

# AQUABOTIX

QUARTERLY

**REPORT**

for the quarter ended  
30 June 2019

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



## Quarterly Report - For the Quarter Ended 30 June 2019

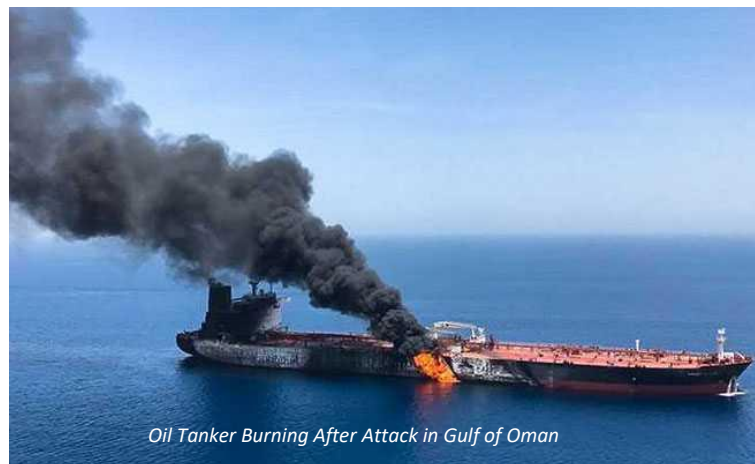
---

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

### Key Developments

During the quarter, a series of attacks on maritime assets in the Middle East region spurred an increase in spending related to implementation of enhanced security measures for commercial shipping vessels. The United States deployed additional forces in the Middle East amid tensions with Iran, and India deployed warships in the Gulf of Oman and Persian Gulf to provide protection for shipping vessels in the region. In addition to government-provided support, shipping companies turned to private maritime security companies to increase guards on their ships. John Thompson, co-founder of one such maritime security company, Ambrey based in the UK, is reported to have indicated that he expects the number of security guards deployed on vessels to increase by approximately 25% from previous levels based on the number of inquiries he received following those attacks<sup>1</sup>.

Aquabotix’s recently launched SwarmDiver EDGE™ product line was especially designed to enhance commercial and military security measures for vessels travelling through or taking harbour in potentially dangerous waterways. SwarmDiver EDGE™ can be used to alert for threats like manned and unmanned vehicles, including militarised vehicles and hobby drones with explosives, or swimmers planting improvised



explosive devices. This system creates a visual boundary to act as a first line deterrent protecting areas of interest. This capability can be used to ensure the security of vessels and other targets of interest to opposing forces in ports or through geographical bottlenecks, like those where attacks have been so prevalent in the Middle East.

The increased focus on security for maritime transport by governments around the world and commercial maritime industry participants may result in an acceleration of implementing autonomous security measures. Aquabotix’s offerings fit squarely into this newly emphasised demand, making them a powerful supplementary tool to traditional security guard services. The SwarmDiver EDGE™ system was demonstrated in Abu Dhabi, UAE, earlier this year at the region’s leading naval defence and maritime security exhibition (NAVDEX) and in private settings for select customers. The system was well received by government and commercial end-users alike, and it was

---

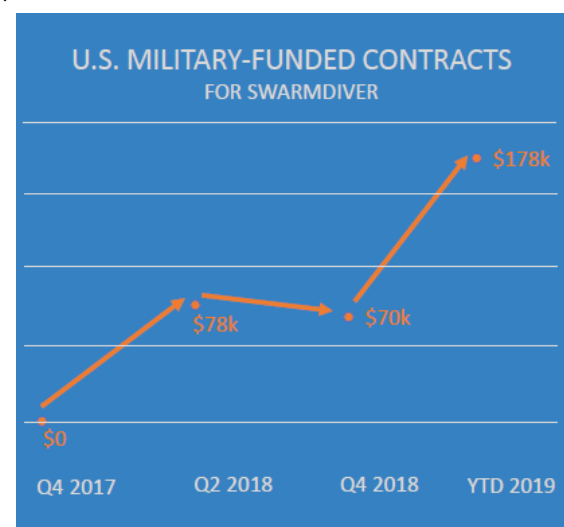
<sup>1</sup> See <https://www.ozy.com/fast-forward/the-good-news-from-the-iran-tensions-a-booming-trade-in-maritime-security/95120> for additional information.

generally acknowledged that Aquabotix is one of few companies offering commercially-available autonomous security measures and micro-sized unmanned underwater vehicles that has demonstrable and proven product ready for in-field use rather than ‘vaporware’ concepts. Aquabotix is actively working with a range of potential government customers, particularly those in closest proximity to these recent attacks, on additional contracts, and expects that the recent events may accelerate the timing of these further.



In addition to the actively pursuing opportunities related to the current maritime events, Aquabotix has continued to make advancements with its core SwarmDiver™ offerings for other defence purposes. During the quarter, Aquabotix was awarded its third and fourth contracts funded by the United States Armed Forces in relation to the SwarmDiver™ family of vehicles since the product’s launch in April 2018. Both orders include small volume hardware sales through which the United States Military intends to conduct necessary evaluation activities to consider operational use of the product in theatre.

These awards are significant for several reasons. First, the awards demonstrate a now solid trend of acquisition activity by the United States Military branches. These trends are oftentimes followed by other nation’s navies as products become qualified for use. Additionally, the value of the awards is increasing over time, with the fourth award being approximately double the value of the first award a year ago. While contract values for providing this type of hardware and services support for evaluation activities are generally small, they represent the building of momentum through meaningful and necessary steps to progress commercially developed products to a state of full operational use.



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

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

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

In many cases, U.S. Military funding is awarded in progressive stages with smaller initial investments in development in the beginning, followed by more substantial awards for concept prove out and commercialisation stages. Cooperative development with governmental agencies provides a potential path to large quantity unit sales through early stage customer advocacy and buy in.

Additionally, as the U.S. Armed Forces evaluate and qualify product for use in theatre, it is not uncommon for other global militaries to follow their technology implementation plans. Allied forces oftentimes elect to maintain interoperability of platforms, and governmental users without available budget for



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

rigorous testing may look to the implementation of technology by the U.S. Military to inform their procurement decisions. For these reasons, having a qualified product for operational use would support the case for wide-spread adoption of Aquabotix's technologies in the maritime defence and security industries.

Following on from the April 2019 order to support test and evaluation activities, Aquabotix announced in May 2019 its fourth award related to SwarmDiver™ to support the U.S. Military. This approximately US\$150,000 contract for the purchase of a SwarmDiver system along with training and test support enables continuation of necessary government evaluation activities for the Military's consideration of the operational use of the product in theatre.

While these order values are small, the Company is clearly realising some critical initial successes in the marketing and sales of its SwarmDiver™ system and related developments. The Company's customer cash receipts over the quarter, totalling \$136,471, were modest but represented a significant increase since the 2018 announced shift in strategy to focus on defence industry and sales of the SwarmDiver™ family of vehicles. The successful delivery of development contracts and receipt of additional awards leave the Company anticipating potential future, more sizeable orders from both the United States and other navies.

### ***ManTech Teaming Agreement***

In May, Aquabotix announced that it had signed a teaming agreement with a joint venture of ManTech International Corporation (NASDAQ:MANT) for pursuit of United States Government funds under a current Government requirement related to Department of Defense systems.

ManTech bring more than 50 years of experience in advanced technological solutions and services for U.S. defence, intelligence community, and federal civilian agencies along with domain expertise and a solid reputation for this intended collaborative offering.

This announcement represents the second such announcement on strategic collaboration with a major defence prime contractor in the year following the Company's strategy shift to towards the defence market. Through teaming, the Company may gain access to larger value prime contracts unattainable by a small company such as Aquabotix standing alone.

## **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 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.
- The International Chamber of Commerce's IMB Piracy Reporting Centre recorded 78 incidents of piracy and armed robbery against ships in the first half of 2019, with the vast majority of incidents involving kidnapping or hostage-taking occurring in the Gulf of Guinea.
- In June and July 2019, a string of attacks on commercial shipping vessels took place in the Middle East. These attacks centred around oil tankers travelling 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.
- Oil Tanker attacks spurred an increase in maritime security spending in June and July 2019.
- The 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.
- In April 2019, the UK Defence Secretary, Gavin Williamson, announced that the government will provide a £75 million fund for the Royal Navy to develop more lethal and autonomous technologies. The Navy will use the investment for mine hunting drones and autonomous vessels designed to find and destroy mines.
- The UK government is also funding a major military-industrial technology accelerator hub, focused on the development of technologies to maximise the lethality and autonomy of robotic weapons, such as unmanned underwater vehicles, for use at sea.
- In April 2019, the US Navy funded an additional US\$46.7 million contract modification for Boeing to build an Orca undersea drone, bringing the firm's total contract value for these builds to US\$274.4 million. This demonstrates the Navy's willingness to make significant

expenditures on unmanned underwater vehicle technologies.

- The US Department of Defence is seeking sharp spending increases to its autonomous weapons programs, according to the fiscal year 2020 budget request submitted to Congress in March 2019.
- The US Pentagon 2020 budget request asks for a nearly tenfold increase to the Navy's spending on large unmanned surface vehicles, and the Army aims to boot robotics development from US\$74 to US\$115 million at the same time.
- The UK Ministry of Defence has launched a £2.5 million competition to attract industry proposals capable of delivering a fully autonomous system of the size and capability of current manned platforms.

### **Financial Summary**

- As at 30 June, Aquabotix had a cash and cash equivalents balance of \$408,826 as outlined in the accompanying Appendix 4C.
- On 23 April 2019, Aquabotix announced a pro rata renounceable entitlements offer of one (1) fully paid ordinary share in the capital of the Company for every one (1) share held by eligible shareholders. The Company raised a total of \$531,313 through this activity. The shares subscribed for by eligible shareholders were issued in May 2019 and the cash receipts related to these funds were received the same month. The shortfall shares related to this offer were fully subscribed for and issued in the month of June 2019, raising an additional \$433,500. In total, this activity raised \$964,813.
- On 25 March 2019, the Company announced it had entered into a non-convertible unsecured credit facility agreement in order to secure additional working capital should it be needed. The facility was repaid immediately following the closure of the above-described entitlements offer. The interest associated with that credit facility is reflected 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 from \$1,707,692 for the 30 June 2018 quarter to \$696,639 for the 30 June 2019 quarter.
- The Company has conducted a review of its cost base, and following that review is undertaking a number of measures to further reduce cash burn relative to the current quarter's burn.
- At the same time, while the Company's cash inflows from customers since the Company's announced shift in strategy have been modest, the most recent quarter's inflow at \$136,471 represents a positive trend upwards.

- Recognizing the need to raise additional capital, the Company announced in early July that it had received commitments from existing and new sophisticated and professional investors to raise approximately \$450,000 via an oversubscribed placement of new fully paid ordinary shares.

## Performance Shares

As at 30 June 2019, 30,000,000 Performance Shares are on issue. No performance share vesting or conversion milestones were met during the period. All Class A shares lapsed during the period.

	Performance shares on issue at start of period  (A) <sup>2</sup>	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 <sup>3</sup>	15,000,000	0	0	15,000,000	0
Class B <sup>4</sup>	15,000,000	0	0	0	15,000,000
Class C <sup>5</sup>	15,000,000	0	0	0	15,000,000
Total	45,000,000	0	0	15,000,000	30,000,000

## Further Information

Whitney Million – Chief Executive Director

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.

---

<sup>2</sup> Performance Shares were issued to all pre-IPO shareholders.

<sup>3</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>4</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>5</sup> Each Class C Performance Share will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, \$3,000,000 of cumulative earnings before interest and taxes (EBIT) or \$1,000,000 of annual EBIT in any given financial year, within 36 months of the date the Company is admitted to the Official List (Class C Milestone).





## Appendix 4C

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

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

## Name of entity

UUV Aquabotix Limited

## ABN

52 616 062 072

## Quarter ended ("current quarter")

30 June 2019

Consolidated statement of cash flows	Current quarter \$A	Year to date (6 months) \$A
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	136,471	163,569
1.2 Payments for*		
(a) research and development	(50,030)	(70,100)
(b) product manufacturing and operating costs	(4,965)	(10,161)
(c) advertising and marketing	(10,498)	(11,072)
(d) leased assets	-	-
(e) staff costs	(238,136)	(721,961)
(f) administration and corporate costs	(424,598)	(636,902)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	538	1,289
1.5 Interest and other costs of finance paid	(5,420)	(5,420)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(596,639)</b>	<b>(1,290,756)</b>

\* 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.

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A</b>	<b>Year to date (6 months) \$A</b>
<b>2. Cash flows from investing activities</b>			
2.1 Payments to acquire:			
(a) property, plant and equipment	-	-	-
(b) businesses (see item 10)	-	-	-
(c) investments	-	-	-
(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 Net cash from / (used in) investing activities</b>	-	-	-

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	1,048,877	1,048,877
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	(61,700)	(61,700)
3.5 Proceeds from borrowings	-	200,000
3.6 Repayment of borrowings	(200,000)	(200,000)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>787,177</b>	<b>987,177</b>

<b>4. 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	211,116	704,377
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(596,639)	(1,290,756)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A</b>	<b>Year to date (6 months) \$A</b>
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)	787,177	987,177
4.5	Effect of movement in exchange rates on cash held	7,176	8,028
4.6	<b>Cash and cash equivalents at end of quarter</b>	<b>408,826</b>	<b>408,826</b>

<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A</b>	<b>Previous quarter \$A</b>
5.1 Bank balances	403,826	206,116
5.2 Call deposits	5,000	5,000
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 <b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>408,826</b>	<b>211,116</b>

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

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

<b>Current quarter \$A</b>
38,033
-

**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

<b>Current quarter \$A</b>
204,035
-

The Company entered into a credit facility agreement with its shareholder Long Hill Capital II LLC. The Company elected to put the facility in place in order to provide it with additional working capital. This loan was repaid following the closure on an entitlements offer through which the Company raised funds.

**8. Financing facilities available**

*Add notes as necessary for an understanding of the position*

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

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.

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

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 was drawn down and repaid in the quarter.

**9. Estimated cash outflows for next quarter****\$A**

9.1 Research and development

75,000

9.2 Product manufacturing and operating costs

50,000

9.3 Advertising and marketing

50,000

9.4 Leased assets

-

9.5 Staff costs

240,000

9.6 Administration and corporate costs

200,000

9.7 Other (provide details if material)

-

**9.8 Total estimated cash outflows**

**515,000****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.

Sign here:  .....

(Company secretary)

Winton Willesee

29 July 2019

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.