the few industry participants with existing products (as opposed to prototypes or concepts) and the fact that its products distinctly address user challenges for which urgent and generally otherwise unmet needs exist. With the shift in the Company's focus to the defence industry, Aquabotix has moved away from its historically strong reliance on a distributor network and instead is moving to a direct sales model, with the securing of key partnerships and early customer engagements being key foundations for success. These changes afford Aquabotix an opportunity to influence requirements and shape technology offerings with specific use cases in mind. Additionally, these closer ties move Aquabotix from a role of supplier to trusted partner for these key customers.

Corporate

The Company has made several important changes to its management team in the year ended 31 December 2018, including the appointment of the new Chief Executive Officer, Ms. Whitney Million.

Ms. Million was appointed as Chief Executive Officer (CEO), effective April 2018, as Mr. David Batista stepped down from this position in March 2018. The appointment provides the Company with significant experience, a solid reputation, and appropriate networks to draw upon in the global defence industry. Along with this management restructure, the Company has undergone a reduction in workforce and taken additional measures to cut cost and spend more efficiently in order to keep the company more agile and competitive as it pursues a range of larger volume opportunities.

Cash outflows have been considerably reduced since the management restructure. Following the restructuring, the Company's net cash used in operations had been reduced by over 65% from $1,707,692 for the 30 June 2018 quarter to $576,431 for the 31 December 2018 quarter. At the same time, while the Company's cash inflows for the year were modest, there is real progress in cash inflows noted for the quarter ending 31 December 2018. These results are a direct result of the implementation of the new strategy with an increased focus on the development and marketing of SwarmDiverTM for the defence industry and the pursuit of customer funding for innovation efforts.

Environment

The US Department of Defense and Department of Homeland Security spend approximately USD$22 billion 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 USD$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.

The industry fundamentals remain strong with the Unmanned Underwater Vehicles (UUV) market is estimated at USD$2.7 billion in 2017 and is projected to reach USD$5.2 billion by 2022, at a CAGR of 14.1% from 2017 to 2022, according to Markets and Markets, an independent research firm. Additionally, Markets and Markets estimates the subcategory of autonomous unmanned vehicles, of which the Company's SwarmDiver^{TM} products are classified, will grow at a CAGR of 24% for the same period, from USD$0.9 billion to USD$2.7 billion by 2022. The swarm intelligence market was estimated to grow to US$450 million by 2030, at a CAGR of 40% from 2020 to 2030, and the broader artificial intelligence market is expected to be worth USD$190 billion by 2025.

Image Above: Aquabotix describing SwarmDiver uses & capabilities to U.S. Navy at 2018 Advanced Naval Technology Exercise

About UUV Aquabotix Limited *(continued)*

Market Position

It is commonly accepted that UUVs trail UAVs (Unmanned Aerial Vehicles) by approximately seven years in terms of technological advancement and market acceptance. Given we are now seeing UAVs employed in active warfare, assisting lifesavers to deploy floatation devices, surveying major infrastructure and delivering parcels to homes, it is clear to see the strides that are possible within the UUV space. From oceanography to aquaculture, to pipeline and well-head monitoring, to ship hull inspections and mapping, unique applications continue to emerge. Defence customers are among the earliest adopters of this emerging technology, and their budgets the most sizeable. With a focus on autonomous, swarming technology and capabilities in operating in challenging operational environments and as a first mover in this industry, Aquabotix is well positioned to address an urgent and growing user need in the defence space and to fill a demand that is expected to grow exponentially in the coming years.

Maritime security is a particular challenge in the Middle East and North Africa (MENA) region. Over the past five years, there has been a notable uptick in drone boat and other improvised explosive devices attacks on commercial and military vessels particularly in that region. International commerce relies heavily on maritime shipping, often through geographical bottlenecks in the MENA region. When considering those bottlenecks convey a large portion of the world's daily oil supply, it becomes clear that destabilizing any one of them could have massive economic and trade impacts on a global scale. This is why the growing threat of militant and terrorist activity through narrow bodies of water and ports is so concerning. In addition to these non-military threats, there are additional threats of explosives in waterways planted by the world's navies both historically and in the present day. By some estimates the world's navies possess about one million sea mines, and even more unexploded ordnance from prior conflicts remains active on the ocean floors across the globe.

With a persistent and growing threat to commercial and military vessels presented by naval explosives and improvised weapons, there is an increased focus on finding methods of locating, identifying, and neutralising those threats. An important facet of this demand is securing autonomous solutions to remove the operator and keep him at a safer stand-off distance during the countermeasure missions are undertaken. Navies around the world are actively seeking cost-effective and man out-of-the-loop solutions for these challenges, and Aquabotix's goal is to establish and strengthen relationships with government, armed forces, and business leaders in this region and market the use of SwarmDiver™ to address these urgent needs.

Beyond mine and explosives countermeasures, there are a variety of other urgent end-user needs that can be addressed through Aquabotix's offerings. Where urgent needs exist, governments, including the United States and Australian militaries are putting into place procedures to allow for quicker procurements of emerging technologies. The United States military is taking measures to increase the speed of acquisition for urgent, out-of-cycle requirements to support its forces, including increased funding allocations for the US Navy's rapid prototyping programs to field capabilities quickly. With these steps, the industry is seeing a rise in the use of Other Transaction Authority (OTA) agreements as a means of quickly awarding contracts for prototype development under more commercial terms. Most of these OTAs are accessed through and managed via consortiums; therefore, to increase probability of being included in one of these funding schemes, Aquabotix has joined a number of relevant industry consortia.

In addition to seeking available methods of quicker procurements, Aquabotix is continuing to develop and protect its technology to ensure it remains well positioned to support future, more sizeable requirements. Aquabotix is gearing up three new development projects in Australia this year, in addition to the customer funded development projects described elsewhere in this report. These technology developments extend the usability and flexibility of the current SwarmDiver™ system and will have significant relevance in both domestic and international markets. Being known as a first mover in this nascent industry is a key foundational block of Aquabotix's ultimate export and domestic strategies.

Images Left and Above: Live demonstration of SwarmDiver EDGE at IDEX, Abu Daubi, UAE 2019 for UAE Navy and other potential customers.

Directors' Report

Your Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Company' or 'Aquabotix') consisting of UUV Aquabotix Limited and its controlled entities for the year ended 31 December 2018.

Directors

The following persons were directors of UUV Aquabotix Limited during the financial year and up until the date of this report, unless otherwise stated. Details of the current members of the Board, including their experience, qualifications, special responsibilities and term of office are included on page 10 of the Annual Report.

Name	Position	Effective date
Peter James	Independent Non-Executive Chairman	Appointed 9 March 2017
Admiral Jay M. Cohen	Non-Executive Director	Appointed 9 March 2017
Durval Tavares	Executive Director	Appointed 9 March 2017, resigned 23 July 2018
Robert Clisdell	Non-Executive Director	Appointed 22 November 2016, resigned 9 March 2017, re-appointed 10 March 2018
Brendan Martin	Executive Director and Chief Finance Officer	Appointed 22 November 2016, resigned 6 June 2018

Chief Executive Officer

Whitney Million, appointed 21 March 2018.

David Batista, resigned 28 March 2018.

Company Secretary

Jonathan Swain, appointed 25 January 2018.

Anand Sundaraj, resigned 25 January 2018.

Directors' Report *(Continued)*

Board of Directors and Executives

Peter James: Independent Non-Executive Chairman

Experience and expertise:
Mr James has over 30 years' experience in the technology, telecommunications and media industries, and has extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies. He recently completed 12 years as a Non-Executive Director for ASX-listed iiNet, Australia's second largest DSL internet Services Provider, prior to it being acquired by TPG Telecom for $1.56bn. Mr James joined the Board of UUV Aquabotix Limited and was elected Chairman in March 2017.

Other current directorships:	Chair of ASX-listed companies Macquarie Telecom Group Limited, Nearmap Limited, Dreamscape Networks Limited, DroneShield Limited and Keytone Dairy Corporation Limited.
Former directorships (last 3 years):	Non-Executive Director of iiNet
Interests in shares:	1,398,213
Interests in options:	6,250,000
Contractual rights to shares:	None

Admiral Jay M. Cohen: Independent, Non-Executive Director

Experience and expertise:
Admiral Jay M. Cohen is former Chief of Naval Research (United States Navy) and has served as the United States Department of the Navy Chief Technology Officer Admiral Cohen is a graduate of the United States Naval Academy. He holds a joint Ocean Engineering degree from Massachusetts Institute of Technology (MIT) and Woods Hole Oceanographic Institution and Master of Science in Marine Engineering and Naval Architecture from MIT. Earlier in his career, he commanded USS Hyman G. Rickover and served on the U.S. Atlantic Fleet before commanding the submarine tender USS L.Y. Spear including a deployment to the Persian Gulf in support of Operation Desert Storm. Admiral Cohen was promoted to the rank of Rear Admiral in 1997 and reported to the Joint Staff as Deputy Director for Operations responsible to the President and Department of Defence leaders for strategic weapons release authority. In June 2000, he became the 20th Chief of Naval Research. He served during war as the Department of the Navy Chief Technology Officer, responsible for the $2B+/year Navy and Marine Corps Science and Technology (S&T) Program. Unanimously confirmed by the US Senate, he was sworn in as Under Secretary for Science & Technology at the Department of Homeland Security in 2006. Since leaving government, Admiral Cohen serves on corporate boards and is an independent consultant for science and technology in support of U.S. and international defence, homeland security and energy issues and solutions.

Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	None
Interests in options:	1,400,000
Contractual rights to shares:	None

Directors’ Report *(Continued)*

Robert Clisdell: Non-Executive Director

Experience and expertise

Mr. Clisdell is based in Sydney and is the Managing Director at Brentridge Capital Pty Ltd, a Sydney-based corporate advisor. Prior to Brentridge, Mr. Clisdell headed the Australian office of Bergen Capital (Australia), LLC and prior to that worked in the middle market corporate advisory practice for Credit Suisse's Private Bank in Melbourne. Mr. Clisdell was also previously an M&A banker with Caliburn Partnership (now Greenhill & Co.) and worked in Equity Capital Markets at Ord Minnett Corporate Finance.

Mr. Clisdell began his career with Arthur Anderson and qualified as a Chartered Accountant in 2005. He holds a Bachelor of Commerce from the University of Sydney and a Graduate Diploma in Applied Finance from Kaplan.

Other current directorships: Non-Executive Director of Keytone Dairy Corporation Limited (ASX:KTD) and DroneShield Limited (ASX:DRO).

Interest in shares:	50,000
Interest in options:	1,050,000
Contractual rights to shares:	None

Jonathan Swain: Company Secretary

Experience and expertise

Mr. Swain is a lawyer and company secretary with extensive experience in public and private mergers and acquisitions and advising on general corporate law, corporate governance and ASX listing rules compliance. He has spent more than 15 years with major law firms Allen & Overy and Clayton Utz, and has also headed the legal function for an ASX-listed financial services company. Mr. Swain is a Fellow of the Governance Institute of Australia and is the company secretary for several ASX-listed companies and a number of unlisted entities.

Directors' Report *(Continued)*

Meetings of Directors

The Company's Board of Directors ('the Board') met 9 times during the year ended 31 December 2018 and the number of meetings attended by each director were as follows:

Name	Eligible to attend	Attended
Directors		
Peter James	9	9
Jay M. Cohen	9	9
Durval Tavares	6	6
Brendan Martin	5	5
Robert Clisdell	5	5

Eligible to attend: represents the number of board meetings held during the time the director held office.

Key Information

	Year ended 31 December 2018 AUD$	Year ended 31 December 2017 AUD$	% Change
Revenues from ordinary activities	**154,494**	747,131	(79.3)%
Loss from ordinary activities after tax attributable to shareholders	**(4,833,146)**	(4,559,109)	(6.0)%
Loss for the year attributable to shareholders	**(4,833,146)**	(4,559,109)	(6.0)%

Review of Operations and Financial Results

As discussed on page 13, in Key Developments and Achievements, the Company was awarded two Navy funded contracts. Revenues from the first of these are reflected in the revenues for the 12 months ended 31 December 2019.

The loss for the consolidated entity after providing for income tax and non-controlling interest for the year ended 31 December 2018 amounted to $4,833,146 (31 December 2017: loss of $4,559,109). The loss for the year reflects the impact of the management restructure during the first half of the fiscal year combined with the implementation of the Company's new strategic focus. The new strategy focusses on the development and marketing of SwarmDiver™ for the defence industry and the fresh focus on pursuing customer funding to support innovation efforts

As a result of these changes, monthly operating cashflows have significantly reduced.

During 2018, the Company received an investment of $1,250,000 through a placement of 25,000,000 ordinary fully paid shares. As at 31 December 2018, Aquabotix had a cash and cash equivalents balance of $704,377 (2017: 3,887,828).

In February 2019, the Company announced a renounceable entitlement offer to raise up to $960,000, whereby existing shareholders were offered the right to take up 1 new share for every 5 existing shares held at the record date, at an issue price of $0.03.

Directors' Report *(Continued)*

Key Developments

Aquabotix has made significant progress over the period in developing relationships with key customers, securing strategic partnerships in the defence domain, and securing non-dilutive funding for its innovation efforts. In the short period since the Company's announcement of a strategic shift to the defence industry and its focus on its SwarmDiver ™ family of unmanned underwater/surface micro vehicles, Aquabotix has already seen demonstrable indicators of success related to these important changes. The following summarizes the most notable developments during the fiscal year.

U.S. Navy-Funded Contracts

Aquabotix received two United States Navy-funded contracts this year. The first award was made through the United States Naval Undersea Warfare Center in June 2018 and valued at approximately USD$78,000. This initial award was focused on expanding the capabilities of the SwarmDiver™ for use in unexploded ordnance related missions. Just seven months later, Aquabotix was awarded its second United States Navy-funded contract, valued at approximately USD$70,000. This contract will involve further developments to Aquabotix's SwarmDiver™ product and will culminate with a demonstration of the developments to various United States Navy personnel.

While the two initial contracts described above are small, they have established the Company as a trusted provider to the United States military, proven the Company's credibility to a range of domestic and international customers, and positioned the Company well to receive further government funding. Generally speaking, government funding is awarded in progressive stages with smaller initial investments in development in the beginning, followed by more substantial awards for concept prove out and commercialisation stages. Cooperative development with government agencies provides a potential path to large quantity unit sales with customer advocacy and buy in achieved at early stages. Aquabotix is continuing to pursue additional non-dilutive funding to support other mission-specific product development directly through government users, as well as through partnerships with larger defence companies. A number of concepts of operations using SwarmDiver™, either alone or in conjunction with other larger systems, have been identified to date and are being explored and pursued by the Company. Aquabotix remains focused on this shift from pursuing small, short-term sales in a variety of verticals to developing larger volume sales, with a particular concentration on defence where product demand is particularly prevalent.

Thales Strategic Agreement

Also bolstering Aquabotix's status as a leading product developer in the emerging underwater drones domain is the strategic cooperative agreement entered into between the Company and Thales, a global defence company. The parties signed a Memorandum of Agreement, covering strategic cooperation in the research, design, and development of rapidly deployable mine countermeasures and military hydrographic autonomous system mission solutions. With 65,000 employees in 56 countries and reported sales of €15.8 billion in 2017, and a 30-year history of developing advanced mine countermeasure systems for both the Royal Australian Navy and for export, Thales is an ideal partner for Aquabotix to cooperate with in this domain.

Successful Demonstrations

The Company has conducted several successful demonstrations this year, perhaps most notably through the United States Navy's Advanced Naval Technology Exercise (ANTX), conducted in August 2018 at the Narragansett Bay Test Facility. ANTX was created to provide an opportunity to demonstrate future United States Navy technologies in action in the current day. The Company conducted an exercise demonstrating coordinated efforts between its SwarmDiver™ and Integra™ products for an audience comprised of various United States Navy personnel.

Following the successful 2018 exercise, the Company submitted three proposals for consideration to be included in the 2019 ANTX events. Despite the Navy being highly selective in its admission of participants for this event, all three proposals have now been approved by the United States Navy. These demonstrations will showcase the capabilities of Aquabotix's SwarmDiver™ as well as a new vehicle system currently in development, fitting the theme "Prepare for Battle: Undersea Security." Among other things, the Company will demonstrate its products' ability to enhance a user's understanding of their operational environment in the very challenging shallow water and surf zones.

In addition to ANTX, Aquabotix's product was featured at the Thales display at the Autonomous Warrior event at HMAS Creswell, Jervis Bay, Australia in November 2018. This joint presentation was underpinned by the then-anticipated execution of the collaborative agreement that was announced shortly after this event. The purpose of the Autonomous Warrior event is to demonstrate the potential of uninhabited systems to transform Australian Defence capability.

Aquabotix also attended the Defence Innovation Network's Launch event in Sydney, Australia, where the company presented its SwarmDiver™ offerings in a technical research showcase for an audience including large defence companies and government attendees. There are a range of events planned for 2019 as well, and the Company will update the market accordingly as appropriate.

Directors' Report *(Continued)*

Product Launches

In April 2018, the Company first launched its SwarmDiver™ product This micro-sized hybrid unmanned underwater and surface vehicle is the first of its kind to be offered commercially for both military and commercial users. The Company received overwhelmingly positive response to the release of this product, and is continuing advanced discussions with a range of militaries and large defence companies for use of the product in various use cases. To meet a range of user challenges, the Company developed and launched an additional three product lines under the SwarmDiver™ family of vehicles in November 2018: SwarmDiver STEALTH™, SwarmDiver EDGE™, and SwarmDiver NIGHTLINE™. These products are tailored for specific defence and commercial applications and expand the use cases for the SwarmDiver™ family of products. Expanding its offerings enables the Company to solve customer challenges that were, to date, difficult to manage and in some cases unsolvable.

Explosive Capabilities

The Company expanded its physical footprint in the United States this year, opting to co-locate with the United States Army at Radford Army Ammunition Plant in the Commonwealth of Virginia. Radford Army Ammunition Plant hosts other large defence companies and is primarily used for the purpose of developing and manufacturing explosive and propellant products. This co-location provides several benefits to the Company, including but not limited to proximity to an intended customer base, funds for capital assets, and marketing and other strategic support. This facility also provides a level of security required for Aquabotix to conduct certain types of government contract work, such as explosives handling. Following the establishment of an office at Radford Army Ammunition Plant, the Company applied for and subsequently was granted its United States Federal Explosives License through the Bureau of Alcohol, Tobacco, Firearms, and Explosives. This License will allow Aquabotix to conduct certain activities related to the purchase, storage and handling of explosives necessary for developing its range of products with explosive capabilities.

Principal Activities

During the financial year the principal continuing activities of the Group consisted of designing, developing, and manufacturing underwater drones and related technologies.

Significant Changes in the State of Affairs

Other than discussed in the Review of Operations above, there have been no significant changes in the state of affairs of the Company during the year ended 31 December 2018.

Significant Events after the Balance Date

In February 2019, the Company announced a renounceable entitlement offer to raise up to $960,000, whereby existing shareholders were offered the right to take up 1 new share for every 5 existing shares held at the record date, at an issue price of $0.03.

Other than as discussed above, no other matter has arisen since 31 December 2018 that has significantly affected or may significantly affect the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely and expected results of operations

Refer to the Chairman's Review to shareholders, on page 4, for further information on likely developments and expected results of the Group.

Environmental regulation

The Group's operations are not subject to any significant environmental regulation under either Australian Commonwealth or State legislation. The Board considers that adequate systems are in place to manage the Group's obligations and is not aware of any breach of environmental requirements as they relate to the Group.

Dividends

No dividends were declared or paid to shareholders during the financial year (2017: $nil).

Directors' Report *(Continued)*

Corporate Governance Statement

The Board of the Company recognises the importance of establishing a comprehensive system of control and accountability as the basis for the administration of corporate governance.

To the extent relevant and practical, the Company has adopted a corporate governance framework that is consistent with The Corporate Governance Principles and Recommendations (3rd Edition) as published by ASX Corporate Governance Council ("Recommendations").

The Company's Corporate Governance Statement for the financial year ending 31 December 2018 is dated and was approved by the Board of Directors on 28 February 2019. The Company's Corporate Governance Statement is available at the Company's website at https://www.aquabotix.com/investors.html

The Board has adopted the following suite of corporate governance policies and procedures which are contained with the Company's Corporate Governance Plan, a copy of which is available of the Company's website at https://www.aquabotix.com/investors.html:

- Board Charter
- Corporate Code of Conduct
- Public Sector Code of Conduct
- Audit and Risk Committee Charter
- Remuneration Committee Charter
- Nomination Committee Charter
- Continuous Disclosure Policy
- Risk Management Policy
- Remuneration Policy
- Trading Policy
- Diversity Policy
- Shareholder Communications Strategy
- Performance Evaluation Procedures
- Skills Matrix

The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

The Company is pleased to report that its practices are largely consistent with the Recommendations of the ASX Corporate Governance Council and sets out below its compliance and departures from the Recommendations for the year ended 31 December 2018.

In the context of the Company's nature, scale and operations, the Board considers that the current corporate governance regime is an efficient, practical and cost-effective method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the implementation of additional corporate governance policies and structures will be reviewed and considered.

RECOMMENDATIONS (3RD EDITION)	COMPLY	EXPLANATION
Principle 1: Lay solid foundations for management and oversight		
Recommendation 1.1 A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the Board, the Chair and management, and includes a description of those matters expressly reserved to the Board and those delegated to management.	YES	The Company has adopted a Board Charter. The Board Charter sets out the specific responsibilities of the Board, requirements as to the Board's composition, the roles and responsibilities of the Chairman and Company Secretary, the establishment, operation and management of Board Committees, Directors' access to Company records and information, details of the Board's relationship with management, details of the Board's performance review and details of the Board's disclosure policy. A copy of the Company's Board Charter, which is part of the Company's Corporate Governance Plan, is available on the Company's website.
Recommendation 1.2 A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and (b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a Director.	YES	(a) The Company's Corporate Governance Plan requires the Board to undertake appropriate checks as to the character, experience, education, criminal record and bankruptcy history of the candidate before appointing a person or putting forward to security holders a candidate for election, as a Director. (b) All material information relevant to a decision on whether or not to elect or re-elect a Director will be provided to security holders in any notice of meeting pursuant to which the resolution to elect or re-elect such Director will be voted on.
Recommendation 1.3 A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.	YES	The Company's Corporate Governance Plan requires the Board to ensure that each Director and senior executive is a party to a written agreement with the Company which sets out the terms of that Director's or senior executive's appointment. The Company has written agreements with each of its Directors and senior executives.
Recommendation 1.4 The company secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	YES	The Board Charter outlines the roles, responsibility and accountability of the Company Secretary. In accordance with this, the Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.
Recommendation 1.5 A listed entity should: (a) have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary or it; and (c) disclose as at the end of each reporting period: (i) the measurable objectives for achieving gender diversity set by the Board in accordance with the entity's diversity policy and its progress towards achieving them; and (ii) either: the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most	PARTIALLY	(a) The Company has adopted a Diversity Policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect of gender diversity. The Diversity Policy allows the Board to set measurable gender diversity objectives if considered appropriate, and to assess annually both the objectives if any have been set and the Company's progress in achieving them. The Diversity Policy is available, as part of the Corporate Governance Plan, on the Company's website. (b) The Board does not presently intend to set measurable gender diversity objectives because: (i) it is the Board's view that the existing Directors and senior executives have sufficient skill and experience to carry out the Company's plans; (ii) if it becomes necessary to appoint any new Directors or senior executives, the Board considered the application of a measurable gender diversity objective requiring a specified proportion of women on the Board and in senior executive roles will, given the small size of the Company and the Board, unduly limit the Company from applying the Diversity Policy as a whole and the Company's policy of appointing based on skills and merit; and

<table>
<tr><th>RECOMMENDATIONS (3RD EDITION)</th><th>COMPLY</th><th>EXPLANATION</th></tr>
<tr><td>recent "Gender Equality Indicators", as defined in the Workplace Gender Equality Act.</td><td></td><td>(iii) the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation for each financial year will be disclosed in the Company's Annual Report.
(c) Given the current size of the Company, the Board has determined that the benefits of the recommendations of the ASX Corporate Governance Council are disproportionate with the costs involved in implementing such recommendations and as at the 31 December 2018, the Company has not formally defined a set of measurable gender diversity objectives. As at 31 December 2018, the respective proportions of men and women in the Workplace in management roles as follows:
<table><tr><th></th><th>Men</th><th>Women</th></tr><tr><td>Board</td><td>100%</td><td>0%</td></tr><tr><td>Senior executives</td><td>0%</td><td>100%</td></tr><tr><td>Across the whole organisation</td><td>60%</td><td>40%</td></tr></table></td></tr>
<tr><td>Recommendation 1.6
A listed entity should:
(a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</td><td>YES</td><td>(a) The Board (in the absence of a Nominations Committee) is responsible for evaluating the performance of the Board and individual Directors on an annual basis, with the aid of an independent advisor, if deemed required. The process for this can be found in Schedule 5 of the Company's Corporate Governance Plan.
(b) The Company's Corporate Governance Plan requires the Board to disclose whether or not performance evaluations were conducted during the relevant reporting period. Details of any performance evaluations conducted are provided in the Company's Annual Reports.</td></tr>
<tr><td>Recommendation 1.7
A listed entity should:
(a) have and disclose a process for periodically evaluating the performance of its senior executives; and
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</td><td>YES</td><td>(a) The Board (in the absence of a Remuneration Committee) is responsible for overseeing performance evaluations of senior executives on an annual basis. The process for this can be found in Schedule 4 of the Company's Corporate Governance Plan.
(b) The Company's Corporate Governance Plan requires disclosure as to whether or not performance evaluations were conducted during the relevant reporting period and details of any performance evaluations conducted are contained in the Company's Annual Reports.</td></tr>
<tr><td colspan="3">Principle 2: Structure the Board to add value</td></tr>
<tr><td>Recommendation 2.1
The Board of a listed entity should:
(a) have a nomination committee which:
(i) has at least three members, a majority of whom are independent Directors; and
(ii) is chaired by an independent Director,
and disclose:
(iii) the charter of the committee;
(iv) the members of the committee; and
(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</td><td>PARTIALLY</td><td>(a) The Company does not have a Nomination Committee. The Company's Nomination Committee Charter provides for the creation of a Nomination Committee (if it is considered it will benefit the Company), with at least three members, a majority of whom are independent Directors, and which must be chaired by an independent Director.
(b) The Company does not have a Nomination Committee as the Board considers the Company will not currently benefit from its establishment. In accordance with the Company's Board Charter, the Board carries out the duties that would ordinarily be carried out by the Nomination Committee under the Nomination Committee Charter, including the following processes to address succession issues and to ensure the Board has the appropriate balance of skills, experience, independence</td></tr>
</table>

RECOMMENDATIONS (3RD EDITION)	COMPLY	EXPLANATION
(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.		and knowledge of the entity to enable it to discharge its duties and responsibilities effectively: (i) devoting time at least annually to discuss Board succession issues and updating the Company's Board skills matrix; and (ii) all Board members being involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules.
Recommendation 2.2 A listed entity should have and disclose a Board skill matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.	PARTIALLY	Under the Nomination Committee Charter (in the Company's Corporate Governance Plan), the Nomination Committee (or, in its absence, the Board) is required to prepare a Board skill matrix setting out the mix of skills and diversity that the Board currently has (or is looking to achieve) and to review this at least annually against the Company's Board skills matrix to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction. The Board of the Company is comprised of Directors with a broad range of technical, commercial and financial skills, experience and knowledge relevant to overseeing the business of an underwater drone manufacturing company. The Board has not yet developed a specific skill matrix. The composition of the Board is reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction. This role will be performed by the full Board (in the absence of a Nomination Committee). Once adopted, the Company will disclose the Board skill matrix in, or in conjunction with, its Annual Reports.
Recommendation 2.3 A listed entity should disclose: (a) the names of the Directors considered by the Board to be independent Directors; (b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and (c) the length of service of each Director	YES	(a) The Board Charter requires the disclosure of the names of Directors considered by the Board to be independent. The Company will disclose those Directors it considers to be independent in its Annual Report and on its ASX website. The Board considers the following Directors are independent: Peter James, Jay Cohen and Robert Clisdell. (b) The Board Charter requires Directors to disclose their interest, positions, associations and relationships and requires that the independence of Directors is regularly assessed by the Board in light of the interests disclosed by Directors. (c) The Company's Annual Report discloses the length of service of each Director, as at the end of each financial year.
Recommendation 2.4 A majority of the Board of a listed entity should be independent Directors.	YES	The Company's Board Charter requires that, where practical, 50% of the Board should be independent. The Board currently comprises a total of three (3) directors, of whom three (3) are considered to be independent. As such, at least 50% of the Board are considered independent directors.
Recommendation 2.5 The Chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.	YES	The Board Charter provides that where practical, the Chairman of the Board will be a non-executive director. The Chairman, Peter James is an independent non-executive director and is not the same person as the CEO of the Company.
Recommendation 2.6 A listed entity should have a program for inducting new Directors and providing appropriate professional development opportunities for continuing Directors to develop and maintain the skills and knowledge needed to perform their role as a Director effectively.	YES	In accordance with the Company's Board Charter, the Nominations Committee (or, in its absence, the Board) is responsible for the approval and review of induction and continuing professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities. The Company Secretary is responsible for facilitating inductions and professional development.
Principle 3: Act ethically and responsibly		

RECOMMENDATIONS (3RD EDITION)	COMPLY	EXPLANATION
Recommendation 3.1 A listed entity should: (a) have a code of conduct for its Directors, senior executives and employees; and (b) disclose that code or a summary of it.	YES	(a) The Company's Corporate Code of Conduct applies to the Company's Directors, senior executives and employees. (b) The Company's Corporate Code of Conduct (which forms part of the Company's Corporate Governance Plan) is available on the Company's website.
Principle 4*: Safeguard integrity in financial reporting*		
Recommendation 4.1 The Board of a listed entity should: (a) have an audit committee which: (i) has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and (ii) is chaired by an independent Director, who is not the Chair of the Board, and disclose: (iii) the charter of the committee; (iv) the relevant qualifications and experience of the members of the committee; and (v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	PARTIALLY	(a) Due to the size and nature of the existing Board and the magnitude of the Company's operations the Company does not currently have an Audit and Risk Committee. Pursuant to clause 7(h) of the Company's Board Charter, the full Board carries out the duties that would ordinarily be assigned to the Audit and Risk Committee under the written terms of reference for that committee. The role and responsibilities of the Audit and Risk Committee are contained in the Company's Corporate Governance Plan which is available on the Company's website. (b) The Board devotes time annually to fulfilling the roles and responsibilities associated with maintaining the Company's internal audit function and arrangements with external auditors. All members of the Board are involved in the Company's audit function to ensure the proper maintenance of the entity and the integrity of all financial reporting.
Recommendation 4.2 The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	PARTIALLY	The Company's Corporate Governance Plan states that a duty and responsibility of the Board is to ensure that before the Board approves the entity's financial statements for a financial period, the CEO has declared that in their opinion the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. The Company currently does not have a CFO however the CEO is the person who is responsible for performing the functions of a CFO and has given the declaration referred to above in both capacities.
Recommendation 4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	YES	The Company's Corporate Governance Plan provides that the Board must ensure the Company's external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.
Principle 5: Make timely and balanced disclosure		
Recommendation 5.1 A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	YES	(a) The Company has adopted a Continuous Disclosure Policy which is set out within the Company's Corporate Governance Plan and details the Company's disclosure requirements as required by the ASX Listing Rules and other relevant legislation.

RECOMMENDATIONS (3RD EDITION)	COMPLY	EXPLANATION
		(b) The Corporate Governance Plan is available on the Company's website.
Principle 6: ***Respect the rights of security holders***		
Recommendation 6.1 A listed entity should provide information about itself and its governance to investors via its website.	YES	Information about the Company and its governance is available in the Corporate Governance Plan which can be found on the Company's website.
Recommendation 6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	YES	The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors. The Strategy outlines a range of ways in which information is communicated to shareholders and is available on the Company's website as part of the Company's Corporate Governance Plan at https://www.aquabotix.com/investors.html.
Recommendation 6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	YES	Shareholders are encouraged to participate at all general meetings and AGMs of the Company. Upon the despatch of any notice of meeting to Shareholders, the Company Secretary shall send out material stating that all Shareholders are encouraged to participate at the meeting.
Recommendation 6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	YES	The Shareholder Communication Strategy provides that security holders can register with the Company to receive email notifications when an announcement is made by the Company to the ASX, including the release of the Annual Report, half yearly reports and quarterly reports. Links are made available to the Company's website on which all information provided to the ASX is immediately posted. Shareholder queries should be referred to the Company Secretary at first instance.
Principle 7: Recognise and manage risk		
Recommendation 7.1 The Board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (i) has at least three members, a majority of whom are independent Directors; and (ii) is chaired by an independent Director, and disclose: (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.	PARTIALLY	(a) Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company currently does not have an Audit and Risk Committee. Pursuant to clause 7(h) of the Company's Board Charter, the full Board currently carries out the duties that would ordinarily be assigned to the Audit and Risk Committee under the written terms of reference for that committee. The role and responsibilities of the Audit and Risk Committee are outlined in the Audit and Risk Committee Charter contained in the Company's Corporate Governance Plan which is available on the Company's website. (b) The Board devotes time annually to fulfilling the roles and responsibilities associated with overseeing risk and maintaining the entity's risk management framework and associated internal compliance and control procedures.
Recommendation 7.2 The Board or a committee of the Board should: (a) review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound; and (b) disclose in relation to each reporting period, whether such a review has taken place.	YES	(a) The Company's process for risk management and internal compliance includes a requirement on the Board to identify and measure risk, monitor the environment for emerging factors and trends that affect these risks, formulate risk management strategies and monitor the performance of risk management systems. The Company has adopted a Risk Management Policy which is contained within the Company's Corporate Governance Plan and details the Company's disclosure requirements

<table>
<tr><th>RECOMMENDATIONS (3RD EDITION)</th><th>COMPLY</th><th>EXPLANATION</th></tr>
<tr><td></td><td></td><td>with respect to the risk management review procedure and internal compliance and controls.
(b) For each reporting period following the Company's admission to the Official List of the ASX, the Company will disclose in its annual report whether a review of the Company's risk management framework was undertaken in line with its Risk Management Policy. A review during the reporting period was undertaken of the Company's risk management framework.</td></tr>
<tr><td>Recommendation 7.3
A listed entity should disclose:
(a) if it has an internal audit function, how the function is structured and what role it performs; or
(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</td><td>YES</td><td>Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company does not currently have an internal audit function.
The Audit and Risk Committee Charter of the Company's Corporate Governance Plan provides for a future internal audit function of the Company. The Charter outlines the monitoring, review and assessment of a range of internal audit functions and procedures.</td></tr>
<tr><td>Recommendation 7.4
A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</td><td>YES</td><td>The Company's Risk Management Policy details the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (if appropriate). Review of the Company's risk management framework is conducted at least annually, and reports are continually created by management on the efficiency and effectiveness of the Company's risk management framework and associated internal compliance and control procedures.
The Company's Corporate Governance Plan requires the Company to disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. The Company will disclose this information in its Annual Report and on its ASX website as part of its continuous disclosure obligations.</td></tr>
<tr><td colspan="3">Principle 8: Remunerate fairly and responsibly</td></tr>
<tr><td>Recommendation 8.1
The Board of a listed entity should:
(a) have a remuneration committee which:
(i) has at least three members, a majority of whom are independent Directors; and
(ii) is chaired by an independent Director,
and disclose:
(iii) the charter of the committee;
(iv) the members of the committee; and
(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</td><td>PARTIALLY</td><td>(a) Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company does not currently have a Remuneration Committee. Pursuant to clause 7(h) of the Company's Board Charter, the full Board currently carries out the duties that would ordinarily be assigned to the Remuneration Committee under the written terms of reference for that committee.
The role and responsibilities of the Remuneration Committee are outlined in the Remuneration Committee Charter which is contained within the Company's Corporate Governance Plan which is available on the Company's website.
(b) The Board will devote time on an annual basis to fulfil the roles and responsibilities associated with setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</td></tr>
<tr><td>Recommendation 8.2
A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and</td><td>YES</td><td>The Company's Corporate Governance Plan requires the Board to disclose its policies and practices regarding the remuneration of Directors and senior executives, which is disclosed on the Company's website.</td></tr>
</table>

RECOMMENDATIONS (3RD EDITION)	COMPLY	EXPLANATION
other senior executives and ensure that the different roles and responsibilities of non-executive Directors compared to executive Directors and other senior executives are reflected in the level and composition of their remuneration.		
Recommendation 8.3 A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	YES	(a) The Company's Remuneration Committee Charter states that, in the absence of a Remuneration Committee, the Board is required to review, manage and disclose the policy (if any) on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme. The Remuneration Committee Charter also states that the Remuneration Committee must review and approve any equity-based plans. (b) A copy of the Remuneration Committee Charter is contained in the Company's Corporate Governance Plan which is available on the Company's website.

Directors' Report - Remuneration Report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Employment agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency

The Board as a whole make up the Nomination and Remuneration Committee, which is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive director's remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The Remuneration Report was presented to Shareholders for adoption at the Annual General meeting in May 2018.

Directors' Report - Remuneration Report (audited) *(Continued)*

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders' value relative to the entire market and the increase compared to the consolidated entity's direct competitors.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of UUV Aquabotix Limited during the financial year and up to the date of this report, unless otherwise stated:

- Peter James – Non-Executive Chairman
- Admiral Jay Cohen – Non-Executive Director
- Durval Tavares – Executive Director (resigned 23 July 2018)
- Brendan Martin – Chief Finance Officer and Executive Director (resigned 6 June 2018)
- Robert Clisdell – Non-Executive Director (re-appointed 10 March 2018)

And the following persons:

- Whitney Million – Chief Executive Officer (appointed 21 March 2018)
- David Batista – Chief Executive Officer (resigned 28 March 2018)

There have been no changes to the key management personnel since the end of the reporting period.

Executive remuneration governance

The Board reviews and approves the remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders having consideration to the amount deemed to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility. The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

Remuneration committee

Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company does not currently have a Remuneration Committee. Pursuant to clause 5.1 of the Company's Board Charter https://www.aquabotix.com/investors.html, the full Board currently carries out the duties that would ordinarily be assigned to the Remuneration Committee under the written terms of reference for that committee.

The Board will devote time on an annual basis to fulfil the roles and responsibilities associated with setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive. The Board of Directors is responsible for overseeing performance evaluations of senior executives on an annual basis. This evaluation is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

Directors' Report - Remuneration Report (audited) *(Continued)*

Directors' remuneration

The remuneration of an Executive Director is decided by the Board, without the affected Executive Director participating in that decision-making process.

In accordance with the Constitution, the total maximum remuneration of Non-Executive Directors is initially set by the Board and subsequent variation is by ordinary resolution of shareholders in general meeting in accordance with the Constitution, the Corporations Act 2001 and the ASX Listing Rules, as applicable.

The determination of Non-Executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director. The current amount has been set at an amount not to exceed $300,000 per annum.

In addition, a Director may be paid fees or other amounts, subject to any necessary shareholder approval, including non-cash performance incentives such as options, as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Group's remuneration policy for Executive Directors (including the Managing Director) and senior management is designed to promote superior performance and long-term commitment to the Group. Executives receive a base remuneration which is market related and may also be entitled to performance-based remuneration at the ultimate discretion of the Board.

Overall remuneration policies are subject to the discretion of the Board and can be changed to reflect competitive market and business conditions where it is in the interests of the Group and the Company's shareholders to do so.

Executive remuneration and other terms of employment are reviewed annually by the Board having regard to performance, relevant comparative information and, where necessary, expert advice.

Executive remuneration framework

The Group's reward policy reflects the benefits of aligning executive remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Group. The main principles of the policy are:

(a) remuneration is reasonable and fair, taking into account the Group's obligations at law, the competitive market in which the Group operates and the relative size and scale of the Group's business;
(b) individual reward should be linked to clearly specified performance targets which should be aligned to the Group's short term and long-term performance objectives; and
(c) executives should be rewarded for both financial and non-financial performance.

The total remuneration of Executive Directors (including the Managing Director) and other senior managers consist of the following:

(a) Salary - Executive Directors and senior managers may receive a fixed sum payable monthly in cash;
(b) Short term incentive - Executive Directors and nominated senior managers are eligible to participate in a profit participation plan if deemed appropriate. The Board may at its discretion award bonuses for exceptional performance in relation to each person's pre-agreed Key Performance Indicators;
(c) Post-employment benefits – this refers to superannuation schemes; and
(d) Long term incentives - Executive Directors may participate in share option schemes with the prior approval of shareholders. Executives may also participate in employee share option schemes, with any option issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options to executives outside of approved Employee Option Plans in exceptional circumstances.

Directors' Report - Remuneration Report (audited) *(Continued)*

KMP remuneration disclosures in detail

The Directors and other Key Management Personnel ("KMP") of the Company during or since the end of the financial year were:

Name	Position	Effective date
Non-Executive Directors		
Peter James	Independent Non-Executive Chairman	
Admiral Jay Cohen	Non-Executive Director	
Robert Clisdell	Non-Executive Director	Re-appointed 10 March 2018
Executive Directors		
Durval Tavares	Former Executive Director	Resigned as Executive Director 23 July 2018
Brendan Martin	Former Executive Director and CFO	Resigned 6 June 2018
Key Management Personnel		
Whitney Million	CEO	Appointed 21 March 2018
David Batista	Former CEO	Resigned 28 March 2018

There have been no changes to the key management personnel since the end of the reporting period.

Directors' Report - Remuneration Report (audited) *(Continued)*

Remuneration of KMP

Details of the remuneration of the Directors of UUV Aquabotix Limited and other KMP are set out in tables below:

	Short-term benefits				Post-employment benefits		Long-term benefits	Share-based payments		
	Cash Salary and fees^^	Cash bonus	Non-monetary Benefits	Other Benefits	Super-annuation	Other Post-employment benefits	Long Service Leave	Equity-settled shares	Equity-settled options	Total
2018	$	$	$	$	$	$	$	$	$	$
Non-Executive Directors:										
Peter James (Chairman)	100,000	-	-	-	-	-	-	-	-	**100,000**
Jay M. Cohen*	53,505	-	-	-	-	-	-	-	-	**53,505**
Robert Clisdell**	39,785	-	-	-	-	-	-	-	19,599	**59,384**
Executive Direct										
Durval Tavares**	149,004	-	-	5,785	-	-	-	-	-	**154,789**
Brendan Martin^	175,395	100,000	-	-	21,094	-	-	-	5,560	**302,049**
Other Key Management Personnel:										
Whitney Million	219,231	-	-	6,581	-	-	-	-	157,976	**383,788**
David Batista	205,922	-	-	14,358	-	-	-	-	-	**220,280**
	942,842	**100,000**	**-**	**26,724**	**21,094**	**-**	**-**	**-**	**183,135**	**1,273,795**

* Represents fees of USD$40,000 converted to AUD.

** Represents annual Director fees of $50,000, on a prorate basis from date of start, of which only $14,784.92 was paid in 2018.

*** Represents Director fees of USD$17,500 converted to AUD, plus a salary of USD$77,283 to date of cessation of services.

^ Mr. B Martin was paid a bonus of AUD$100,000 in January 2018 corresponding to his services in 2017.

^^ All fees are net of GST.

Directors’ Report - Remuneration Report (audited) *(Continued)*

	Short-term benefits				Post-employment benefits		Long-term benefits	Share-based payments		
	Cash salary and fees^^	Cash Bonus	Non-monetary Benefits	Other Benefits	Super-annuation	Other Post-employment benefits	Long Service Leave	Equity-settled shares	Equity-settled options	Total
2017	$	$	$	$	$	$	$	$	$	$
Non-Executive Directors:										
Peter James (Chairman)	66,667	-	-	-	-	-	-	-	285,830	**352,497**
Jay M. Cohen*	52,173	-	-	-	-	-	-	-	52,952	**105,125**
Robert Clisdell****	-	-	-	-	-	-	-	-	-	**-**
Peter Wall	-	-	-	-	-	-	-	-	-	**-**
Executive Directors:										
Durval Tavares**	164,285	-	-	29,364	-	-	-	-	-	**193,649**
Brendan Martin***	280,551	-^	-	-	26,652	-	-	-	198,580	**505,783**
Other Key Management Personnel:										
David Batista	28,094	-	-	4,916	-	-	-	-	140,255	**173,265**
	591,770		**-**	**34,280**	**26,652**	**-**	**-**	**-**	**677,617**	**1,330,324**

* Represents fees of USD$40,000 converted to AUD.

** Represents Director fees of USD$20,000 converted to AUD, plus a salary of USD$105,954.

*** Represents remuneration from 17 January 2017 to 31 December 2017.

**** Robert Clisdell held a directorship from 22 November 2016 to 9 March 2017.

^ Mr. B Martin was paid a bonus of AUD$100,000 in January 2018.

^^ All fees are net of GST.

Directors' Report - Remuneration Report (audited) *(Continued)*

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	2018	2017	2018	2017	2018	2017
Non-Executive Directors:						
Peter James	100%	100%	-	-	-	-
Jay M. Cohen	100%	100%	-	-	-	-
Robert Clisdell	n/a	n/a	-	-	-	-
Peter Wall	n/a	n/a	-	-	-	-
Executive Directors:						
Brendan Martin	100%	65%	-	35%	-	-
Durval Tavares	100%	100%	-	-	-	-
Other Key Management Personnel:						
Whitney Million	100%	n/a	-	-	-	-
David Batista	100%	100%	-	-	-	-

Cash bonuses are dependent on meeting defined performance measures. The amount of the bonus is determined having regard to the satisfaction of performance measures and weightings as described above in the section 'Consolidated entity performance and link to remuneration'. The maximum bonus values are established at the start of each financial year and amounts payable are determined in the final month of the financial year by the Nomination and Remuneration Committee.

The proportion of the cash bonus paid/payable or forfeited is as follows:

	Cash bonus paid/payable		Cash bonus forfeited	
Name	2018	2017	2018	2017
Executive Directors:				
Brendan Martin	-	100%	-	-
Durval Tavares	-	-	-	-
Other Key Management Personnel:				
Whitney Million	-	-	-	-
David Batista	-	-	-	-

Directors' Report - Remuneration Report (audited) *(Continued)*

Employment agreements with Executive Directors and Key Management Personnel

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Brendan Martin
Title:	Chief Financial Officer & Executive Director
Agreement commenced:	23 January 2017
Term of agreement:	No fixed term
Resignation date:	Resigned 6 June 2018
Details:	Base salary of AUD$285,000 plus superannuation, to be reviewed annually by the board of Directors. Immediate termination with cause, 6-month severance payable upon termination by the Company, eligible to participate in any short-term incentive program or long-term incentive program as offered by the Company.

Name:	Durval Tavares
Title:	Chief Technology Officer & Executive Director
Agreement commenced:	9 March 2017
Term of agreement:	No fixed term
Resignation date:	Resigned 23 July 2018
Details:	Base salary of USD$206,000 for executive duties plus USD$30,000 for director duties, to be reviewed annually by the Board of Directors. 12-month non-solicitation and non-compete clauses, severance payment equal to 12 months' base salary upon termination without cause, immediate termination with cause, employment is at will, cash bonus at the discretion of the Board of Directors, subject to KPI achievement, non-solicitation and non-compete clauses.

Name:	Whitney Million
Title:	Chief Executive Officer
Agreement commenced:	21 March 2018
Term of agreement:	No fixed term
Details:	Base salary of USD$225,000, to be reviewed annually by the board of Directors. 3-month termination notice upon resignation, immediate termination with cause, eligible to participate in the incentive option program as offered by the Company.

Name:	David Batista
Title:	Chief Executive Officer
Agreement commenced:	28 November 2017
Term of agreement:	No fixed term
Resignation date:	28 March 2018
Details:	Base salary of USD$280,000, to be reviewed annually by the board of Directors. 3-month termination notice upon resignation, immediate termination with cause, eligible to participate in the incentive option program as offered by the Company.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Directors' Report - Remuneration Report (audited) *(Continued)*

Issue of ordinary shares

There were no ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2018.

The number of shares in the Company held during the financial year by each Director of UUV Aquabotix Limited and other key management personnel, including their personally related entities, are set out in the table below:

Name	Opening Balance	Received upon exercise of options	Other changes during the year	Exercise price	Balance at 31 December 2018
Peter James	398,213	-	1,000,000	-	1,398,213
Durval Tavares	36,245,331	-	-	-	36,245,331
Robert Clisdell	50,000	-	-	-	50,000
Brendan Martin	125,000	-	-	-	125,000
Jay Cohen	-	-	-	-	-
Whitney Million	-	-	-	-	-
David Batista	-	-	-	-	-
TOTAL	36,818,544	-	1,000,000	-	37,818,544

The number of shares in the Company held during the financial year ended 31 December 2017 by each Director of UUV Aquabotix Limited and other key management personnel, including their personally related entities, are set out in the table below:

Name	Opening Balance	Received upon exercise of options	Received upon listing of UUV Aquabotix Limited	Other changes during the year	Exercise price	Balance at 31 December 2017
Peter James	-	-	-	398,213	-	398,213
Durval Tavares	-	-	36,245,331	-	-	36,245,331
Brendan Martin	-	-	-	125,000	-	125,000
Jay Cohen	-	-	-		-	-
David Batista	-	-	-	-	-	-
TOTAL	-	-	36,245,331	523,213	-	36,768,544

Directors' Report - Remuneration Report (audited) *(Continued)*

Performance shares held by KMP

45,000,000 performance shares in UUV Aquabotix Limited were issued on 20 April 2017 to shareholders of Aquabotix Corporation Technology as part of an exchange agreement, conditional upon UUV Aquabotix Limited obtaining listing approval. Further details are provided in Note XXX to the financial statements. No performance shares were converted or redeemed, nor were any milestones for performance shares met during the year ended 31 December 2018. Performance share holdings by Executive Directors and key management personnel, including their personally related entities, are as follows:

Name	Plan	Opening balance	Granted as compensation	Received upon listing of UUV Aquabotix Ltd	Exercise price	Balance at 31 December 2018
Durval Tavares	A	5,436,800	-	-	-	5,436,800
Durval Tavares	B	5,436,800	-	-	-	5,436,800
Durval Tavares	C	5,436,800	-	-	-	5,436,800
TOTAL		16,310,400	-	-	-	16,310,400

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable dated	Expiry date	Exercise date	Fair value per option at grant dated
Robert Clisdell	1,000,000	1 June 2018	1 June 2018	1 June 2021	$0.11	$0.0266
Brendan Martin	300,000	11 December 2018	11 December 2018	15 June 2021	$0.11	$0.0254
Whitney Million	1,500,000	21 March 2018	16 April 2018	16 April 2021	$0.11	$0.0258
Whitney Million	1,500,000	21 March 2018	16 April 2019	16 April 2022	$0.11	$0.0311
Whitney Million	1,500,000	21 March 2018	16 April 2020	16 April 2023	$0.11	$0.0354
Whitney Million	1,500,000	21 March 2018	16 April 2021	16 April 2024	$0.11	$0.0393

Directors' Report - Remuneration Report (audited) *(Continued)*

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel during the financial year ended 31 December 2017 are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable dated	Expiry date	Exercise date	Fair value per option at grant dated
Peter James	3,000,000	20 April 2017	20 April 2018	20 April 2021	$0.30	$0.0429
Peter James	3,000,000	20 April 2017	20 April 2019	20 April 2022	$0.30	$0.0523
Jay Cohen	700,000	20 April 2017	Immediately	20 April 2020	$0.30	$0.0327
Jay Cohen	700,000	20 April 2017	20 April 2018	20 April 2021	$0.30	$0.0429
Brendan Martin	2,000,000	20 April 2017	20 April 2018	20 April 2021	$0.30	$0.0429
Brendan Martin	1,000,000	20 April 2017	20 April 2019	20 April 2022	$0.30	$0.0523
Brendan Martin	1,000,000	20 April 2017	20 April 2020	20 April 2023	$0.30	$0.0604
David Batista	1,500,000	28 November 2017	14 March 2018	20 April 2021	$0.30	$0.0157
David Batista	1,500,000	28 November 2017	14 March 2019	20 April 2022	$0.30	$0.0221
David Batista	3,000,000	28 November 2017	14 March 2020	20 April 2023	$0.30	$0.0279

Options granted carry no dividend or voting rights.

All options were granted over unissued fully paid ordinary shares in the Company. The number of options granted was determined having regard to the satisfaction of performance measures and weightings as described above in the section 'Consolidated entity performance and link to remuneration'. Options vest based on the provision of service over the vesting period whereby the executive becomes beneficially entitled to the option on vesting date. Options are exercisable by the holder as from the vesting date. There has not been any alteration to the terms or conditions of the grant since the grant date. There are no amounts paid or payable by the recipient in relation to the granting of such options other than on their potential exercise.

Directors' Report - Remuneration Report (audited) *(Continued)*

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 31 December 2018 are set out below:

Name	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
Peter James	-	-	-	0%
Jay Cohen	-	-	-	0%
Robert Clisdell	19,599	-	-	33%
Brendan Martin	5,560	-	(112,714)	2%
David Batista	-	-	(140,255)	n/a
Whitney Million	157,976	-	-	41%

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 31 December 2017 are set out below:

Name	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
Peter James	285,830	-	-	81%
Jay Cohen	52,952	-	-	50%
Brendan Martin	198,580	-	-	39%
David Batista	140,255	-	-	81%

Directors' Report - Remuneration Report (audited) *(Continued)*

Performance of the Company and shareholder returns

The performance of the Company is summarised below. No historical data has been provided as the Company only listed on the ASX in the current financial year.

	2018 $	2017 $
Sales revenue	**154,494**	747,131
EBITDA	**(4,803,011)**	(4,565,627)
(Loss)/profit after income tax	**(4,833,146)**	(4,559,109)
Basic (loss)/earnings loss per share (cents)	**(3.35)**	(4.23)
Share price as at 31 December (cents)	**5.00**	9.90
Dividends proposed or paid in the year	**Nil**	Nil

Additional disclosures relating to key management personnel

Shareholding

The number of shares in UUV Aquabotix Limited held during the financial year ended 31 December 2018 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Converted as part of the Exchange Agreement	Received as part of remuneration	Received on exercise of options	Additions	Total
Ordinary shares						
Peter James	398,213	-	-	-	1,000,000	1,398,213
Jay Cohen	-	-	-	-	-	-
Durval Tavares	36,245,331	-	-	-	-	36,245,331
Robert Clisdell	50,000	-	-	-	-	50,000
Brendan Martin	125,000	-	-	-	-	125,000
David Batista	-	-	-	-	-	-
Whitney Million	-	-	-	-	-	-
	36,818,544	-	-	-	1,000,000	37,818,544

Directors' Report - Remuneration Report (audited) *(Continued)*

The number of shares in UUV Aquabotix Limited held during the financial year ended 31 December 2017 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Converted as part of the Exchange Agreement	Received as part of remuneration	Received on exercise of options	Additions	Total
Ordinary shares						
Peter James	-	-	-	-	398,213	398,213
Jay Cohen	-	-	-	-	-	-
Durval Tavares	-	36,245,331*	-	-	-	36,245,331
Robert Clisdell	-	-	-	-	50,000	50,000
Brendan Martin	-	-	-	-	125,000	125,000
David Batista	-	-	-	-	-	-
	-	36,245,331	-	-	583,213	36,818,544

* Equates to the number of shares as at the date of the Exchange Agreement, where the original shares in Aquabotix Technology Corporation were converted into shares in UUV Aquabotix Limited.

Option holding

The number of options over ordinary shares in the Company held during the financial year ended 31 December 2018 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired forfeited Other	Balance at the end of the year	Options Vested at the end of the year	Options exercisable at the end of the year	Options unexercisable at the end of the year
Options over ordinary shares								
Peter James	6,250,000	-	-	-	6,250,000	3,000,000	-	6,250,000
Jay Cohen	1,400,000	-	-	-	1,400,000	700,000	-	1,400,000
Durval Tavares	-	-	-	-	-	-	-	-
Robert Clisdell	50,000*	1,000,000	-	-	1,050,000	1,000,000	-	1,050,000
Brendan Martin	4,125,000	300,000	-	(2,000,000)	2,425,000	2,300,000	-	2,425,000
David Batista	6,000,000	-	-	(6,000,000)	-	-	-	-
Whitney Million	-	6,000,000	-	-	6,000,000	1,500,000	-	6,000,000
	17,825,000	7,300,000	-	(8,000,000)	17,125,000	8,500,000	-	17,125,000

* These options were held by Mr Clisdell prior to his appointment with the board.

Directors' Report - Remuneration Report (audited) *(Continued)*

The number of options over ordinary shares in the Company held during the financial year ended 31 December 2017 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Granted as part of the IPO listing	Exercised	Expired forfeited Other	Balance at the end of the year	Options Vested at the end of the year	Options exercisable at the end of the year	Options unexercisable at the end of the year
Options over ordinary shares									
Peter James	-	6,000,000	250,000	-	-	6,250,000	-	-	6,250,000
Jay Cohen	-	1,400,000	-	-	-	1,400,000	700,000	-	1,400,000
Durval Tavares	-	-	-	-	-	-	-	-	-
Brendan Martin	-	4,000,000	125,000	-	-	4,125,000	-	-	4,125,000
David Batista		6,000,000	-	-	-	6,000,000	-	-	6,000,000
	-	17,400,000	375,000	-	-	17,775,000	700,000	-	17,775,000

Other transactions with key management personnel and their related parties.

There were no transactions with key management personnel and their related parties other than as disclosed above.

This concludes the remuneration report, which has been audited.

Directors' Report *(Continued)*

Shares under option

There were no unissued ordinary shares of UUV Aquabotix Limited under option at the date of this report.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

No ordinary shares of UUV Aquabotix Limited were issued during the year ended 31 December 2018 (31 December 2017: none) and up to the date of this report on the exercise of options granted.

Indemnity and Insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executive of the Company against a liability to the extent permitted by the Corporation Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 19 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 18 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Directors' Report *(Continued)*

Officers of the Company who are former partners of RSM Australia Partners

There are no officers of the Company who are former partners of RSM Australia Partners.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Auditor's Independence Declaration

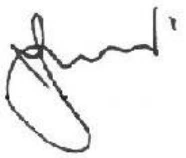
A copy of the auditor's independence declaration as required under the Section 307C of the *Corporations Act 2001* is set out on page 39.

Auditor

RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Peter James

Chairman

28 February 2019

Sydney

RSM Australia Partners

Level 13, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001

T +61 (0) 2 8226 4500
F +61 (0) 2 8226 4501

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of UUV Aquabotix Limited for the year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM

RSM AUSTRALIA PARTNERS

GNS

G N Sherwood
Partner

Sydney, NSW
Dated: 28 February 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	31 December 2018 $	31 December 2017 $
Revenue	5	154,494	747,131
Cost of goods sold		(149,118)	(511,501)
Gross profit		**5,376**	**235,630**
Other income	5	20,595	41,000
Expenses			
General and administrative expense	6	(4,090,234)	(2,754,007)
Selling and marketing expense		(259,382)	(234,242)
Research and development expense		(19,946)	(271,311)
Depreciation expense	6,12	(50,730)	(27,878)
Write down of consumables		(205,400)	-
Share option expense	6	(281,007)	(315,800)
Cost associated with Initial Public Offering	7	-	(1,073,769)
Foreign exchange gains/(losses)	6	47,582	(152,128)
Interest expense		-	(6,604)
Loss before income tax		**(4,833,146)**	**(4,559,109)**
Income tax expense	8	-	-
Loss after income tax		**(4,833,146)**	**(4,559,109)**
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Translation of foreign controlled entity		58,516	(22,339)
Total comprehensive loss for the period		**(4,774,630)**	**(4,581,448)**
		Cents	**Cents**
Basic loss per share	25	(3.35)	(4.23)
Diluted loss per share	25	(3.35)	(4.23)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

	Note	31 December 2018 $	31 December 2017 $
ASSETS			
Current assets			
Cash and cash equivalents	9	704,377	3,887,828
Trade and other receivables	10	89,957	318,642
Inventories	11	131,618	238,654
Total current assets		**925,952**	**4,445,124**
Non-current assets			
Property, plant and equipment	12	130,741	60,367
Total non-current assets		**130,741**	**60,367**
Total assets		**1,056,693**	**4,505,491**
LIABILITIES			
Current liabilities			
Trade and other payables	13	259,201	333,458
Employee benefits	14	117,078	247,084
Customer deposits		12,142	13,053
Total current liabilities		**388,421**	**593,595**
Total liabilities		**388,421**	**593,595**
Net assets		**668,272**	**3,911,895**
EQUITY			
Share capital	21	10,191,710	8,941,710
Reserves		1,016,130	743,681
Accumulated losses	15	(10,539,568)	(5,773,496)
Total equity		**668,272**	**3,911,895**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

	Issued Capital $	Options reserve $	Foreign exchange reserve $	Accumulated losses $	Total equity $
Balance at 1 January 2017	**1,150,904**	**-**	**1,060**	**(1,214,387)**	**(62,423)**
Loss for the year	-	-	-	(4,559,109)	(4,559,109)
Exchange difference on translation of foreign operations	-	-	(22,339)	-	(22,339)
Total comprehensive loss for the period	-	-	(22,339)	(4,559,109)	(4,581,448)
Transactions with owners in their capacity as owners:					
Shares issued during the year (Note 21)	73,099	-	-	-	73,099
Shares issued on conversion of options and warrants (Note 21)	1,566,537	-	-	-	1,566,537
Shares issued on IPO (Note 21)	7,000,000	-	-	-	7,000,000
Share issue costs	(848,830)	-	-	-	(848,830)
Share options issued in the year (Note 24)	-	764,960	-	-	764,960
Balance at 31 December 2017	**8,941,710**	**764,960**	**(21,279)**	**(5,773,496)**	**3,911,895**
Balance at 1 January 2018	**8,941,710**	**764,960**	**(21,279)**	**(5,773,496)**	**3,911,895**
Loss for the year	-	-	-	(4,833,146)	(4,833,146)
Exchange difference on translation of foreign operations	-	-	58,516	-	58,516
Total comprehensive income/(loss) for the period	**-**	**-**	**58,516**	**(4,833,146)**	**(4,774,630)**
Transactions with owners in their capacity as owners:					
Shares issued in the year (Note 21)	1,250,000	-	-	-	1,250,000
Share options lapsed in the year	-	(67,074)	-	67,074	-
Share options issued in the year (Note 24)	-	281,007	-	-	281,007
Balance at 31 December 2018	**10,191,710**	**978,893**	**37,237**	**(10,539,568)**	**668,272**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

	Note	31 December 2018 $	31 December 2017 $
Cash flows from operating activities			
Receipts from customers		300,669	689,458
Payments to suppliers and employees		(4,737,593)	(3,428,791)
Net cash flows used in operating activities	27	**(4,436,926)**	**(2,739,333)**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	3	-	44,456
Purchase of plant and equipment	12	(39,246)	(39,661)
Cashflows from loans to related entities		-	(327,053)
Net cash flows used in investing activities		**(39,246)**	**(322,258)**
Cash flows from financing activities			
Net proceeds from issue of shares and convertible notes	21	1,250,000	7,460,345
Share issue costs		-	(1,283,217)
Proceeds from warrants		-	506,093
Net cash flows from financing activities		**1,250,000**	**6,683,221**
Cash and cash equivalents at beginning of period		**3,887,828**	**347,527**
Net (decrease)/increase in cash and cash equivalents		(3,226,172)	3,656,050
Effects of exchange rate changes on cash and cash equivalents		42,721	(115,749)
Cash and cash equivalents at the end of the financial year	**9**	**704,377**	**3,887,828**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Corporate Information

The consolidated financial report of UUV Aquabotix Limited ("the Company") and its controlled entities (together "the Group") for the year ended 31 December 2018 was authorised for issue in accordance with a resolution of the Directors on 28 February 2019.

UUV Aquabotix Limited is a company incorporated in Australia, limited by shares which are publicly traded on the Australian Stock Exchange.

The principal activity of the Company during the period was the design, development, manufacture and sale of unmanned underwater vehicles ("UUVs").

Statement of compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

Accounting Standards are Australian Accounting Standards ("AAS"). Compliance with AAS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ("IFRS").

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Group is a for-profit entity.

1. Summary of Significant Accounting Policies

(a) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost as explained in the accounting policies below.

The consolidated financial statements are presented in Australian dollars ("AUD"), unless otherwise noted, which is also the functional currency of the Company. The principal accounting policies are set out below.

Going Concern

The financial statements have been prepared on an accruals basis under the historical cost convention unless otherwise stated in the notes.

During the year ended 31 December 2018, the Group incurred losses of $4,833,146 and had net cash outflows used in operating activities of $4,436,926.

The ability of the Group to continue as a going concern is dependent on a number of factors, the most significant of which is its ability to generate sufficient returns from operating activities, or to raise further capital , thus resulting in a material uncertainty that may cast doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

This consolidated financial report has been prepared on the basis that the Company will continue to meet its commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business.

The Directors believe that there are reasonable grounds to believe that the Group will continue as a going concern post the 12-month period to February 2020, after consideration of the following factors:

- the Company had net current assets of $537,530, net assets of $668,272 as well as cash and cash equivalents of $704,377 as at 31 December 2018;
- the Company expects to generate increased revenues from the sale of SwarmDiver™ products and the SwarmDiver™ products' continued development within the next 12 months and beyond;
- the Company has the ability to issue additional shares to raise further working capital and has been successful in doing this previously, as evidenced by the successful capital raising completed during financial year ended 31 December 2017 and more recently the $1.25million share placement in July 2018;
- the Company announced in February 2019 that it was conducting an entitlement offer whereby existing shareholders will be offered the right take up 1 new share for every 5 existing shares held as at the record date, at an issue price of $0.03, to raise up to $960,000. The results of this entitlement offer were not known as at the date of this report;
- the Company is in advanced discussions to secure an alternative funding facility which will provide additional working capital to support to the Company should it be required. The Company expects that this facility will become available if required, however the final terms of this arrangement are yet to be finalised as at the date of this report;

Notes to the Financial Statements *(Continued)*

- R&D and product development constitute a substantial part of the Company's costs. The Company has applied for, and is continuing to apply for further, non-dilutive governmental funding contracts and grants. In the last 12 months, the Company was awarded two such non-dilutive U.S. Navy funded contracts for additional SwarmDiverTM product development. If further contracts or grants are awarded, the Company's R&D and product development costs may be funded, in whole or in part, using such funds;
- the Company has the ability to apply for additional grants to fund export and marketing activities to further promote the sale of its products. During 2018, the Company received one such grant for participation in a trade mission and was accepted into the State of Massachusetts Export Compliance Fund, where it now receives ongoing export related services to support its business; and
- the Company also has the ability to scale down its operations in order to further curtail expenditure in the event insufficient cash is available to meet projected expenditure.

Accordingly, the Directors believe that the Group will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The report does not include any adjustments relating to the amounts or classification or recorded assets or liabilities that might be necessary if the Group does not continue as a going concern.

(b) Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of UUV Aquabotix Limited ('company' or 'parent entity') as at 31 December 2018 and the results of all subsidiaries for the year then ended. UUV Aquabotix Limited and its subsidiaries together are referred to in these financial statements as the 'Group' or 'the Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Business combinations - reverse acquisition accounting

On 24 February 2017, UUV Aquabotix Limited entered into an Exchange Agreement with the shareholders of Aquabotix Technology Corporation, effective 20 April 2017, acquired 100% of Aquabotix Technology Corporation and subsequently listed on the Australian Stock Exchange on 28 April 2017.

Under the accounting standard applicable to business acquisitions, AASB 3: Business Combinations, the acquisition does not meet the definition of a business combination as the net assets of UUV Aquabotix Limited did not represent a business at the date of acquisition. The transaction has therefore been accounted for as a reverse acquisition of UUV Aquabotix Limited by Aquabotix Technology Corporation. The transaction has been accounted for by reference to AAASB 2: Share based payments. Aquabotix Technology Corporation has been identified as the acquirer and UUV Aquabotix Limited the subsidiary.

Included within expenses in the statement of profit or loss and other comprehensive income are acquisition and initial public offering related costs totalling $1,073,769, including the options issued to the Joint Lead Managers to the value of $449,160, which is a non-cash item. The costs include advisory, legal, accounting and other professional fees.

Notes to the Financial Statements *(Continued)*

The impact of the reverse acquisition on each of the primary statements is as follows:

Consolidated Statement of Financial Position: the 31 December 2017 statement of financial position represents both UUV Aquabotix Limited and Aquabotix Technology Corporation

Consolidated Statement of Profit or Loss and Other Comprehensive Income: the 31 December 2017 statement of profit or loss and other comprehensive income comprises 12 months of activities of Aquabotix Technology Corporation and the activity from the effective acquisition date of 20 April 2017 for UUV Aquabotix Limited.

Consolidated Statement of Changes in Equity: The 31 December 2017 statement of changes in equity comprises the changes in equity and transactions with equity holders for Aquabotix Technology Corporation for the period to the effective acquisition date of 20 April 2017 and from this date onwards for UUV Aquabotix Limited.

Consolidated Statement of Cash Flows: The 31 December 2017 statement of cash flows comprises the cash transactions for the 12-month period of Aquabotix Technology Corporation and from the effective acquisition date of 20 April 2017 for UUV Aquabotix Limited.

(e) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance. The CODM, who is responsible for allocating resources and assessing performance of the operating segments is the CEO.

(f) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

(g) Foreign currency translation

The financial statements are presented in Australian dollars, which is UUV Aquabotix Limited's functional and presentation currency.

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 re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

The table below shows the average exchange rates and the exchange rates as at the reporting date for the period.

	USD	
	2018	2017
As at 31 December	0.71	0.78
Average rate for the period ending 31 December	0.75	0.77

Notes to the Financial Statements *(Continued)*

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into consideration any trade rebates or discounts. Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

The Group enters into sales transactions involving either a sale to the client or the sale of services. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction in order to reflect the substance of the transaction.

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Sale of goods

Revenue from sales of goods is recognised when the entity has delivered a product to the customer, which is defined as upon shipment. The recorded revenue is the gross amount of sale, including any fees payable for the transaction. Such fees are included in cost of goods sold.

Sale of services

Revenue from sales of services is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Notes to the Financial Statements *(Continued)*

(i) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

The Group currently does not recognise any deferred tax assets or liabilities.

(j) Goods and services and other value-added taxes (“GST”)

Revenue, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the taxation authority, in which case it is recognised as part of the acquisition cost of an asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of other receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts.

Notes to the Financial Statements *(Continued)*

(l) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. They are initially recognised at fair value. Due to their short-term nature they are subsequently measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(o) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits. The Group has no finance leases.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

(p) Employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense
The group makes mandatory fixed percentage contributions for all Australian resident employees to complying third party superannuation funds.

Contributions to these superannuation funds are expensed in the period they are incurred.

Notes to the Financial Statements *(Continued)*

Share-based payments

Equity-settled share-based compensation benefits are provided to certain key employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The costs of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk-free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The costs of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(q) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities, unless the outflow of resources is remote, in which case no liability is recognised.

(r) Contributed equity

Costs directly attributable to the issue of new shares are shown as a deduction from the equity proceeds net of any income tax benefit.

(s) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(t) Research and development

Research costs are expensed as incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Otherwise, development costs are expensed as incurred. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit.

Notes to the Financial Statements *(Continued)*

(u) Property, plant and equipment

Plant and equipment is recorded at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Furniture and equipment	3 - 5 years
Demonstration equipment	2 years
Manufacturing tools	5 - 7 years
Moulds	7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

(v) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(w) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

(x) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of UUV Aquabotix Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) Financial instruments – recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs.

The Company's financial assets include loans, trade and other receivables. After initial recognition, financial assets are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

The Company's financial liabilities include borrowings, trade and other payables. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Notes to the Financial Statements *(Continued)*

(z) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely dependent of the cash inflows from other assets or other groups of assets (cash generating units).

(aa) Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

(bb) New accounting standards and interpretations

The Company has adopted all of the new, revised or amended Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact to group	Application date of standard	Application date for group
AASB 16 Leases	AASB 16 is a new standard that replaces AASB 117. The new standard removes the distinction between operating and finance leases, recognising all lease assets and liabilities on the balance sheet, with limited exceptions for short term leases and leases of low value assets.	The new standard changes how the group accounts for its current operating leases, which primarily relate to its premises. All such leases will be brought onto the Statement of Financial Position by the recognition of a 'right to use' asset, together with a liability for the present value of lease payments for the life of the lease. The future recognition of lease expenses will change with more expenses recognised in the early periods of a lease. The impact will be that amounts similar to those disclosed in Note 19 will be recognised as a liability with a similar corresponding 'right to use' asset.	1 January 2019	1 January 2019

No other standards or interpretations are expected to have a material impact on the Group.

Notes to the Financial Statements *(Continued)*

2. Critical accounting judgements, estimates and assumptions

In the application of the Group's accounting policies, which are described in Note 1, Management is required to make judgements, estimates and assumptions in the preparation of the financial statements about matters that are not readily available from other sources. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Details of the key assumptions used are set out in Note 24.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made. Management have also exercised their judgement in determining not to raise any deferred tax assets on estimated tax losses until there is more certainty around the ability to utilise tax losses in the future.

Demonstration stock

Management reviews its estimate of the useful lives of demonstration assets at each reporting date, based on the expected utility of these assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain items.

Notes to the Financial Statements *(Continued)*

3. Business Combinations

Name	Principal place of business / Country of incorporation	Percentage Owned %
UUV Aquabotix Limited - Legal parent, accounting subsidiary	Australia	100%

On 24 February 2017, UUV Aquabotix Limited entered into an Exchange Agreement with the shareholders of Aquabotix Technology Corporation, and, effective 20 April 2017, acquired 100% of Aquabotix Technology Corporation and subsequently listed on the Australian Stock Exchange on 28 April 2017. As noted in Note 1, the acquisition was treated as a reverse acquisition under the guidelines of AASB 3: *Business Combinations* and has been accounted for by reference to AASB 2: *Share based payments*.

Aquabotix Technology Corporation has been identified as the acquirer and UUV Aquabotix Limited the subsidiary for accounting purposes.

UUV Aquabotix Limited was a dormant shell company that was formed specifically to acquire Aquabotix Technology Corporation and list on the ASX. The deemed consideration for the Company was considered to be AUD$1. All costs incurred in UUV Aquabotix Limited prior to the IPO relating to the listing have been accounted for as “Costs associated with the Initial Public Offering”.

	$
Cost of acquisition	
Deemed purchase consideration (Note 21(d))	1
Net liabilities of UUV Aquabotix Limited	(94,215)
	(94,214)
Assets and liabilities assumed at the date of acquisition:	
Current assets	660,761
Non-current assets	4,007
Total assets	664,768
Current liabilities	(758,983)
Total liabilities	(758,983)
Net liabilities acquired	(94,215)
Cash used to acquire Company, net of cash acquired:	
Consideration paid in cash	-
Less: cash and cash equivalents acquired	44,456
	44,456

Analysis of cash flows associated with listing

Transaction costs attributable to listing on the ASX	
- Included in costs of listing in the income statement (Note 7)	(624,609)
- Included in share issue costs (Note 21)	(848,830)
	(1,473,439)
Prepaid transaction costs acquired (included in current assets above)	190,222
Net cash outflows associated with listing	(1,283,217)

Notes to the Financial Statements *(Continued)*

4. Segment information

The Group is organised into one operating segment, being the development and subsequent sale of unmanned underwater vehicles. This segment is based on the internal reports that are reviewed and used by the Board of Directors and the CEO (jointly referred to as the Chief Operating Decision Makers ('CODM')) to assess performance and determine the allocation of resources on a regular basis.

The chief operating decision maker reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting are consistent with those adopted in the financial statements.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans are eliminated on consolidation.

Geographical segment information

The following tables present certain information regarding geographical segments for the years ended 31 December 2018 and 31 December 2017.

Segment performance 31 December 2018	USA $	Australia $	Elimination $	Total $
External sales	154,494	-	-	**154,594**
Total segment revenue	154,494	-	-	**154,494**
Other income	339	3,714	-	**4,054**
Interest income	3,151	13,390	-	**16,541**
Depreciation	(49,395)	(1,335)	-	**(50,730)**
Finance costs	-	-	-	**-**
Income tax credit/(expense)	-	-	-	**-**
Loss after income tax expense	(3,694,113)	(1,139,033)	-	**(4,833,146)**
Assets and liabilities				
Segment assets	434,331	5,642,022	(5,019,660)	**1,056,693**
Segment liabilities	(5,215,008)	(193,074)	5,019,660	**(388,422)**

Segment performance 31 December 2017	USA $	Australia $	Elimination $	Total $
External sales	747,131	-	-	**747,131**
Total segment revenue	747,131	-	-	**747,131**
Interest income	11,424	29,576	-	**41,000**
Depreciation	(26,876)	(1,002)	-	**(27,878)**
Finance costs	(6,604)	-	-	**(6,604)**
Income tax credit/(expense)	-	-	-	**-**
Loss after income tax expense	(2,520,022)	(2,065,022)	25,935	**(4,559,109)**
Assets and liabilities				
Segment assets	1,008,147	5,262,776	(1,765,432)	**4,505,491**
Segment liabilities	(2,153,225)	(205,803)	1,765,432	**(593,596)**

Notes to the Financial Statements *(Continued)*

	31 December 2018 $	31 December 2017 $
5. Revenue		
Sales revenue		
Sale of goods	11,632	731,586
Rendering of services	142,862	15,545
	154,494	**747,131**
Other revenue		
Interest revenue	16,541	41,000
Other revenue	4,054	-
	20,595	41,000
Total revenue	**175,089**	**788,131**

6. Expenses

Profit before income tax includes the following specific expenses:

	31 December 2018 $	31 December 2017 $
General and administrative expense		
Defined contribution superannuation expense	21,046	32,424
Salaries and compensation	2,814,775	1,698,211
Professional fees	705,364	685,179
Travel	173,080	152,859
Minimum lease payments	114,448	82,787
Other occupancy expenses	98,469	44,802
Other	163,054	57,745
Total corporate and support expense	**4,090,234**	**2,754,007**
Depreciation		
Plant and equipment	50,730	27,878
Share option expense		
Share option expense	281,007	315,800
Foreign exchange (gains)/losses		
Foreign exchange (gains)/losses	(47,582)	152,128
Costs associated with Initial Public Offering		
Costs associated with Initial Public Offering	-	1,073,769

Notes to the Financial Statements *(Continued)*

	31 December 2018 $	31 December 2017 $

7. Costs associated with Initial Public Offering

Cost of acquisition of legal parent (Note 3)	-	94,214
Listing and legal costs	-	349,670
Other professional fees	-	55,989
Printing and marketing fees	-	56,406
Other costs associated with the IPO	-	68,330
Share options issued to joint lead managers (Note 21)	-	449,160
Total Costs	**-**	**1,073,769**

8. Income taxes

The components of tax recognised in profit or loss include:		
Current tax	-	-
Deferred tax	-	-
Aggregate income tax expense	**-**	**-**
The income tax for the year can be reconciled to the accounting profit as follows:		
Loss before income tax expense	(4,833,146)	(4,559,109)
Income tax expense/(credit) calculated at the Australian statutory rate of 30%	(1,449,944)	(1,367,733)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income tax:		
Other non-allowable items		
Carried forward tax benefits not recognised in the current year	1,449,944	1,367,733
Income tax expense/(credit) recognised in profit or loss (relating to continuing operations)	-	-

The Group has carry forward tax losses of $9,360,618 (2017: $4,153,912) relating to international operations, which will expire at various dates over the next seven years. Such losses may also be subject to changes in ownership provisions. Accordingly, some or all of the international losses may be limited in future periods or may expire before being able to be applied to reduce future foreign income tax liabilities.

The benefit of these losses will only be recognised when it is probable that future taxable profits will be available against which the benefits of the deferred tax assets can be utilised.

9. Cash and cash equivalents

Cash at bank and in hand	554,377	609,696
Short-term deposits	150,000	3,278,132
Total cash and cash equivalents	**704,377**	**3,887,828**

Notes to the Financial Statements *(Continued)*

10. Trade and other receivables

	31 December 2018 $	31 December 2017 $
Trade receivables	-	198,601
Less: provision for impairment of receivables	-	-
Total trade and other receivables	**-**	**198,601**
Prepayments and other receivables	77,530	111,777
Security deposits	9,127	8,264
	86,657	**120,041**
Total trade and other receivables	**86,657**	**318,642**

Impairment of receivables

The Group has not recognised any loss in profit or loss in respect of impairment of receivables for the year ended 31 December 2018 (2017: $nil).

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $nil as at 31 December 2018 ($196,862 as at 31 December 2017).

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

0 to 3 months over due	-	89,231
3 to 6 months overdue	-	107,631
	-	**196,862**

11. Inventories

Raw materials and finished goods	**131,618**	**238,654**

On 1 July 2018, $76,456 was transferred from inventory to fixed assets. Additionally, a write down of $205,400 was recorded during the year ended 31 December 2018.

Notes to the Financial Statements *(Continued)*

12. Property, plant and equipment

	31 December 2018 $	31 December 2017 $
Plant and equipment – at cost	342,850	204,598
Less: accumulated depreciation	(212,109)	(144,231)
	130,741	**60,367**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below

	Moulds $	Tools $	Furniture & Equipment $	Total $
Balance at 1 January 2017	**38,551**	**7,558**	**6,101**	**52,210**
Additions	-	18,102	21,559	39,661
Disposals	-	-	-	-
Depreciation	(19,707)	(3,822)	(4,349)	(27,878)
Exchange differences	(2,133)	(934)	(559)	(3,626)
Balance at 31 December 2017	**16,711**	**20,904**	**22,752**	**60,367**
Additions	-	-	39,246	39,246
Disposals	-	-	-	-
Transfers from inventory	-	76,456	-	76,456
Depreciation	(16,805)	(23,905)	(10,020)	(50,730)
Exchange differences	1,002	1,130	3,270	5,402
Balance at 31 December 2018	**908**	**74,585**	**55,248**	**130,741**

Property, plant and equipment secured under finance leases

The Company does not have any property, plant and equipment secured under finance leases.

Notes to the Financial Statements *(Continued)*

13. Current liabilities – trade and other payables

	31 December 2018 $	31 December 2017 $
Trade payables	80,412	178,933
Accrued expenses		
Deferred revenue	-	25,269
Other accrued expenses	178,789	129,256
	178,789	154,525
Trade and other current liabilities	**259,201**	**333,458**

14. Employee benefits

	31 December 2018 $	31 December 2017 $
Employee benefits – less than 1 year	117,078	247,084
Total employee benefits	**117,078**	**247,084**

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

15. Equity

	31 December 2018 $	31 December 2017 $
Accumulated losses at the beginning of the financial year	(5,773,496)	(1,214,387)
Transfer from reserves - share options lapsed in the period	67,074	-
Loss after income tax expense for the financial year	(4,833,146)	(4,559,109)
Accumulated losses at the end of the financial year	**(10,539,568)**	**(5,773,496)**

16. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and inter-company funding. Due to the geographical position of the Group and its activities, it is exposed to a variety of financial risks: market risk (including foreign currency risk), interest rate risk, credit risk and liquidity risk. The Directors' overall risk management program focuses on enabling the Group to meet its financial targets and obligations whilst minimising the potential adverse effects on financial performance.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors. These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and mitigates financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Notes to the Financial Statements *(Continued)*

Market Risk

Foreign currency risk

The Group operates in both Australia and the United States of America. Transactions occur in both AUD and USD and cash and cash equivalents used to fund working capital requirements are held in both AUD and USD denominated bank accounts.

Transactional currency exposure arises from sales or purchases other than the group entities' functional currency. Foreign exchange risk arises from commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the reporting Group's functional currency. The Group uses cashflow forecasting to manage its working capital.

The Group is also exposed to foreign currency exchange risk when capital is raised in AUD and transferred to the US entity. The Group closely monitors foreign currency movements but does not use hedging instruments to manage such risk. In order to protect against exchange rate movements, throughout the year, the Group held amounts denominated in foreign currencies as cash and cash equivalents.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	31 December 2018 $	31 December 2017 $
Cash	187,592	2,736,497
Trade and other receivables	-	198,601
Total Financial assets	**187,592**	**2,935,098**
Trade and other payables	(25,578)	(176,963)
Total Financial liabilities	**(25,578)**	**(176,963)**

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group is not exposed to any significant interest rate risk. As a result of the IPO in April 2017, the Group does not have any long-term borrowings. Periodically, the Group places amounts into short-term term deposits to make the most of higher interest rates.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

Credit risk is limited to major banks.

Liquidity risk

The Group manages liquidity risk by maintaining sufficient liquid assets (mainly cash and cash equivalents) in both Australia and the USA to be able to pay debts as and when they become due. The Group achieves this through the continual monitoring of cashflows and the maturity profile of term deposits. The Group will also raise additional capital as required to manage its liquidity risk.

Notes to the Financial Statements *(Continued)*

Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial liabilities.

Contractual maturities of financial liabilities	Less than 6 months $	6-12 Months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows $	Carrying amount (assets)/ liabilities $
As at 31 December 2018							
Trade and other payables	80,412	-	-	-	-	80,412	80,412
Other financial liabilities	190,931	-	-	-	-	190,931	190,931
Total	**271,343**	**-**	**-**	**-**	**-**	**271,343**	**271,343**
As at 31 December 2017							
Trade and other payables	178,933	-	-	-	-	178,933	178,933
Other financial liabilities	167,578	-	-	-	-	167,578	167,578
Total	**346,511**	**-**	**-**	**-**	**-**	**346,511**	**346,511**

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

17. Key Management Personnel disclosure and related party transactions

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	31 December 2018 $	31 December 2017 $
Short-term employee benefits	1,069,566	626,050
Post-employment benefits	21,094	26,652
Share-based payments*	183,135	677,622
Total Key Management Personnel compensation	**1,273,795**	**1,330,324**

* Included in here are AUD$5,560 that relate to amounts paid in respect of termination payments.

Details of the share options granted to directors and other members of key management personnel of the Group are included in Note 24. Any additional detail in respect of remuneration disclosures for key management personnel are provided in the Remuneration Report on pages 22- 36.

Notes to the Financial Statements *(Continued)*

18. Remuneration of auditor

During the year, the following fees were paid or payable for services provided by the auditor, RSM Australia Partners and its related practices:

	31 December 2018 $	31 December 2017 $
Review services	12,000	7,000
Audit services	33,000	56,500
Total Auditor's remuneration	**45,000**	**63,500**

19. Commitments

Lease commitments

The cash flows in the table below relate to the minimum payments for non-cancellable operating leases.

	31 December 2018 $	31 December 2017 $
Committed at the reporting date but not recognised as liabilities payable:		
Within one year	113,304	101,977
One to five years	491,727	458,913
More than five years	75,985	195,245
	681,016	**756,135**

Operating lease commitments relate to the contracted amounts for the rent of the offices in Fall River under operating leases expiring in over five years with the option to extend. The lease has various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group has no other commitments.

Notes to the Financial Statements *(Continued)*

20. Parent entity financial information

The individual financial statements for the accounting parent entity, UUV Aquabotix Limited, show the following aggregate amounts:

	31 December 2018 $	31 December 2017 $
Statement of profit or loss and other comprehensive income		
Loss for the year	**(1,139,034)**	**(2,065,022)**
Total comprehensive loss	**(1,139,034)**	**(2,065,022)**
Statement of financial position		
Current assets	5,640,352	5,259,771
Total assets	5,642,021	5,262,776
Current liabilities	(193,074)	(205,802)
Total liabilities	(193,074)	(205,802)
Net assets	**5,448,947**	**5,056,974**
Share Capital	8,250,001	7,000,001
Share issue costs	(642,965)	(642,965)
Share option reserve	978,893	764,960
Accumulated losses	(3,136,981)	(2,065,022)
Total Equity	**5,448,947**	**5,056,974**

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2018 and 31 December 2017.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2018 and 31 December 2017.

Notes to the Financial Statements *(Continued)*

21. Issued equity

	Note	No. of shares	$
Balance at 1 January 2017 (US$840,811 converted at 1.36986)		**352,504**	**1,150,904**
Equity contributed on issue of shares, conversion of warrants and convertible notes	(a) and (b)	454,444	1,639,636
Share capital of Aquabotix Technology Corporation prior to the execution of the Exchange Agreement		**806,948**	**2,790,540**
Shares converted upon execution of the Exchange Agreement	(c)	(806,948)	(2,790,540)
Shares issued upon execution of the Exchange Agreement	(c) and (d)	100,000,001	2,790,541
Shares issued during the period	(e)	35,000,000	7,000,000
Transaction costs in relation to share issue	(f)	-	(848,830)
Balance at 31 December 2017		**135,000,001**	**8,941,711**
Shares issued from Share Placement	(g)	25,000,000	1,250,000
Balance at end of period (31 December 2018)		**160,000,001**	**10,191,710**

Note (a) In January 2017, 19,176 shares in Aquabotix Technology Corporation were issued to certain employees of the Company.

Note (b) In February 2017, 435,268 shares in Aquabotix Technology Corporation were issued on conversion of warrants and convertible notes.

Note (c) As part of the acquisition of Aquabotix Technology Corporation by UUV Aquabotix Limited, the previous owners of Aquabotix Technology Corporation exchanged their 806,948 shares in Aquabotix Technology Corporation in for 100,000,000 shares in UUV Aquabotix Limited. These parties may also be issued with up to 45,000,000 Performance Shares in UUV upon the achievement of certain milestones. Further information on these can be found in Note 23.

Note (d) Included is the 1 share in the Company issued upon incorporation in November 2016 for $1.

Note (e) In April 2017, the Company issued 35,000,000 shares under an initial public offering to raise AUD$7,000,000. Attached to each share was one listed option.

Note (f) Included in transaction costs are the broker fees paid to the Joint Lead Managers. The value of the options issued to the Joint Lead Managers of AUD$449,160 has been expensed in the income statement.

Note (g) During the period ended 31 December 2018, the Company issued 25,000,000 shares under a share placement plan to raise AUD$1,250,000.

Notes to the Financial Statements *(Continued)*

22. Changes in composition of entity

	Number of Shares	Number of Unlisted Options	Number of Listed UUV options	Number of Performance Shares
Opening balances at 1 January 2018	135,000,001	28,600,000	35,000,000	45,000,000
Share Placement shares issued	25,000,000	-	-	-
Options exercised during the period	-	-	-	-
Options lapsed during the period	-	(13,200,000)	-	-
Options issued to Directors and Management	-	13,100,000	-	-
Closing balance at 31 December 2018	**160,000,001**	**28,500,000**	**35,000,000**	**45,000,000**

Unlisted Options:
13,100,000 Unlisted Options were issued to Directors and Management during the year to 31 December 2018. These Options are subject to various escrow and vesting conditions relating to length of employment with the Company. 13,200,000 of these unlisted options lapsed as a result of staff leaving the Company. See Note 24 for further details.

23. Performance shares:

Existing shareholders of Aquabotix Technology Corporation have historically been granted 45,000,000 Performance Shares, each convertible into one Ordinary Share in UUV Aquabotix Limited upon achievement of various performance milestones, as follows:

Shareholders	Performance Shares	Number in issue at 31 December 2018
Class A Performance Shares	each share is convertible 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.	15,000,000
Class B Performance Shares	each share will convert into one fully paid ordinary share upon the Company achieving, in relation to the Company's 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.	15,000,000
Class C Performance Shares	each share is convertible into one fully paid ordinary share upon the Company achieving, in relation to the Company's 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.	15,000,000

Notes to the Financial Statements *(Continued)*

24. Options issued

A share option plan has been established by the Group and approved by shareholders at a general meeting, whereby the Group may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the company to certain key management personnel of the Group. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

During the year ended 31 December 2018, 13,100,000 options were issued to Directors, management and other employees of the Group at exercise prices of $0.07 to $0.11 per share and a total transactional value of $415,195. Of these share options issued, 7,300,000 were issued to directors and key management personnel, with a total transactional value of $183,135 as disclosed in the key management personnel disclosures (Note 17) and the remuneration report in the directors' report. In addition, 13,200,000 options lapsed as a result of staff leaving. The value of options lapsed was $133,645, resulting in a total expense recognised of $281,007 for the period. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued at various dates between January and December 2018.

	Class N Options	Class O Options	Class P Options	Class Q Options	Class R Options	Class S Options	Class T Options	Class U Options	Class V Options	Class W Options	Class X Options	Class Y Options	Class Z Options	Class AA Opons	Class AB Options	Class AC Options	Options issued in prior year	Other Lapsed Options
New options	1,000,000	1,000,000	1,000,000	1,000,000	1,500,000	1,500,000	1,500,000	1,500,000	1,000,000	300,000	400,000	400,000	400,000	1,000,000	1,000,000	1,000,000	-	-
Options lapsed	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)														(9,200,000)
Expiry (yrs)	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Exercise price ($)	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.30-0.50	0.30-0.50
Vesting period (yrs)	-	1	2	3	-	1	2	3	-	-	-	1	2	-	1	2	0-3 yrs	0-3yrs
Underlying volatility	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Risk free interest rate	1.66%	1.66%	1.66%	1.90%	1.66%	1.66%	1.66%	1.90%	1.66%	1.66%	1.99%	1.99%	1.99%	1.99%	1.99%	1.99%	1.66%-1.90%	1.66%-1.90%
Calculated FV of each option ($)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.005-0.0126	0.005-0.0126
Expense recorded in period ($)	-	-	-	-	29,420	26,972	16,181	12,338	19,599	5,560	9,066	5,038	2,905	1,203	279	179	134,525	(48,790)
Total Expense																		**281,007**

Class A options were issued to all shareholders who subscribed for shares under the initial public offering for $nil consideration. No expense will be recognised until these options are exercised. Class B options were issued to the brokers as part of the fees for their services relating to the IPO and were expensed immediately. Class C, D, E, F, G, W and V options were issued to Directors and Management and will be expensed over their vesting period. Classes H – U and X – AC options were issued to Management and will be expensed over their vesting period. Classes H – Q options lapsed during 2018 as a result of Management leaving the Company. Any expense already recognised for these options was reversed in the relevant period.

Notes to the Financial Statements *(Continued)*

24. Options issued *continued*

During 2017, 18,600,000 share options were issued to directors and employees at exercise prices of $0.30 to $0.50 per share option and a total transactional value of $764,960. Of these share options issued, 17,400,000 were issued to directors and key management personnel, with a total transactional value of $677,622 as disclosed in the key management personnel disclosures (Note 17) and the remuneration report in the directors' report.

Set out below are summaries of the options granted under the plan:

	Class A Options	Class B Options	Class C Options	Class D Options	Class E Options	Class F Options	Class G Options	Class H Options	Class I Options	Class J Options	Class K Options	Class L Options	Class M Options
No of Options	35,000,000	10,000,000	700,000	700,000	5,000,000	4,000,000	1,000,000	400,000	400,000	400,000	1,500,000	1,500,000	3,000,000
Issue date	20 Apr 17	20 Apr 17	20 Apr 17	20 Apr 17	20 Apr 17	20 Apr 17	20 Apr 17	23 May 17	23 May 17	23 May 17	28 Nov 17	28 Nov 17	28 Nov 17
Expiry (years)	2	3	3	3	3	3	3	3	3	3	3	3	3
Exercise price ($)	0.22	0.22	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.50	0.30	0.30	0.30
Vesting date	Immediately	Immediately	Immediately	20 Apr 18	20 Apr 18	20 Apr 19	20 Apr 20	20 Apr 18	20 Apr 19	20 Apr 20	20 Apr 20	20 Apr 20	20 Apr 20
Underlying volatility	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Risk free interest rate	1.57%	1.66%	1.66%	1.66%	1.66%	1.90%	1.90%	1.66%	1.90%	1.90%	1.66%	1.90%	`.90%
Calculated FV of each option ($)	0.0328	0.0449	0.0327	0.0429	0.0429	0.0523	0.0604	0.0421	0.0516	0.0427	0.0157	0.0221	0.0279
Expense recorded for period ended 31 December 2017 ($)	-	449,160	22,904	20,996	149,972	73,138	14,059	11,251	6,570	3,571	7,553	2,390	3,396
Total Expense													**764,960**

Class A options were issued to all shareholders who subscribed for shares under the initial public offering for $nil consideration. No expense will be recognised until these options are exercised. Class B options were issued to the brokers as part of the fees for their services relating to the IPO and were expensed immediately. Class C, D, E, F, G, W and V options were issued to Directors and Management and will be expensed over their vesting period. Classes H – U and X – AC options were issued to Management and will be expensed over their vesting period. Classes H – Q options lapsed during 2018 as a result of Management leaving the Company. Any expense already recognised for these options was reversed in the relevant period.

The weighted average share price during the financial year ended 31 December 2018 was $0.07 (2017: $0.14).

The weighted average remaining contractual life of options outstanding at the end of the financial year ended 31 December 2018 was 1.26 years (2017: 2.26 years).

Notes to the Financial Statements *(Continued)*

25. Earnings (loss) per share

	31 December 2018 $	31 December 2017 $
(a) Loss attributable to the owners of UUV Aquabotix Limited		
Loss after income tax attributable to the owners of UUV Aquabotix Limited	**(4,833,146)**	**(4,559,109)**
	Cents	Cents
(b) Loss per share		
Basic loss per share	(3.35)	(4.23)
Diluted loss per share	(3.35)	(4.23)
	Number	Number
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	144,232,878	107,871,578

For the period ended 31 December 2017, the weighted average number of shares reflects Aquabotix Technology Corporation's weighted average ordinary shares before the Exchange Agreement became effective on 20 April 2017 multiplied by the exchange ratio established in the acquisition, and the weighted average total actual shares of UUV Aquabotix Limited in issue after the date of the acquisition.

All performance shares and share options were considered anti-dilutive in the period ended 31 December 2017.

26. Contingent liabilities

As at 31 December 2018 the Group had no contingent liabilities.

27. Reconciliation from loss after income tax to net cash outflow from operating activities

	31 December 2018 $	31 December 2017 $
Operating loss for the year after tax	**(4,833,146)**	**(4,559,109)**
Add/ (deduct) non-cash items- income and expenses		
Depreciation	50,730	27,878
Write down of consumables	205,400	-
Share option expense	281,007	315,800
Effects of foreign currency translation	(47,582)	152,128
Cost of listing	-	1,073,769
Change in operating assets and liabilities		
Decrease/(Increase) in trade and other receivables	207,531	(112,662)
(Increase) in inventory	(98,363)	(31,788)
(Decrease)/increase in trade and other payables	(253,046)	82,849
Increase in other operating liabilities	50,543	346,222
Net cash flows from (used in) operating activities	**(4,436,926)**	**(2,704,913)**

Notes to the Financial Statements *(Continued)*

28. Events after the reporting date

In February 2019, the Company announced a renounceable entitlement offer to raise up to $960,000, whereby existing shareholders were offered the right to take up 1 new share for every 5 existing shares held at the record date, at an issue price of $0.03.

No other matter or circumstance other than as disclosed above or elsewhere in these financial statements has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

In the opinion of the Directors:

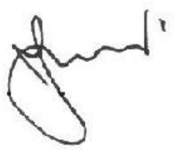
- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer for the year ended 31 December 2018 required by section 295A of the *Corporations Act 2011*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors



Peter James
Independent Non-Executive Chairman

Sydney, NSW
28 February 2018

RSM Australia Partners

Level 13, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001

T +61 (0) 2 8226 4500
F +61 (0) 2 8226 4501

www.rsm.com.au

INDEPENDENT AUDITOR'S REPORT
To the Members of UUV Aquabotix Limited

Opinion

We have audited the financial report of UUV Aquabotix Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a loss after tax of $4,833,146 and had net cash outflows used in operating activities of $4,436,926 during the year ended 31 December 2018. As stated in Note 1, these events or conditions, along with other matters as set forth in Note1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed this matter
Share-based payments Refer to Note 25 in the financial statements	
The Group issued share options to directors and employees during the year. These were equity-settled options, which management valued using a Black Scholes model. Share-based payments are technically complex to account for and are subject to significant management judgement in determining the inputs used to determine the fair value. This was considered a key audit matter due to the technical complexity and judgments required in determining if the transactions were appropriately accounted for in accordance with AASB 2 *Share Based Payments*.	Our audit procedures in relation to share-based payments included: • Making inquiries of management and reviewing relevant agreements to understand the share-based payment schemes established in the year. • Critically evaluate the key assumptions used in determining the fair value of the share options at grant date having consideration of the market, the share price, the expected volatility, the vesting period, and the number of options expected to vest. • Recalculating the estimated charge to the Statement of Profit or Loss and the related balance in the Reserves. • Reviewing the accounting treatment adopted by management and ensuring it is in line with the treatment set out in AASB 2 *Share Based Payments*. • Considering the adequacy of the Group's disclosures in respect of the judgements taken in the valuation models.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report
We have audited the Remuneration Report included in pages 23 to 39 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of UUV Aquabotix Limited, for the year ended 31 December 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities
The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM

RSM AUSTRALIA PARTNERS

GNS

G N Sherwood
Partner

Sydney, NSW
Dated: 28 February 2018

Shareholder Information

Holdings distribution at 11 February 2019

Holding Ranges	Holders	Total Shares	% Issued Share Capital
1 - 1,000	28	3,239	0.00%
1,001 - 5,000	34	135,013	0.08%
5,001 - 10,000	84	734,763	0.46%
10,001 - 100,000	264	9,861,078	6.16%
100,001 – over	70	149,265,908	93.29%
Total	**480**	**160,000,001**	**100.00%**

The shareholders are entitled to one vote for each share held.

Twenty largest shareholders at 11 February 2019

Position	Holder Name	Shares Held	% Issued Share Capital
1	LONG HILL CAPITAL II LLC	51,940,027	32.46
2	AQUABOTIX TECH. CORP. 401(K)	23,049,813	14.41
3	EAGLE'S VIEW CAPITAL PARTNERS L P	11,712,300	7.32
4	EAGLE'S VIEW DIVERSIFIED OPP FUND L P	6,978,250	4.36
5	DURVAL TAVARES	6,337,330	3.96
6	AQUABOTIX TECH CORP	6,163,223	3.85
7	DEBRA TAVARES	4,337,330	2.71
7	BNP PARIBAS NOMS PTY LTD	4,000,000	2.50
8	EAGLE'S VIEW OFFSHORE FUND LTD CLASS B	3,400,710	2.13
9	AQUABOTIX TECH. CORP. 401(K)	3,343,215	2.09
10	EAGLE'S VIEW PARTNERS LTD	3,334,148	2.08
11	EAGLE'S VIEW PARTNERS LTD	3,022,560	1.89
12	EAGLE'S VIEW OFFSHORE FUND LTD CLASS E	2,018,840	1.26
13	JEFFREY PACE	1,487,085	0.93
13	BOND STREET CUSTODIANS LIMITED	1,398,213	0.87
15	BERGEN SPECIAL OPPORTUNITY FUND LP	1,253,751	0.78
16	AQUABOTIX TECH. CORP. 401(K)	1,115,314	0.70
17	AQUABOTIX TECH. CORP. 401(K)	1,095,734	0.68
18	RAINBO PTY LTD	647,653	0.40
19	DENIZ A DIOGO	635,234	0.40
20	LONG HILL CAPITAL II LLC	51,940,027	32.46
Total		**137,270,730**	**85.79%**
Balance of register		22,729,271	14.21%
Total issued capital		**160,000,001**	**100.00%**