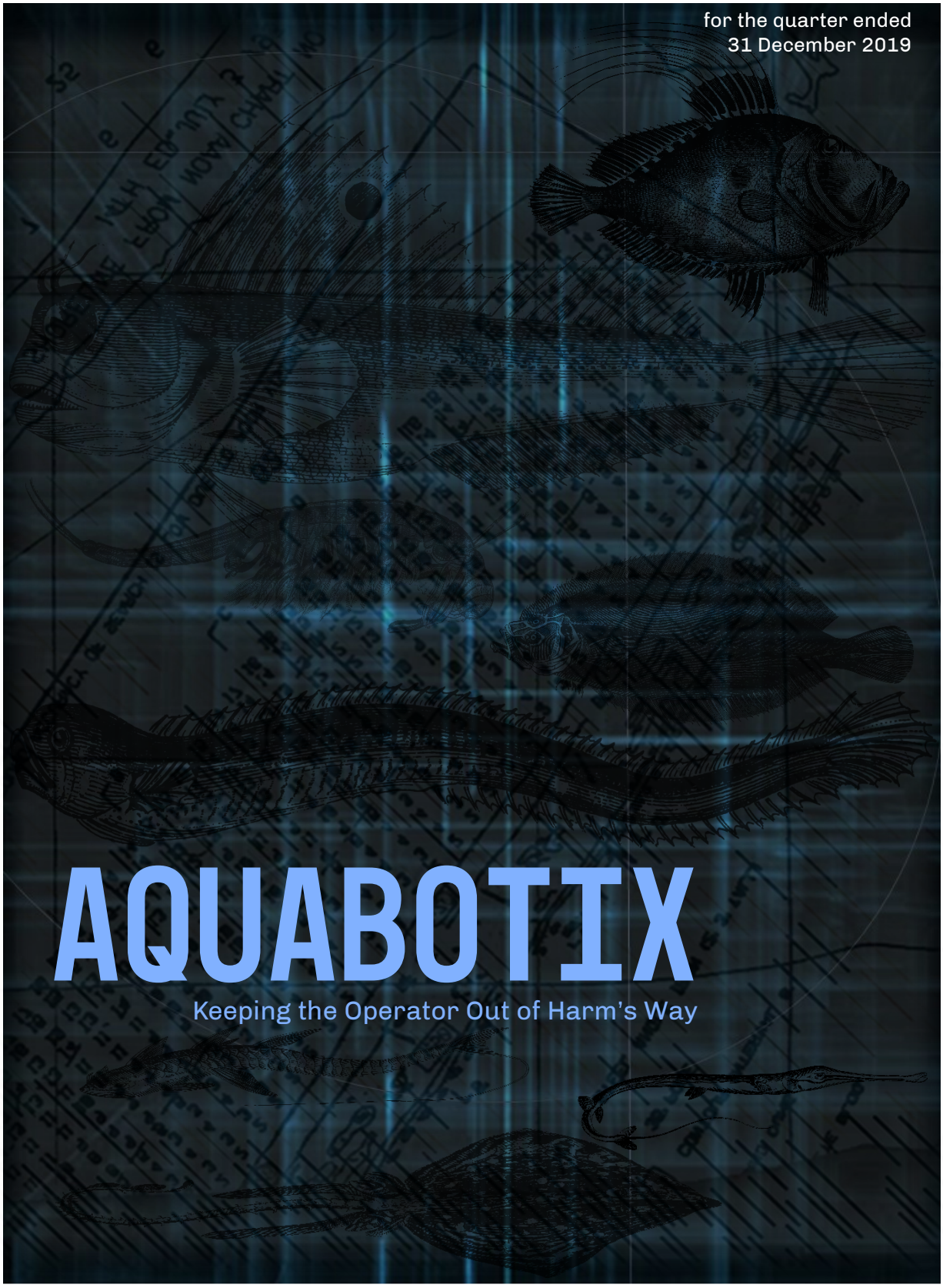
QUARTERLY REPORT

for the quarter ended
31 December 2019



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

17 January 2020 ASX Announcement

QUARTERLY REPORT – FOR THE QUARTER ENDED 31 DECEMBER 2019

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

Key Highlights

- **Aquabotix generated total customer cash inflows of A$156,676 during the 31 December 2019 quarter, the highest quarterly cash inflows for the Company since its announced strategic restructuring in 2018.**
- **The customer cash inflows for the quarter were nearly equal to the total cash inflows for the three prior quarters.**
- **At the same time, Aquabotix's net cash used in operations decreased from A$504,754 for the 30 September 2019 quarter to A$319,283 for the 31 December 2019 quarter, equating to a more than 35% decrease in net cash outflows for the quarter. This is the lowest quarterly net cash outflows achieved by the Company ever.**
- **The Company has consistently reduced its net cash outflows since the 2018 restructuring, while achieving notable contract and product milestones.**
- **Prior to Aquabotix's strategy shift, the Company's net cash used in operations was approximately 460% higher than reported for this quarter (A$1,389,706 for the 31 March 2018 quarter).**
- **Aquabotix's order book grew significantly over the 2019 fiscal year. As a result, customer cash inflows just from orders already secured by the Company for the first half of 2020 are expected to be significantly higher than the inflows reported for the entire FY2019 because of the existing order backlog. This is before any additional orders that may be secured by the Company.**

Significantly Increased Cash Inflows from Military Customers

Aquabotix generated total customer cash inflows of A$156,676 from military sales during the 31 December 2019 quarter. This represents the highest quarterly cash inflows for the Company since shifting strategic focus to SwarmDiver™ and military customers in 2018. These cash inflows were nearly equal to the cash inflows for the cumulative three prior quarters, which totalled A$163,569. While the absolute dollar amount of the cash receipts is modest, the Company is satisfied with the way in which the cash receipts are trending, especially given the trend in its order book (see more on that below).

During Q3 2019, Aquabotix successfully delivered the hardware components of its fourth order funded by the United States Armed Forces in relation to the SwarmDiver™ family of products (the order for which was announced 23 May 2019). The Company received payment for this delivery and completed the contract by providing ancillary services for evaluation activities during the quarter. This contract is intended to

support test and evaluation required for the United States Military's consideration of operational use of SwarmDiver™, meaning this successful delivery has the potential to lead to follow on production contracts.

Aquabotix is demonstrating a positive trajectory for order intake and customer cash receipts, and the Company is realising some significant initial successes in its dealings with key customers. The Company anticipates continued growth in customer cash receipts for 2020. Based solely on the Company's existing order book and planned delivery schedule for these orders (which have already been contractually committed to by the customers), it is expected that customer cash receipts for the first half of 2020 will exceed those of the entire 2019 significantly. This is before allowing for any additional orders from the Company's current marketing activities.

Over the quarter, Aquabotix has been progressing the manufacture of an approximately A$520,000 Asian military agency order which is planned to be delivered in Q1 2020. This order represents the first military and international orders of the SwarmDiver EDGE™ system, and this is the largest order executed so far in Aquabotix's short history. Cash inflow from this order is currently expected for Q2 2020.

> "It is expected that customer cash receipts for the first half of 2020 will exceed those for the entire 2019 significantly."

Significantly, during the quarter, Aquabotix also completed an initial research project utilising United States Small Business Technology Transfer funds. There is potential for follow on work stemming from this effort during the course of 2020 as well.

Aquabotix continues to demonstrate the SwarmDiver™ family of vehicles for a range of potential customers. Additionally, the Company is collecting feedback from operators to craft and tailor 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.

SwarmDiver STEALTH™ for covert data collection.

Drastically Reduced Cash Outflows

While customer cash inflow increased for Q4 2019, the Company demonstrated significant reductions in net cash used in operations for the same period. Aquabotix's net cash used in operations decreased from A$504,754 for Q3 2019 to A$319,283 for Q4 2019. This reduction equates to a more than 35% decrease in net cash outflows for the quarter. It should be noted that this is the lowest net cash outflows achieved by the Company to date, following a downward trend in net cashflows since 2018.

Net cash used in operations was reduced by more than 35% this quarter…the lowest ever achieved by the Company.

The Company has focused on reducing cost in a sustainable manner through increased focus and specialisation of offerings since its announced strategy shift in 2018. Prior to this shift, the Company's quarterly net cash used in operations was approximately 460% higher than reported for this quarter (A$1,389,706 for the 31 March 2018 quarter). With reduced facility footprints and labour overheads, enabled by strategic use of non-dilutive governmental customer funding for innovation, industry partnerships, and employment of contractors and contract manufacturers on an as-needed basis, the Company can operate with lower cost while maintaining agility and scalability as value propositions for its customers. It is anticipated that Q1 2020 gross cash outflow (before cash receipts from customers or otherwise) will be approximately equal to that of this 31 December quarter.

Other Notable Company Developments

In November 2019, Aquabotix was invited to participate in the Navy Warfare Innovation Workshop, a three-day immersive workshop with collaboration from Australian Navy, Defence APS, Defence Science and Technical Group, academia, and industry. During this event, Aquabotix was given scenario briefings and collaborated to develop and propose concepts for counter treats across emerging technologies. The process for inclusion in this event was highly selective, and participation in evaluating problems the Navy could face in the future was an honour for the Company.

Key Market Developments

Even before the recent conflagration in the Middle East, the frequency of attacks on maritime assets in the Middle East region had continued to increase, and these are spurring increases in governmental spending on enhanced security measures to protect vessels and keep shipping lanes open.

Tensions have continued to escalate in the Middle East, and protection of assets in ports and through geographical or other bottlenecks remains a point of focus globally. These conditions may provide the impetus needed to implement new, autonomous security measures, as evidenced by the significant order of SwarmDiver EDGE™ by a major Asian military agency aligned with Australia and

Access through the Strait of Hormuz, a narrow waterway in the Middle East that marks the most sensitive transportation choke point for global oil supplies, remains a point of concern globally.

the United States that Aquabotix announced in September 2019.

Further exemplifying this point is the recent United States' use of a coordinated drone strike on Qasem Soleimani in Baghdad. In January 2020, a U.S. airstrike at Baghdad's airport killed Qasem Soleimani, leader of the foreign wing of Iran's Islamic Revolutionary Guard Corps. Analysts have widely noted a related potential for increased attacks on the waterway off of Iran's southern coast. The Strait of Hormuz, a narrow waterway in the Middle East that marks the most sensitive transportation choke point for global oil supplies, is back in focus as fears of a confrontation between the two countries are heightened. The Company believes that this geopolitical development will likely increase the speed of adoption of defensive and offensive products in the industry – a demand which the Company is well-positioned to meet.

Taking a step beyond singular autonomous assets, swarming systems, such as SwarmDiver™, provide force factor multipliers for militaries as the swarms can be effectively operated from a safe standoff distance like singular assets but have the added benefits of increased speed and likelihood of mission success. Over the quarter, numerous trade and security publications have explored the necessity of progressing swarm technology more rapidly and expounded the need for offensive use of these autonomous technologies. These published opinions are seemingly supported by a series of recently released requests for proposals and requests for information from the United States Government.

For example, during the quarter the Department of Navy issued a small business innovation research request for a concept titled "ADAPT - Advanced, Agile Manufacturing of Limited-Production Swarming Unmanned Systems (UxS) to Support Humanitarian Assistance and Disaster Relief (HADR) Operations" in which it seeks scaled manufacture of unmanned systems with self-swarming organisation and redistribution capabilities with production batch quantities as high as one thousand units – a significant contract value.

Members of the U.S. Navy conducting testing activities of SwarmDiver during 2019 ANTX events in Gulfport, MS, USA.

Aquabotix is an early mover in this space, and its SwarmDiver™ family of products remain, to the best of our knowledge, the only commercially available micro-sized swarming hybrid unmanned underwater and surface vehicles available to

governmental and commercial users alike. From a commercial perspective, competition is limited or doesn't yet exist for these products, giving the Company an advantage in pursuing potentially sizable emerging and urgent governmental requirements.

To date, a few of the orders issued to Aquabotix have been placed without use of full and open competition by the United States Government utilising sole source justifications. There are limited circumstances that permit the Government to make awards using other than full and open competition, including but not necessarily limited to: unusual and compelling urgency, national security, industrial mobilisation, or only one responsible source and no other supplies or services will satisfy agency requirements. These sole source procurements provide paths for expedited order placement to Aquabotix and serve to bolster our understanding that the Company's offerings are uniquely positioned in the marketplace.

SwarmDiver competition is limited or doesn't yet exist, giving Aquabotix an advantage in pursuing potentially sizeable emerging and urgent governmental requirements.

Other Market Developments

The recognition of the need for unmanned underwater vehicles, especially with swarming functionality, 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.

In this regard, among other things:

- Carl Schuster, a former Director of Operations at the U.S. Pacific Command's Joint Intelligence Center commented in January 2020 that Iran may have developed skilled divers capable of swimming under and around ships to attach mines to hulls, an activity that is difficult to detect. Beyond this, Schuster noted that mines comprised of simple explosives with percussion detonators like those used in World War I are likely still in the Iranian arsenal today, presenting real threats to ships traveling through the region.

- In December 2019, pirates boarded a Greek-owned oil tanker off Nigeria and kidnapped 19 crew members. Other notable instances of piracy have been recorded over the course of 2019, including but not limited to attacks off the coasts of Nigeria, Singapore, and Mexico.

- In October 2019, Lieutenant Commander Ryan Hilger of U.S. Navy published 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.

- 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 was 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.

Other

Recognising 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 that same month under the Company's available placement capacity pursuant to ASX Listing Rule 7.1.

As at 31 December 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 B [2]	15,000,000	0	0	0	15,000,000
Class C [3]	15,000,000	0	0	0	15,000,000
Total	30,000,000	0	0	0	30,000,000

For Further Information Contact;
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This announcement has been authorised for release by Whitney Million, Chief Executive Officer

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. Class A Performance Shares lapsed since issuance.
[2] 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).
[3] Each Class C Performance Share will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, $3,000,000 of cumulative earnings before interest and taxes (EBIT) or $1,000,000 of annual EBIT in any given financial year, within 36 months of the date the Company is admitted to the Official List (Class C Milestone).

+Rule 4.7B

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity	
UUV Aquabotix Limited	
ABN	**Quarter ended ("current quarter")**
52 616 062 072	31 December 2019

Consolidated statement of cash flows		Current quarter $A	Year to date (12 months) $A
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	156,676	320,254
1.2	Payments for*		
	(a) research and development	(14,367)	(97,667)
	(b) product manufacturing and operating costs	(30,298)	(115,359)
	(c) advertising and marketing	(711)	(11,833)
	(d) leased assets	-	-
	(e) staff costs	(242,471)	(1,164,506)
	(f) administration and corporate costs	(193,901)	(1,046,776)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	328	2,101
1.5	Interest and other costs of finance paid	(1,038)	(7,496)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	6,500	6,500
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(319,283)**	**(2,114,793)**

* 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 (12 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	268,000	1,772,877
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	(16,160)	(115,558)
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**	**251,840**	**1,657,319**

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	330,249	704,377
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(319,283)	(2,114,793)

Consolidated statement of cash flows		Current quarter $A	Year to date (12 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)	251,840	1,657,319
4.5	Effect of movement in exchange rates on cash held	(2,552)	13,351
4.6	**Cash and cash equivalents at end of quarter**	**260,254**	**260,254**

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	255,254	325,249
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)**	**260,254**	**330,249**

6.	Payments to directors of the entity and their associates	Current quarter $A
6.1	Aggregate amount of payments to these parties included in item 1.2	14,688
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

In October 2019, the Company issued 30,296,611 Ordinary Shares at a deemed exercise price of $A 0.0059 in lieu of accumulated director fees totalling $A 178,750.

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

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

8.	Financing facilities available *Add notes as necessary for an understanding of the position*	Total facility amount at quarter end $A	Amount drawn at quarter end $A
8.1	Loan facilities	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 current quarter.

9.	Estimated cash outflows for next quarter	$A
9.1	Research and development	15,000
9.2	Product manufacturing and operating costs	25,000
9.3	Advertising and marketing	25,000
9.4	Leased assets	-
9.5	Staff costs	215,000
9.6	Administration and corporate costs	185,000
9.7	Other (provide details if material)	-
9.8	**Total estimated cash outflows**	**465,000**

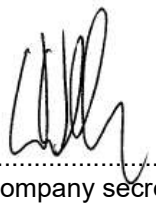
The total estimated cash flows listed in 9.8 above represent the total estimated cash outflow (gross, before any cash receipts, from customers or otherwise) for Q1 2020.

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.



17 January 2020

Sign here: ..... Date: .....

(Company secretary)

Winton Willesee

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.