

# AQUABOTIX

QUARTERLY REPORT

for the quarter ended  
31 March 2019

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



## QUARTERLY REPORT – FOR THE QUARTER ENDED 31 MARCH 2019

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UUV Aquabotix Ltd (ASX:UUV) (“Aquabotix” or the “Company”) provides the following update on its activities during the three-month period ended 31 March 2019 and its Appendix 4C quarterly cash flow report for the same period.

### Key Developments

Over this period, Aquabotix has continued to make noteworthy advancements in developing relationships with key customers and securing non-dilutive funding for its innovation efforts. Each of these are key objectives in the Company’s strategic shift to the defence industry and its focus on its SwarmDiver™ family of unmanned underwater/surface micro vehicles. In the short time since Aquabotix announced this shift, the Company has already seen demonstrable indicators of success related to these important changes. The following summarizes the most notable developments during the quarter.

#### *U.S. Navy-Funded Contracts*

In January 2019, the Company announced its receipt of an award of approximately US\$70,000 in support of a United States Navy development project. This is the Company’s second such U.S. Navy-funded development contract, and an important step in cementing the Company as a trusted developer of autonomous systems. This contract will involve further developments to Aquabotix’s SwarmDiver™ product, and this initial development will conclude with a demonstration to various United States Navy personnel.

The Company then announced in April 2019 that it was awarded an approximately US\$30,500 contract for the purchase of SwarmDiver™ system by the United States Navy. This hardware sale will support test and evaluation activities in contemplation of potentially substantial follow on orders. This progress to being considered for operational use is a crucial step toward obtaining the opportunity to compete for more sizeable future prospects.



*SwarmDiver STEALTH™ with specialty coating for defence and security applications.*

Generally speaking, governmental 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 governmental agencies provides a potential path to large quantity unit sales through early stage customer advocacy and buy in.

While the two initial contracts described above are small, they are key in meeting the following critical objectives:

- establishing the Company as a trusted provider to the United States military;
- proving the Company's credibility to a range of domestic and international customers; and
- positioning the Company well to receive further governmental funding.

With the Company realising some critical initial successes in the marketing and sales of its SwarmDiver™ system and related developments while continuing to hone its focus on short-term wins for this family of products, the Company's customer cash receipts were modest and consisted of sales from customer-funded development efforts of \$27,099. There is an expectation of an uptick in cash from both customer-funded projects and product sales in the second quarter of calendar year 2019.

### ***Australian Cooperative Development and Grants***

In December 2018, Aquabotix announced its signing of a Memorandum of Understanding (MOU) with the global defence company Thales. This MOU covers strategic cooperation in the research, design, and development of rapidly deployable mine countermeasures and military hydrographic autonomous system mission solutions.

Active waterborne mines hidden close to shorelines create concerns for water-bound countries. These mines make amphibious landings a challenge for militaries and create risks for commercial shipping vessels through critically important recognized trade routes, presenting a serious threat to allied nations. More effective methods of handling the detection, classification, and eradication of mines are generally considered an urgent military priority which Aquabotix appears to be well positioned to satisfy.



*Petty Officer in Explosive Ordnance Disposal Mobile Unit One Inspecting an Inert Mine  
Photo credit: US Navy*

Aquabotix has met with several potential customers seeking this capability and has responded to a number of requests for information related to this mission set.

Together with Thales, Aquabotix is pursuing Australian government funds to support the companies' cooperative research and development efforts for these autonomous solutions. Separately, Aquabotix is continuing to develop its underlying core technologies and is seeking non-dilutive funding and grants to support these efforts.

The Company demonstrated success this quarter in securing a non-dilutive grant by the New South Wales Defence Innovation Network. In March, Aquabotix announced it had been awarded a \$10,000 grant to support the development of an innovative controls system for the Company's autonomous maritime vehicles. This concept enables greater product versatility for unmanned defence operations, and the governmental support of this effort is indicative of the recognized end-user need.

### ***Other Business Development Progress***

Following the successful 2018 demonstration at the Narragansett Bay Test Facility during the United States Naval Undersea Warfare Center Division Newport's Advanced Naval Technology Exercise (ANTX), Aquabotix submitted three proposals for consideration to be included in the 2019 ANTX events. ANTX was created to provide an opportunity to demonstrate future United States Navy technologies in action in the current day. Despite the Navy being highly selective in its admission of participants for the 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 this future opportunity, the Company is attending, presenting at, and demonstrating in various public and private defence arenas globally. Most notably during the quarter, Aquabotix conducted daily waterborne demonstrations of its near shore hydrographic survey capability at the Naval Defence & Maritime Security Exhibition (NAVDEX) in Abu Dhabi this February. This is generally regarded as the premier defence naval exhibition for the Middle East/Northern Africa region. Aquabotix also held its first public demonstration of its recently launched SwarmDiver EDGE™ system during this event. Beyond this event, there are a range of other conferences, meetings, and demonstrations planned for 2019, and the Company will update the market accordingly as appropriate.



*SwarmDiver EDGE™ as visual boundary and first line deterrent, securing the area around a shipping vessel during the product's first public demonstration at NAVDEX 2019.*

## Market Updates

The recognition of the need for unmanned underwater vehicles, and the adoption of such systems is accelerating, with global developments focusing governments and other end-users on the need for deploying systems of the kind offered by the Company.

Among other things:

- In April 2019, the UK Defence Secretary, Gavin Williamson, announced that the government will provide a £75 million fund for the Royal Navy to develop more lethal and autonomous technologies. The Navy will use the investment for mine hunting drones and autonomous vessels designed to find and destroy mines.
- The UK government is also funding a major military-industrial technology accelerator hub, focused on the development of technologies to maximise the lethality and autonomy of robotic weapons, such as unmanned underwater vehicles, for use at sea.
- In April 2019, the US Navy funded an additional US\$46.7 million contract modification for Boeing to build an Orca undersea drone, bringing the firm's total contract value for these builds to US\$274.4 million. This demonstrates the Navy's willingness to make significant expenditures on unmanned underwater vehicle technologies.
- The US Department of Defence is seeking sharp spending increases to its autonomous weapons programs, according to the fiscal year 2020 budget request submitted to Congress in March 2019.
- The US Pentagon 2020 budget request asks for a nearly tenfold increase to the Navy's spending on large unmanned surface vehicles, and the Army aims to boot robotics development from US\$74 to US\$115 million at the same time.
- The UK Ministry of Defence has launched a £2.5 million competition to attract industry proposals capable of delivering a fully autonomous system of the size and capability of current manned platforms.
- A long string of strikes by Houthi rebels on vessels transiting the Red Sea, a crucial global maritime lane, using anti-ship cruise missiles, explosive-laden remotely operated boats, and improvised weapons has created a more urgent need for advanced naval defence systems globally and demonstrated the need for the specific unmanned underwater vehicles/unmanned surface vehicles of the kind offered by the Company for mine countermeasure operations.

## Financial Summary

- As at 31 March, Aquabotix had a cash balance of \$215,470 as outlined in the accompanying Appendix 4C.
- On 2 February 2019, Aquabotix announced a pro rata renounceable entitlements offer of one (1) fully paid ordinary share in the capital of the

Company for every five (5) shares held by eligible shareholders. The Company raised a total of \$74,812.82 through this activity. The shares subscribed for by eligible shareholders were issued in March 2019; however, the cash receipts related to these funds were not received until April. For this reason, these funds are not reflected in the accompanying Appendix 4C.

- On 25 March 2019, the Company announced it had entered into a non-convertible unsecured credit facility agreement in order to secure additional working capital should it be needed. The draw-down of funding associated with that credit facility is reflected in the accompanying Appendix 4C.
- Cash outflows have been considerably reduced since the management restructure following the first quarter of fiscal year 2018. This is a direct result of the implementation of the new strategy with an increased focus on the development and marketing of SwarmDiver™ for the defence industry and the fresh focus on pursuing customer funding to support innovation efforts. Following the Company's management restructuring, the Company's net cash used in operations had been reduced from \$1,707,692 for the 30 June 2018 quarter to \$695,440 for the 31 March 2019 quarter.
- The Company has conducted a review of its cost base, and following that review has undertaken a number of measures to further reduce cash burn relative to the 31 March 2019 quarter's burn.
- At the same time, while the Company's cash inflows from customers for the quarter were modest, at \$27,099, the contracts secured by Aquabotix are expected to lead to an uptick in cash inflows for the second quarter of 2019. This is a positive trend compared to there being virtually no cash receipts from customers during the time where the Company was implementing its strategy shift.
- Recognizing the need to raise additional capital, the Company announced an additional rights offering on 23 April 2019. As described in that announcement, the Company intends to undertake a pro rata renounceable entitlement offer of one (1) new fully paid ordinary share in the capital of the Company (Share) for every one (1) Share held by eligible shareholders at an issue price of \$0.006 per Share to raise up to approximately \$974,813.

## Performance Shares

As at 31 March 2019, 45,000,000 Performance Shares are on issue. No performance share vesting or conversion milestones were met during the period.

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

### Further Information

Whitney Million – Chief Executive

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### About UUV Aquabotix Limited

Based in Sydney, Australia and Fall River, Massachusetts, USA, Aquabotix is an established underwater robotics company which manufactures and sells commercial and industrial-grade underwater drones for commercial, high-end consumer and military applications. It is also the first company globally that is offering commercially-available swarming underwater drones. Please visit [www.aquabotix.com](http://www.aquabotix.com) for further information.

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<sup>1</sup> Performance Shares were issued to all pre-IPO shareholders.

<sup>2</sup> Each Class A Performance Share will vest into one fully paid ordinary share upon the Shares achieving a 30-day volume weighted average price exceeding \$0.30 and the Company securing no less than 20 paying customers of remotely operated underwater vehicles within 24 months of the date the Company is admitted to the Official List (Class A Milestone).

<sup>3</sup> Each Class B Performance Share will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, \$7,000,000 of cumulative revenue or \$2,500,000 of annual revenue in any given twelve-month period, within 36 months of the date the Company is admitted to the Official List (Class B Milestone).

<sup>4</sup> Each Class C Performance Share will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, \$3,000,000 of cumulative earnings before interest and taxes (EBIT) or \$1,000,000 of annual EBIT in any given financial year, within 36 months of the date the Company is admitted to the Official List (Class C Milestone).

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

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

#### Name of entity

UUV Aquabotix Limited

#### ABN

52 616 062 072

#### Quarter ended ("current quarter")

31 March 2019

Consolidated statement of cash flows	Current quarter \$A	Year to date (3 months) \$A
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	27,099	27,099
1.2 Payments for		
(a) research and development	(20,070)	(20,070)
(b) product manufacturing and operating costs	(4,622)	(4,622)
(c) advertising and marketing	(574)	(574)
(d) leased assets	-	-
(e) staff costs	(483,930)	(483,930)
(f) administration and corporate costs	(212,220)	(212,220)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	877	877
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(695,440)</b>	<b>(695,440)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-



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<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A</b>	<b>Year to date (3 months) \$A</b>
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>-</b>	<b>-</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	200,000	200,000
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>200,000</b>	<b>200,000</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	704,377	704,377
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(695,440)	(695,440)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	200,000	200,000

# AQUABOTIX

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A</b>	<b>Year to date (3 months) \$A</b>
4.5	Effect of movement in exchange rates on cash held	6,533	6,533
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>215,470</b>	<b>215,470</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A</b>	<b>Previous quarter \$A</b>
5.1	Bank balances	210,470	554,377
5.2	Call deposits	5,000	150,000
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>215,470</b>	<b>704,377</b>

## **6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

<b>Current quarter \$A</b>
32,373
-

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

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## **7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

<b>Current quarter \$A</b>
-
-

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

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# AQUABOTIX

## 8. Financing facilities available

Add notes as necessary for an understanding of the position

- 8.1 Loan facilities
- 8.2 Credit standby arrangements
- 8.3 Other (please specify)

	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1	200,000	200,000
8.2	-	-
8.3	-	-

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

The above referenced credit facility is non-convertible and unsecured and has been entered into with the Company's shareholder, Long Hill Capital II, LLC. The facility does not attract any fees; however, under the terms of the credit facility agreement, if the Company elects to draw down the facility, interest will be payable on the amount outstanding at the rate of 12% per annum, payable in arrears each quarter. This facility does not involve an issue of any equity security.

9.	Estimated cash outflows for next quarter	\$A
9.1	Research and development	43,000
9.2	Product manufacturing and operating costs	110,500
9.3	Advertising and marketing	25,000
9.4	Leased assets	-
9.5	Staff costs	255,000
9.6	Administration and corporate costs	85,000
9.7	Other (provide details if material)	341,500
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>860,000</b>

The above referenced 9.7 Other cash outflows include expenses related to the Company's intended pro rata renounceable entitlement offer as announced 23 April 2019 (approximately \$135,500 for expenses of the offer and \$206,000 for the repayment of the related party loan facility, including interest).

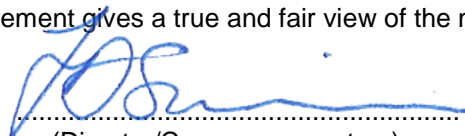
10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity		
10.2	Place of incorporation or registration		
10.3	Consideration for acquisition or disposal		
10.4	Total net assets		
10.5	Nature of business		

# AQUABOTIX

## Compliance statement

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

Sign here:



.....  
(Director/Company secretary)

Date: 30 April 2019 .....

Print name: Jonathan Swain .....

## Notes

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