

# AQUABOTIX

## QUARTERLY REPORT

for the quarter ended  
30 September 2018

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



## QUARTERLY REPORT – FOR THE QUARTER ENDED 30 SEPTEMBER 2018

---

UUV Aquabotix Ltd (ASX:UUV) ("Aquabotix" or the "Company") provides the following update on its activities during the three-month period ended 30 September 2018 and its Appendix 4C quarterly cash flow report for the same period.

The key developments during the quarter included the following.

### New Corporate Strategy

At the end of the first quarter of 2018, the Company appointed Ms. Whitney Million, an experienced defence industry executive, as Chief Executive Officer, and the new management has since restructured the Company's operations in order to better utilise the Company's valuable intellectual property assets and human capital to their full potential.

Key elements of that shift in strategy include the following. Rather than spreading resources thin in the pursuit of multiple verticals, the Company is now focusing on the defence industry for shorter-term wins, due to the anticipated amount of demand in that market. Along with this change, the Company has moved from relationship formation and management through distributor networks to now leveraging the key relationships of the new management team to both support opportunity identification and strategic partnership development. Further, instead of only utilising intellectual property for the purpose of direct manufacturing the Company is actively exploring options for intellectual property exploitation with repeat, non-exclusive out-licensing of the existing vehicle technologies.

Perhaps the most notable shift in Company strategy since the management restructure, however, is the change to primary focus on the SwarmDiver™ product. SwarmDiver™ is a micro-sized swarming and diving autonomous unmanned vehicle developed primarily for use in littoral environments. Multiple SwarmDivers™ can function simultaneously as a single coordinated swarm while being controlled via one operator on the surface.



*Aquabotix's SwarmDiver™ shown in new graphic naval camo design for military use.*

SwarmDivers™ may be deployed above, on, or below the sea surface, from any platform of opportunity. Their highly versatile, reconfigurable, and robust design makes SwarmDiver™ a cost-effective solution for many different applications.

SwarmDivers™ have been successfully demonstrated and have the potential to fill a number of military and other customer needs. Since the Company launched this product in April 2018, potential users have demonstrated substantial interest. Over the quarter, the Company has progressed its discussions with various U.S. and other government agencies and other larger defence companies about the product's application, potential sales, and co-operation.



*Click here to see a swarm of approximately 30 SwarmDivers™ encircling a boat:*  
[https://www.youtube.com/watch?time\\_continue=1&v=pHIhRYusmAA](https://www.youtube.com/watch?time_continue=1&v=pHIhRYusmAA)

With the Company honing its focus on short-term wins involving SwarmDiver™ and on out-licensing the underwater vehicle technology and de-emphasizing the manufacturing and sales of the legacy underwater vehicles this quarter, the Company discontinued the sales of its legacy products and consequently had no cash receipts from customers during the quarter. However, revenue-generating work was performed during the quarter that will result in future cash receipts. Importantly, shortly after the Company announced its strategy changes, the Company delivered on its first tangible win from the new strategy, announcing an award of US\$78,000 in non-dilutive funding from the United States Navy's Naval Undersea Warfare Center ("NUWC") to deliver a solution geared towards unexploded ordnance missions for the United States Navy. Work on this contract was completed in September, and the associated cash was received in October; therefore, this receipt was not reflected in the current appendix 4C.

Following the delivery of the NUWC order, the Company is planning to incorporate this development into its products to support unexploded ordnance detection missions by the United States Navy and allied forces. Aquabotix has already met with several potential customers seeking this capability and has responded to a United States Marine Corps Rapid Capability Office request for information for a concept which would utilise this technology development in an autonomous solution for detecting, analysing, and neutralising explosive ordnance in shallow water and the surf zone.

Adversaries are deploying, and have in years past deployed still-active, persistent and dangerous mines hidden close to shorelines, creating concerns for water-bound countries. These mines make amphibious landings a challenge and create risks for commercial shipping vessels through critically important recognised trade routes, presenting a serious threat to allied nations. More effective methods of handling the detection, classification, and eradication of mines is generally considered an urgent military priority for which Aquabotix appears to be uniquely positioned to satisfy.

Beyond the application of mine countermeasures and explosive ordnance detection and neutralisation, the Company is continuing to pursue additional non-dilutive funding to support other mission-specific product development directly through governmental 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.



*Demonstration for military observers to evaluate SwarmDivers™ in operation.*

#### *Pivoting Towards Defence*

- To that end, in August, Aquabotix conducted a military concept of operations exercise at the Narragansett Bay Test Facility in the United States Naval Undersea Warfare Center Division Newport's Advanced Naval Technology Exercise ("ANTX"). ANTX was created to provide an opportunity to demonstrate future United States Navy technologies in action in the current day, and the focus of ANTX 2018 was "Human Machine Interaction". At this demonstration, the Company conducted an exercise, coordinating efforts between its SwarmDiver™ and Integra™ vehicles for demonstration to a broad range of United States Navy potential customers.
- Aquabotix was invited to participate in the Southeastern New England Defense Industry Alliance's Defense Innovation Days event in August. This event brings together companies developing cutting edge innovations for deployment to deter war and protect the security of the United States along with policy makers who are helping to shape the nation's defence strategy.



*Aquabotix CEO, Whitney Million, discussing capabilities of SwarmDiver with U.S. Assistant Secretary of the Navy for Research, Development & Acquisition, Mr. James "Hondo" Geurts, during SENEDIA's Defense Innovation Days.*

- Aquabotix attended the Defense Innovation Network's launch event in Sydney, Australia in early October. The launch provided an opportunity for a technical research showcase from Aquabotix, where an overview of capabilities of the SwarmDiver™ system was presented to an audience including large defence companies and government attendees.
- Aquabotix applied for and was recently granted its Federal Explosives License ("License") through the United States Bureau of Alcohol, Tobacco, Firearms, and Explosives. This License will enable the Company to conduct activities related to the development and manufacturing of unmanned underwater and surface vehicles with explosive capabilities. It is anticipated that expanding the Company's offerings to cover the neutralisation and disablement of targets in addition to their detection will open up a wider range of uses, contracts, and customers. Obtaining the License, along with the previously announced establishment of offices at U.S. Army's Radford Army Ammunition Plant, are key steps in progressing towards that goal.

### **Strengthening Customer and Partner Relationships**

- Aquabotix has continued to strengthen its partner relationships, following on from last quarter's joining the South Eastern New England Defense Industry Alliance ("SENEDIA") and the Innovative Undersea Prototype Development Consortium ("iUPDC").
- The Company was accepted as a member of the Undersea Technology Innovation Consortium ("UTIC"), a consortium focused on bringing together industry and government for collaboration and rapid development, prototyping, testing, and commercialization of innovative undersea and maritime technologies. Aquabotix was approved to join UTIC because of its proven ability to contribute technological advancement to support the defence and security of the United States and other allied nations.
- Aquabotix was accepted as a member of the Information Warfare Research Project consortium ("IWRP"), a consortium focused on advancing information warfare capabilities to enhance the United States Navy and United States Marine Corps



mission effectiveness. The Company was approved to join IWRP as a demonstrated technology leader with competencies in autonomy, assured communications, and battlespace awareness.

- As members of these consortia, Aquabotix is gaining access to the US Space and Naval Warfare ("SPAWAR") Systems Command and the Naval Undersea Warfare Center's Other Transaction Authority ("OTA") agreements. OTAs are contracting vehicles that provide for accelerated acquisitions and more commercial terms than traditional contracting routes with the United States Government. It is anticipated that participation in these consortia will provide access to key partners and customers while enabling rapid research and prototyping using non-dilutive funding options under the OTAs. Aquabotix has submitted proposals for OTA project funding and is awaiting Government response at this time.

## Market Updates

A series of recent developments in the military and security sector demonstrates a demand for innovative naval technologies, such as SwarmDiver™, and an increased focus from key military customers on the streamlining and shortening of acquisition processes for those technologies in development.

- In September, the U.S. Marine Corps Rapid Capability Office issued a request for information seeking autonomous and artificial intelligence technology to "increase Marines' ability to detect, analyze, and neutralize Explosive Ordnance ("EO") in shallow water and the surf zone."
- In August, at SENEDIA's Defense Innovation Days, the Assistant Secretary of the Navy Research, Development & Acquisition, Mr. James "Hondo" Geurts spoke about the Navy's increased focus on agility, citing the use of Other Transaction Agreements and collaborative research agreements as examples of ways the government intends to speed its acquisition processes and progress technology development under its new strategy.
- Also at the Defense Innovation Days event, Vice Admiral William Merz, U.S. Navy Deputy Chief of Naval Operations for Warfare Systems, addressed measures being taken to increase the speed of acquisition for urgent, out-of-cycle requirements to support the warfighter, including increased funding allocations for the Navy's rapid prototyping programs to field capabilities quickly.
- 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.

## Corporate Changes

- During the quarter, Mr. Durval Tavares, a non-executive Director and founder of the Company, stepped down from his board duties.

## Financial Summary

- As at 30 September 2018, Aquabotix had a cash balance of \$1,062,404 as outlined in the accompanying Appendix 4C. At the beginning of the quarter, on 18 July 2018, Aquabotix announced it had received commitments for an investment of \$1,250,000 through a placement of 25,000,000 ordinary fully paid shares (of which \$1,000,000 was received on 18 July 2018, and the balance is expected to be received following receipt of shareholder approval which will be sought in an upcoming extraordinary general meeting). The already received portion of these funds are reflected in the accompanying Appendix 4C.
- Cash burn has been considerably reduced since the management restructure following the first quarter of this fiscal year. This is a direct result of the new strategy implementation of increased focus in development and marketing SwarmDiver™ for defence.

## Performance Shares

As at 30 September 2018, 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 | Performance Shares issued during the period | Performance Shares converted to UUV shares during the period | Performance Shares cancelled during the period | Performance Shares on issue at end of period |
|----------------------|--|---|--|--|--|
|                      | (A)  | (B) <sup>1</sup>                            | (C)  | (D)  | (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                                   |

<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).

**Further Information**

Whitney Million – Chief Executive

Email: [investors@aquabotix.com](mailto:investors@aquabotix.com)

Tel: +1 508 306 9503

**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.



## 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 2018

| Consolidated statement of cash flows                      | Current quarter<br>\$A | Year to date<br>(9 months)<br>\$A |
|---|------------------------|-----------------------------------|
| <b>1. Cash flows from operating activities</b>            |                        |                                   |
| 1.1 Receipts from customers                               | -                      | 207,413                           |
| 1.2 Payments for*   |                        |                                   |
| (a) research and development                              | (10,057)               | (249,445)                         |
| (b) product manufacturing and operating costs             | (18,792)               | (444,032)                         |
| (c) advertising and marketing                             | (15,137)               | (169,712)                         |
| (d) leased assets   | -                      | -                                 |
| (e) staff costs   | (546,235)              | (2,024,483)                       |
| (f) administration and corporate costs                    | (195,824)              | (1,219,633)                       |
| 1.3 Dividends received (see note 3)                       | -                      | -                                 |
| 1.4 Interest received                                     | 1,509                  | 14,244                            |
| 1.5 Interest and other costs of finance paid              | -                      | -                                 |
| 1.6 Income taxes paid                                     | -                      | -                                 |
| 1.7 Government grants and tax incentives                  | 1,714                  | 3,714                             |
| 1.8 Other (provide details if material)                   | -                      | -                                 |
| <b>1.9 Net cash from / (used in) operating activities</b> | <b>(784,536)</b>       | <b>(3,881,934)</b>                |

\* Included within payments for staff costs and administration and corporate costs are certain labour, demonstration, and travel costs associated with internal research and development and advertising and marketing.

# AQUABOTIX

| Consolidated statement of cash flows |   | Current quarter<br>\$A | Year to date<br>(9 months)<br>\$A |
|--------------------------------------|---|------------------------|-----------------------------------|
| <b>2.</b>                            | <b>Cash flows from investing activities</b>           |                        |                                   |
| 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)                   | -                      | -                                 |
| <b>2.6</b>                           | <b>Net cash from / (used in) investing activities</b> | -                      | -                                 |

|             |   |                  |                  |
|-------------|---|------------------|------------------|
| <b>3.</b>   | <b>Cash flows from financing activities</b>                                 |                  |                  |
| 3.1         | Proceeds from issues of shares  | 1,000,000        | 1,000,000        |
| 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  | -                | -                |
| 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>1,000,000</b> | <b>1,000,000</b> |

# AQUABOTIX

| Consolidated statement of cash flows |  | Current quarter<br>\$A | Year to date<br>(9 months)<br>\$A |
|--------------------------------------|--|------------------------|-----------------------------------|
| <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               | 861,072                | 3,887,828                         |
| 4.2                                  | Net cash from / (used in) operating activities (item 1.9 above)              | (784,536)              | (3,881,934)                       |
| 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)             | 1,000,000              | 1,000,000                         |
| 4.5                                  | Effect of movement in exchange rates on cash held                            | (14,132)               | 56,510                            |
| <b>4.6</b>                           | <b>Cash and cash equivalents at end of quarter</b>                           | <b>1,062,404</b>       | <b>1,062,404</b>                  |

|            |   |                        |                         |
|------------|---|------------------------|-------------------------|
| <b>5.</b>  | <b>Reconciliation of cash and cash equivalents</b><br>at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter<br>\$A | Previous quarter<br>\$A |
| 5.1        | Bank balances   | 912,404                | 711,072                 |
| 5.2        | Call deposits   | 150,000                | 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>1,062,404</b>       | <b>861,072</b>          |

|     |  |                        |
|-----|--|------------------------|
| 6.  | Payments to directors of the entity and their associates   | Current quarter<br>\$A |
| 6.1 | Aggregate amount of payments to these parties included in item 1.2                                   | 68,305                 |
| 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 |                        |
|     |  |                        |

# AQUABOTIX

## 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

-

-

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.

|  |
|--|
|  |
|--|

## 9. Estimated cash outflows for next quarter

\$A

9.1 Research and development

38,800

9.2 Product manufacturing and operating costs

35,000

9.3 Advertising and marketing

15,500

9.4 Leased assets

-

9.5 Staff costs

495,000

9.6 Administration and corporate costs

290,000

9.7 Other (provide details if material)

-

**9.8 Total estimated cash outflows**

**864,300**

# A Q U A B O T I X

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

## Compliance statement

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

Sign here:  .....  
(Director/Company secretary)

Date: ..26.October.2018.....

Print name: ..Anand Sundaraj.....

## Notes

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