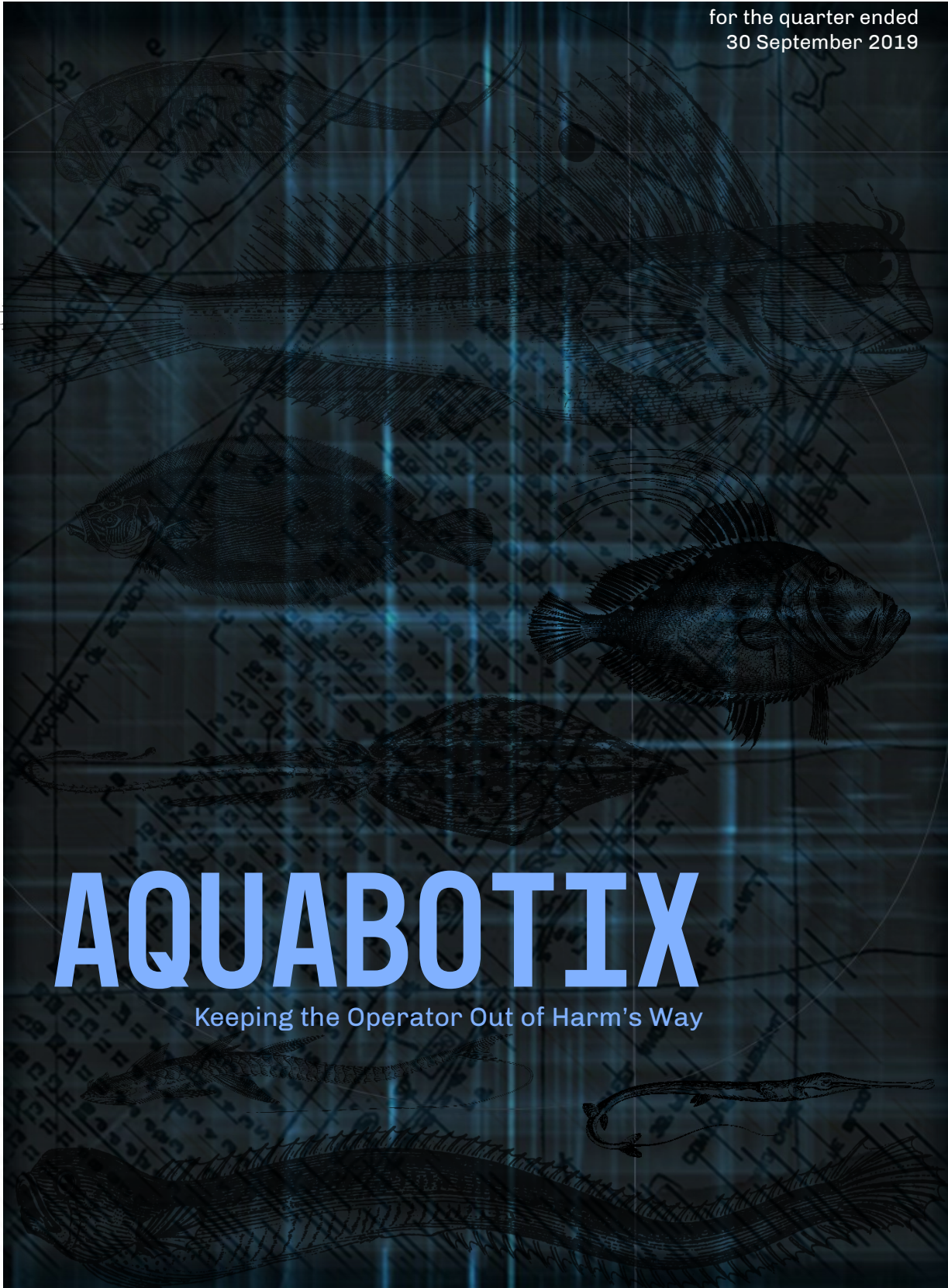


QUARTERLY REPORT

for the quarter ended
30 September 2019



AQUABOTIX

Keeping the Operator Out of Harm's Way

UUV Aquabotix Ltd | Sydney, Australia & Rhode Island and Virginia, USA
ASX:UUV (shares) and ASX:UUVO (options)

QUARTERLY REPORT – FOR THE QUARTER ENDED 30 SEPTEMBER 2019

UUV Aquabotix Ltd (ASX:UUV) (“Aquabotix” or the “Company”) provides the following update on its activities during the three-month period ended 30 September 2019 and its Appendix 4C quarterly cash flow report for the same period.

Key Developments

Over the past several months, Aquabotix has been providing market updates related to increasing frequencies of attacks on maritime assets in the Middle East region and related spurred increases in spending for implementation of enhanced security measures. Aquabotix’s SwarmDiver EDGE™ product line was designed to enhance commercial and military security measures in dangerous waterways. This system can be used to alert for threats like manned and unmanned vehicles or swimmers. SwarmDiver EDGE™ creates a visual boundary to act as a first line deterrent to protect areas of interest from potential threats. This capability can be used to ensure the security of vessels and other items of interest in ports or through geographical bottlenecks.



Emergency Response to Attack on Commercial Vessel

In September, Aquabotix announced a significant order of SwarmDiver EDGE™ by a major Asian military agency aligned with Australia and the United States. This approximately A\$520,000 order is the largest in Aquabotix’s short history. In addition to demonstrating a trend of rapidly growing order values, this order represents the first SwarmDiver™ sale outside of the United States and follows an increase in awareness of the Company’s product suite globally. The order is also the first military procurement of SwarmDiver EDGE™, designed specifically for harbor management and port security missions.

Aquabotix is continuing to demonstrate the SwarmDiver™ family of vehicles for a range of potential customers and crafting man-machine teaming solutions to address recent and persistent terrorist activities and militant threats. It is the Company’s goal to leverage the increased focus on security for maritime transport by governments around the world and commercial maritime industry participants in order to accelerate implementation of its autonomous security measures.

Beyond the active pursuit of opportunities related to current maritime events, Aquabotix continues to make strides with advancing its core technologies in the United States. During the quarter, Aquabotix delivered the hardware components of its fourth order funded by the United States Armed Forces in relation to the SwarmDiver™ family training services to support government evaluation activities for the Military’s consideration of operational use of the product in theatre. The proceeds of that sale are expected to be recognized in Q4 2019.

In addition to the high-level update described above, Aquabotix provides the following summaries of the most notable developments during the quarter.

Rapidly Growing Order Volumes

The Company is exponentially growing order volumes and demonstrating solid positive trends in the sales of its SwarmDiver™ product. The chart below depicts military-funded contracts for SwarmDiver on a quarterly basis since SwarmDiver's™ launch in April 2018. These figures are reflective of quarterly order acceptance, not cumulative values for the entire period reflected in the chart.

While these initial orders for development and test & evaluation activities are small, the Company is demonstrating a positive trajectory for orders and sales and is realizing some significant initial successes in dealing with key customers. The Company's customer cash receipts are anticipated to pick up again in Q4 2019 as a result of the successful delivery on the U.S. Military-funded contract that occurred during this current quarter, and those receipts are expected to grow in 2020 as a result of securing the additional orders described in this report.



Beyond the anticipated benefit of an uptick in cash receipts, the successful delivery of development contracts and test & evaluation hardware and support contracts leaves the Company well-positioned to gain customer advocacy and begin progressing to in-service use of the products, which could result in sizeable future orders from both the United States and other navies. The Company is continuing discussions with existing and new potential customers related to future opportunities.

U.S. Navy Advanced Naval Technology Exercises

Further bolstering Aquabotix's place as a trusted and innovative partner in the Naval domain, this quarter Aquabotix announced its successful completion of several capability demonstrations during this year's exclusive United States Navy's Advanced Naval Technology Exercise ("ANTX") events. The focus of ANTX is bringing together the Navy and industry participants to test cutting edge autonomous systems and their related technologies, enabling the Navy to identify science, technologies, and future concepts for the maritime domain.

Aquabotix's demonstrations showcased expanded capabilities for SwarmDiver™ to support a broad range of mission requirements, all fitting the theme of "Prepare for Battle: Undersea Security." Aquabotix's new mission planning feature was used to demonstrate execution of autonomous near shore, shallow water bathymetry missions



Senator Sheldon Whitehouse and Rhode Island Secretary of Commerce, Stefan Pryor, get a demonstration of Aquabotix's SwarmDiver during 2019 ANTX event

with transmission of data for mapping in near real time. The swarm functionality of SwarmDiver™ enables data collection in a grid formation by multiple vehicles simultaneously, resulting in faster survey results than generally achievable by "lawn-mower" pattern operation of a singular vehicle or manual collection by divers. Further, as the SwarmDivers™ transmit data wirelessly from their remote locations, rather than returning to the operator for download or relay, the operator is kept to a safe standoff distance.

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 October 2019, Lieutenant Commander Ryan Hilger of U.S. Navy wrote a paper highlighting the People's Liberation Army Navy strategists' focus on naval mines for China's asymmetric advantages and the U.S. Navy's lacking capabilities to address this level of mine threat. He suggests the Navy must develop and deploy new offensive and defensive mining strategies to beat China in a future fight.
- Also, in October 2019, Dr. Joseph Walsh III of the U.S. Naval Surface Warfare Center, Panama City Division, released a paper through the Center for International Maritime Security discussing the Navy's position to create concrete definitions of what swarms of unmanned vehicles can do for the future of mine countermeasures.
- Recently eight World War II-era explosive devices were found in Estonian waters by the Standing NATO Mine Countermeasures Group One according to Baltic News Service Reports. This announcement comes after a late-August report of a Dutch Navy ship clearing away five naval mines from the North Sea after explosives were found during preparatory work for new offshore wind farms.
- In October 2019, the UK-French Combined Joint Expeditionary Force announced it had completed high intensity maritime warfare training including Mine

Warfare battle staff and is confirming readiness for a wide range of operations anywhere in the world.

- In October 2019, Observer Research Foundation released its paper, "Maritime terrorism in Asia: An assessment", in which increased maritime terrorist violence in Asia is evaluated and specific vulnerability of high seas shipping to criminal acts of violence along with the inconsistent nature of maritime governance is explored. The paper argues these risks increase the possibility of a major terrorist attack in coastal regions and highlights measures to improve maritime readiness against acts of terror.
- In recent weeks, reports have surfaced pointing to a belief that Iran has thousands of naval mines and noting increased aggressiveness in the Persian Gulf.
- In July 2019, the U.S. Coast Guard issued an alert about increasing maritime malware attacks, targeting networks of commercial vessels to gain access to data such as vessels' notices of arrival.
- In June and July 2019, a string of attacks on commercial shipping vessels took place in the Middle East. These attacks centered around oil tankers traveling through geographical bottlenecks.
- In June 2019, U.S. Officials announced a goal of building up a coalition designed to deter Iranian attacks in the Persian Gulf. This so-called, 'Sentinel Program' is designed to keep eyes on maritime trade routes.
- 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 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.

Financial Summary

- As at 30 September, Aquabotix had a cash and cash equivalents balance of \$330,249 as outlined in the accompanying Appendix 4C.
- The Company continues to manage operations with reduced cash outflows 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 significantly from prior year operations since this restructuring. The Company conducted another review of its cost base in early 2019 and following that review undertook a number of measures to further reduce cash burn relative to previous quarter's burn. As a result, the net cash used in operations decreased from \$696,639 for the 30 June 2019 quarter to \$504,754 for the 30 September 2019 quarter.

- At the same time, the Company's order book is rapidly growing. While the Company's cash inflows from customers since the Company's announced shift in strategy have been modest, the inflows are expected to positively trend upwards along with the increase in orders. As the Company delivered hardware and training under U.S. Government-funded contracts during the quarter, the cash inflow resulting from those sales will be recognized in Q4 2019.
- Recognizing the need to raise additional capital, the Company announced in early October that it had received commitments from existing and new sophisticated and professional investors to raise \$268,000 via a placement of new fully paid ordinary shares. Those shares were issued this month under the Company's available placement capacity pursuant to ASX Listing Rule 7.1.

Performance Shares

As at 30 September 2019, 30,000,000 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) ¹	Performance Shares issued during the period (B)	Performance Shares converted to UUV shares during the period (C)	Performance Shares cancelled during the period (D)	Performance Shares on issue at end of period (A)+(B)-(C)-(D)
Class A ²	0	0	0	0	0
Class B ³	15,000,000	0	0	0	15,000,000
Class C ⁴	15,000,000	0	0	0	15,000,000
Total	30,000,000	0	0	0	30,000,000

Further Information

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About UUV Aquabotix Limited

Aquabotix is an established underwater robotics company which designs, develops, and sells underwater and surface drones with swarming capabilities for commercial, high-end consumer, and military applications. Aquabotix is the first company globally to offer commercially-available swarming micro-sized unmanned maritime drones. Please visit www.aquabotix.com for further information.

¹ Performance Shares were issued to all pre-IPO shareholders.

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

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

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



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")

30 September 2019

Consolidated statement of cash flows	Current quarter \$A	Year to date (9 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	-	163,569
1.2 Payments for*		
(a) research and development	(13,200)	(83,300)
(b) product manufacturing and operating costs	(75,475)	(85,062)
(c) advertising and marketing	(50)	(11,122)
(d) leased assets	-	-
(e) staff costs	(199,968)	(922,034)
(f) administration and corporate costs	(215,381)	(852,876)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	358	1,773
1.5 Interest and other costs of finance paid	(1,038)	(6,458)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(504,754)	(1,795,510)

* Included within staff costs are certain costs associated with internal research and development. Included within administration and corporate costs are amounts that have been expensed on travel associated with internal research and development and advertising and marketing.

Consolidated statement of cash flows	Current quarter \$A	Year to date (9 months) \$A
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(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)	-	-
2.6 Net cash from / (used in) investing activities	-	-

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	456,000	1,504,877
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	(37,698)	(99,398)
3.5 Proceeds from borrowings	-	200,000
3.6 Repayment of borrowings	-	(200,000)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities (see note 4)	418,302	1,405,479

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	408,826	704,377
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(504,754)	(1,795,510)

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
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)	418,302	1,405,479
4.5	Effect of movement in exchange rates on cash held	7,875	15,903
4.6	Cash and cash equivalents at end of quarter	330,249	330,249

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1 Bank balances	325,249	403,826
5.2 Call deposits	5,000	5,000
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)*	330,249	408,826

*Subsequent to the quarter end, the Company completed a placement to sophisticated & professional investors in the amount of \$268,000, the proceeds of which are not included in the cash balance at the end of the third quarter.

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

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

**Current quarter
\$A**

14,589

-

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

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

**Current quarter
\$A**

-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities	200,000	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
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.		

In March, the Company announced it had entered into a non-convertible unsecured credit facility agreement with a maturity date of March 2020. Under the agreement, the investor made up to \$200,000 available to the Company. The facility did not attract any fees, other than interest. This facility has not been drawn upon in the quarter.

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	25,000
9.2 Product manufacturing and operating costs	150,000
9.3 Advertising and marketing	50,000
9.4 Leased assets	-
9.5 Staff costs	200,000
9.6 Administration and corporate costs	200,000
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	625,000

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

Compliance statement

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



31 Oct 2019

Sign here:
 (Company secretary)
 Winton Willesee

Date:

Print name:

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.
- 4. Recognizing the need to raise additional capital, the Company announced in early October that it had received commitments from existing and new sophisticated and professional investors to raise \$268,000 via a placement of new fully paid ordinary shares. Those shares were issued later that same month under the Company’s available placement capacity pursuant to ASX Listing Rule 7.1. The capital raised is not included in the cash figures stated here.