

AQUABOTIX

QUARTERLY REPORT

for the quarter ended
31 December 2018

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



QUARTERLY REPORT – FOR THE QUARTER ENDED 31 DECEMBER 2018

UUV Aquabotix Ltd (ASX:UUV) (“Aquabotix” or the “Company”) provides the following update on its activities during the three-month period ended 31 December 2018 and its Appendix 4C quarterly cash flow report for the same period.

Key Developments

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

U.S. Navy-Funded Contracts

The Company has narrowed its focus to specifically target defence customers, including both governments and large defence companies over the past quarter, making a fundamental adjustment to move from a technology-led product development plan to one based on customer requirements and end-user need with a specific focus on usability in challenging concepts of operations. This change has enabled the Company to seek non-dilutive funding from customers to support its innovation efforts. In just the seven months following the Company’s stated intention to focus its efforts in this manner, Aquabotix has secured two United States Navy funded contracts for continued development of SwarmDiver™.

Specifically, 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 contract. 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.

Adversaries are deploying, and have in the 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 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.

The Company is working on enabling unexploded ordnance detection missions by the United States Navy and allied forces, and this second Navy-funded contract follows the Company’s delivery of its solution geared toward unexploded ordnance missions for the United States Navy during the quarter. That solution was previously (in June 2018) funded by the United States Navy’s Naval Undersea Warfare Center (“NUWC”) in the amount of US\$78,000 – that was the Company’s first United States Navy-funded contract.

Aquabotix has 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 product which would utilize this technology development in an autonomous solution for detecting, analysing, and neutralizing explosive ordnance in shallow water and the surf zone.

To support possible operations involving neutralisation of explosive ordnance (as well as other, more offensive, uses of the Company's products), Aquabotix applied for and was granted its Federal Explosives 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 manufacture 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.

While the two initial contracts described above are small, they have established the Company as a trusted provider to the United States military, proven the Company's credibility to a range of domestic and international customers, and positioned the Company well to receive further governmental funding. 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 with customer advocacy and buy in achieved at early stages. Aquabotix is continuing to pursue additional non-dilutive funding to support other mission-specific product development directly through 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.

With the Company continuing to hone its focus on short-term wins involving SwarmDiver™ and de-emphasizing the manufacturing and sales of the legacy underwater vehicles this quarter, the Company discontinued the sales of its legacy products. The Company's customer cash receipts consisted of sales from customer-funded development efforts of \$93,256, with an expectation of cash from additional customer-funded projects in the first quarter of calendar year 2019.

Thales MOU

Aquabotix has made considerable progress in moving out of its traditional distributor framework and developing cooperative and teaming relationships with governmental customers and larger defence companies to meet specific end-user challenges.

In December 2018, the Company announced it had signed 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.

With 65,000 employees in 56 countries, reported sales of €15.8 billion in 2017, and a 30-year history of developing advanced mine countermeasure systems for both the Royal Australian Navy and for export, Thales is an ideal partner for Aquabotix to co-operate with in this domain.

This announcement came only seven months after the Company's stated intent to approach the market in a direct capacity, a quick and substantial win for Aquabotix as it validates the Company's unique positioning in the underwater robotics domain.

Other Business Development Progress

In August 2018, Aquabotix conducted a military concept of operations exercise at the Narragansett Bay Test Facility during 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. 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's SwarmDivers in swarm formation approaching Aquabotix's Integra during ANTX 2018 exercise.

Following the successful 2018 exercise, the Company submitted three proposals for consideration to be included in the 2019 ANTX events. Despite the Navy being highly selective in its admission of participants for 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.



Members of the Aquabotix team discussing concepts of operations and key features of its SwarmDiver vehicle system with U.S. Navy personnel during ANTX 2018 events.

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

Aquabotix is attending, presenting at, and demonstrating in various public and private defence arenas, globally. In early October, Aquabotix attended the Defence Innovation Network's launch event in Sydney, Australia. 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. There are a range of events planned for 2019 as well, and the Company will update the market accordingly as appropriate.

Expanding the SwarmDiver Family of Vehicles

SwarmDivers™ are micro-sized swarming and diving autonomous unmanned vehicles 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.



Click here to see a swarm of approximately 30 SwarmDivers™ encircling a boat:
<https://vimeo.com/309669985>

On 29 November 2018, the Company announced the launch of three new products in the SwarmDiver™ family of vehicles: SwarmDiver STEALTH™, SwarmDiver EDGE™, and SwarmDiver NIGHTLINE™. These three products are tailored for specific defence and commercial applications and expand the use cases for the SwarmDiver™ family of products.

SwarmDiver STEALTH™ is intended for use in covert defence operations. This line of vehicles features a ruggedized exterior coating over a special graphic camouflage paint, a low-noise emitting motor, and no visible vehicle status lights to deliver a stealthy mission capability for SwarmDiver STEALTH™ to transit through littoral, harbor, and other challenging zones where avoidance of adversary detection is critical.



SwarmDiver STEALTH™ with specialty paint and ruggedized exterior.

Aquabotix created the STEALTH model to address military end-user and large defence company demand for a highly effective means of covertly collecting intelligence and transferring data in littoral environments where enemies are continuously monitoring activity through the use of acoustic sensors, electromagnetic spectrum monitoring, and visual detection.

SwarmDiver NIGHTLINE™ features the same key characteristics as the STEALTH line, and also has a ultraviolet (UV) coating to make nighttime recovery of the vehicles easier. The UV coating is invisible to the naked eye, but can be detected at night or in low light environments when illuminated by the right wavelength UV light source.

Aquabotix created this variant specifically with special forces use in mind.

SwarmDiver EDGE™ has applications in governmental, defence, and commercial domains. This line of vehicles is equipped with high intensity lights to create a visual boundary and act as a first line deterrent along a shore line, around a vessel or docking area, or near any other item of interest. Aquabotix created the EDGE line of vehicles to respond to threats of piracy, militant, or other disruptions to commercial and governmental activities.

Expanding its offerings enables the Company to solve customer challenges that were, to date, difficult to manage and in some cases unsolvable.

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.

Markets and Markets, an independent research firm forecast the relevant market sizes as follows:

- The unmanned underwater vehicles market is projected to reach US\$5.2 billion by 2022;
- The swarm intelligence market was estimated to grow to US\$450 million by 2030, at a CAGR of 40% from 2020 to 2030; and
- The broader artificial intelligence market to be worth US\$190 billion by 2025.

Among other things:

- In November 2018, Major General David Coffman, Director of Expeditionary Warfare for the U.S. Navy stated that the Navy is focusing on developing sensors and effects that are applicable to mine warfare that can be mixed and matched with various manned or unmanned offboard vehicles, rather than relying so heavily on littoral combat ships for these missions.
- In October 2018, the US Naval Sea Systems Command received the Pentagon's approval to develop a mine countermeasure unmanned surface vehicle as part of the Navy's ongoing effort to replace its aging mine countermeasure infrastructure. The goal is to create a platform that can accommodate several different modular systems for mine hunting, mine sweeping, and mine neutralisation, officials stated.
- In September 2018, 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 2018, at SENEDIA's Defense Innovation Days, the Assistant Secretary of the U.S. 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.



Financial Summary

- As at 31 December, Aquabotix had a cash balance of \$704,377 as outlined in the accompanying Appendix 4C. 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). The balance of these shares were issued (and the corresponding \$250,000 in additional capital was received) in December 2018, following shareholders' approval that same month. These funds are reflected in the accompanying Appendix 4C.
- Cash outflows have been considerably reduced since the management restructure following the first quarter of this fiscal year. 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 \$784,536 for the 30 September 2018 quarter. The 31 December 2018 quarter saw a further reduction in cash used in operations, from \$784,536 for the preceding quarter, to \$576,431 for the most recent completed quarter.

- At the same time, while the Company's cash inflows from customers for the quarter were modest, at \$93,256, there is real progress in cash inflows, compared to there being virtually no cash receipts from customers for the two prior quarters, while the Company was implementing its strategy shift.

Performance Shares

As at 31 December 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) ¹	(C)	(D)	(A)+(B)-(C)-(D)
Class A ²	0	15,000,000	0	0	15,000,000
Class B ³	0	15,000,000	0	0	15,000,000
Class C ⁴	0	15,000,000	0	0	15,000,000
Total	0	45,000,000	0	0	45,000,000

Further Information

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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 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")

31 December 2018

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	93,256	300,669
1.2 Payments for*		
(a) research and development	(5,158)	(254,604)
(b) product manufacturing and operating costs	(18,266)	(462,297)
(c) advertising and marketing	(7,208)	(176,920)
(d) leased assets	-	-
(e) staff costs	(463,939)	(2,488,422)
(f) administration and corporate costs	(176,576)	(1,374,786)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1,460	15,720
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	3,714
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(576,431)	(4,436,926)

* 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	(17,807)	(39,246)	
(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	(17,807)	(39,246)	

3. Cash flows from financing activities			
3.1 Proceeds from issues of shares	250,000	1,250,000	
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)	-	-	
3.10 Net cash from / (used in) financing activities	250,000	1,250,000	

Consolidated statement of cash flows		Current quarter \$A	Year to date (12 months) \$A
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	1,062,404	3,887,828
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(576,431)	(4,436,926)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(17,807)	(39,246)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	250,000	1,250,000
4.5	Effect of movement in exchange rates on cash held	(13,789)	42,721
4.6	Cash and cash equivalents at end of quarter	704,377	704,377

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	554,377	912,404
5.2	Call deposits	150,000	150,000
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)	704,377	1,062,404

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	13,883
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	

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

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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.

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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

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: 31 January 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.