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AQUABOTIX

KEEPING THE OPERATOR OUT OF HARM'S WAY

QUARTERLY REPORT

FOR THE PERIOD ENDED SEPTEMBER 30, 2020

UUV AQUABOTIX LIMITED | ASX:UUV
AUSTRALIA | RHODE ISLAND & VIRGINIA, USA

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Quarterly Report - For the Quarter Ended 30 September 2020

UUV Aquabotix Ltd (ASX:UUV) ("Aquabotix" or the "Company") provides the following update on its activities during the three-month period ended 30 September 2020 and its Appendix 4C quarterly cash flow report for the same period.

Key Highlights

- **Aquabotix raised A$1,000,000 through a partially underwritten pro-rata renounceable Rights Issue in July 2020.**
- **The Company is delivering hardware and services for orders accepted in 2019 and 2020.**
- **Aquabotix continues to secure cash for operations through non-dilutive customer orders, government grants, and tax incentives in addition to other financing activities.**

Funds Raised Through Rights Issue

On 24 June 2020, the Company announced a partially underwritten pro-rata renounceable rights issue to raise up to approximately A$1,583,823, with eligible shareholders entitled to two (2) new shares at an issue price of $0.001 each for every one (1) share held at the record date, together with one (1) free attaching listed option for every three (3) shares subscribed for under the offering. The options are exercisable at $0.001 and will expire on 28 July 2023. The rights issue was partially underwritten by Canaccord Genuity (Australia) Limited to an amount of A$1,000,000.

The Company received acceptances for 309,524,392 shares and applications for shortfall from existing shareholders for 196,027,696 shares, raising A$505,552, with the balance of the underwritten portion subscribed through the underwriter.

Successful Deliveries in the Quarter

Aquabotix has realised growth in customer cash receipts for fiscal year 2020. So far this year, the Company has achieved A$430,419 in receipts from customers. This increase in receipts exceeds those of the entire 2019 fiscal year where total revenue of A$322,166 was reported.

Aquabotix successfully delivered a SwarmDiver™ system and associated services to the United States Army over the quarter as part of an approximately A$77,000 contract, marking a significant and important milestone for the Company as it expands its customer base. The customer cash receipts for this order are anticipated to be collected in the fourth quarter of this year, slightly lagging behind the costs of goods sold. Additionally, the contract has options totalling an additional approximate A$162,000 that may be exercised over the next two years.

Furthermore, during the quarter, Aquabotix accepted awards from the United States Geological Survey agency and a follow-on contract from the United States Army, valued at US$40,950 and US$10,000 (approximately A$57,700 and A$14,100) respectively. The Company anticipates completion of deliveries under those contracts and receipt of cash from those customers both within Q4 2020.

The last released quarterly cash report noted that Aquabotix had successfully completed delivery of

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the first contractual milestone of an Asian military agency order valued in total at approximately A$520,000. This order represents the first military and international order of the SwarmDiver EDGE™ system, and this is the largest order executed so far in Aquabotix's short history. The customer receipt related to completion of the first milestone was received during the second quarter as well, resulting in record receipts for the Company over that quarter. There were lagging expenses for costs of goods sold in that transaction that were not recognised until Q3 2020, which have resulted in exceptionally high product manufacturing and operating costs in this period. The timing for delivery of the remaining milestones is currently uncertain as completion requires international travel with applicable restrictions related to COVID-19, and the Company is coordinating activities closely with its customer through this time of uncertainty.

In April 2020, Aquabotix announced its receipt of an approximately A$110,000 order from the University of Southern Mississippi to support the school's Unmanned Maritime Systems Program. Under this contract, Aquabotix will deliver a SwarmDiver™ system and related services over the 2020 calendar year. This award demonstrates continued growth in the Company's order book as well as a marked expansion from defence customers as primary first adopters of the Company's product and into commercial and research arenas, which have the potential to be key customers for Aquabotix in the future. Over the quarter ended 30 September 2020, Aquabotix has progressed its second contractual milestone, and it is anticipated that event will be completed and invoiced for during the fourth quarter of this year.



SwarmDiver™ for near shore and shallow water synoptic data gathering.

Non-Dilutive Customer Awards, Government Grants, and Tax Incentives

During the three-month period ended 30 September 2020, Aquabotix received Research and

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Development Tax Incentives to offset costs spent on eligible research and development activities in Australia over the last income year.

Also, earlier in the year, Aquabotix's US-based subsidiary, Aquabotix Technology Corporation (ATC), received approval for a non-dilutive loan under the United States Government's Paycheck Protection Program (PPP) in an amount equating to approximately A$120,000. The PPP is a disaster relief program in the United States providing loans to small businesses for the purposes of paying for payroll, rent, and utilities. These small business loans have a loan forgiveness feature that may enable the foregoing of repayment on a portion of the loan amount.

Maintaining Reduced Cash Outflows

While customer receipts have grown, the Company has remained committed to managing its cash outflows. This quarter marked increased total cash outflow, attributable primarily to product manufacturing and operating costs that lagged behind the receipts collected in Q2 2020 and attorney's fees related to an ongoing legal dispute as previously announced by the Company. Aquabotix has focused on reducing cost in a sustainable manner through increased focus and specialisation of offerings. Since the strategic shift announced in 2018, there has been a reduction in staffing costs, along with reduced facility footprints and other labour overheads, enabled by strategic use of non-dilutive governmental customer funding for innovation, industry partnerships, and the employment of contractors and contract manufacturers on an as-needed basis. As a result, the Company can operate with lower cost while maintaining agility and scalability as value propositions for its customers. In addition, two Board members agreed to alternative compensation for the period, relieving the Company of a portion of its cash obligations. A third Board member was paid in cash only, as reflected in the Appendix 4C that follows.

Notwithstanding the above, the Company continues to operate with negative cash outflows. Investors should be aware that negative cashflows cannot be sustained indefinitely. The Board and management have recently been undertaking a fresh review of the Company's assets and operations with a view to determining the best structure for its future operations. Whilst no decisions have been made to date the outcome of the review may result in changes to, or the discontinuation of, some or all of its current operations and changes to its Board and management structure.

Market Developments

There is a continued recognition of the need for unmanned underwater vehicles to address threats and challenges regularly demonstrated in developing global events. There is news flow that suggests adoption of such systems is accelerating and that governments and other end-users are seeking ways to implement man-machine teaming techniques, such as the kind offered by the Company.

In this regard, among other things:

- This month, Italian defence contractor Leonardo says that it has conducted a successful demonstration in cooperation with the U.K. Royal Air Force of an autonomous swarm of unmanned aircraft carrying variants of expendable active decoys as electronic warfare payload.
- Also, this month, a tanker has reportedly been damaged by a mine while taking on crude outside the Yemeni port of Bir Ali, significantly damaging the tanker and resulting in an oil spill.

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- ECA Group reported in September that it has been awarded a contract worth more than 20 million euros for the modernization of three mine countermeasures vessels belonging to the Latvian Naval Forces and equipped with conventional mine countermeasures.
- In September, it was reported that Russia used drone swarms for the first time in a military exercise.
- Chief of Naval Operations Adm. Michael Gilday told Defense News in a July 2020 interview that he has ordered his staff to develop a comprehensive strategy to field unmanned systems in the air, on the water, and under the sea in the coming years.
- Kris Osborn, defence editor for the National Interest, reported in July 2020 that "Russian and US maritime assets appear to be watching one another even more closely as tensions mount in Ukraine, undersea reconnaissance technologies improve, and Russian submarines expand their capabilities and America readies for a massive wargame in the Black Sea."
- Australia's 2020 Defence Strategic Update and 2020 Force Structure Plan, released in July by the Department of Defence, outline a new strategy for Defence and the capability investments to deliver it. Included in those investments are, among other things, continued investment in 12 Arafura-class offshore patrol vessels and the partnership with the hydrographic industry as well as new investment in advanced maritime mines, 6 new Cape Class patrol boats, and up to 8 new vessels optimized for mine countermeasures and hydrographic survey plus the development and build of a next-generation integrated undersea surveillance system, including exploration of optionally crewed and/or un-crewed surface systems and un-crewed undersea systems.
- U.S. Navy is increasing its "sea basing" strategy, according to reports in July 2020. Sea-based operations enable Marines to conduct highly mobile, specialised, amphibious landings. Expeditionary Sea Bases can naturally function as floating command and control bases from which to operate attack missions or coordinate large fleets of autonomous surface, air, or undersea drones.
- Huntington Ingalls invested in unmanned surface vehicle company, Sea Machines Robotics Inc., in July 2020. Sea Machines is a US-based company that specializes in advanced software for unmanned surface vessels. This investment comes on the heels of Huntington Ingalls buying Hydroid, an unmanned underwater vehicle manufacturer, from Norway-based Kongsberg earlier this year.

Legal Matter Update

The legal dispute between Aquabotix and Apium is still pending, with Aquabotix's motion to dismiss currently scheduled for hearing in early November. However, the parties have been in communication to attempt possible resolution.

Board Changes

Following the end of the quarter, the Company appointed Mr. Winton Willesee as a director and Chairman of the Company. Mr. Willesee is an experienced corporate professional with a broad range of skills and experience in strategy, company development, corporate governance, company public listings, merger and acquisition transactions and corporate finance. Mr. Willesee has considerable experience with ASX listed and other companies at stages of development from inception to maturity over a broad range of industries, having held chairmanships, directorships, and company secretarial positions with a number of ASX-listed companies over many years.

Concurrently, Mr. Peter James resigned as a director of the Company. The Company thanks Mr. James for his service to the Company having been the Company's Chairman since its IPO and wishes him well in his future endeavours.

Notes

For clarity, this report does not imply any direct or indirect endorsement of the Company's products or services by any third party, including the United States Armed Forces.

Authority

This announcement has been authorised for release by the Board of the Company.

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

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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Name of entity	
UUV Aquabotix Limited	
ABN	**Quarter ended ("current quarter")**
52 616 062 072	30 September 2020

Consolidated statement of cash flows		**Current quarter $A**	**Year to date (9 months) $A**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	-	430,419
1.2	Payments for		
	(a) research and development	(31,336)	(57,233)
	(b) product manufacturing and operating costs	(199,835)	(206,623)
	(c) advertising and marketing	-	(1,333)
	(d) leased assets	-	-
	(e) staff costs	(140,914)	(503,646)
	(f) administration and corporate costs	(332,314)	(503,500)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	6	230
1.5	Interest and other costs of finance paid	(1,412)	(3,438)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	41,134	171,651
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(664,672)**	**(673,472)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-

Consolidated statement of cash flows		Current quarter $A	Year to date (9 months) $A
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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 equity securities (excluding convertible debt securities)	1,000,000	1,185,000
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	333	333
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(110,156)	(110,156)
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)	-	(23,914)
3.10	**Net cash from / (used in) financing activities**	**890,178**	**1,051,264**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	419,384	260,254
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(664,672)	(673,472)

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Consolidated statement of cash flows		Current quarter $A	Year to date (9 months) $A
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	890,178	1,051,264
4.5	Effect of movement in exchange rates on cash held	(9,286)	(2,442)
4.6	**Cash and cash equivalents at end of period**	**635,604**	**635,604**

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	635,104	418,884
5.2	Call deposits	500	500
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)**	**635,604**	**419,284**

6.	Payments to related parties of the entity and their associates	Current quarter $A
6.1	Aggregate amount of payments to related parties and their associates included in item 1	9,373
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A**	**Amount drawn at quarter end $A**
7.1	Loan facilities	844,119	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	844,119	-

7.5	**Unused financing facilities available at quarter end**	844,119

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

In January 2020, the Company announced it had entered into a non-convertible unsecured credit facility agreement with a maturity date of January 2021 with Bergen Global Opportunity Fund, LP (the "Lender"). Under the agreement, the Lender will make US$248,000 available to the Company by way of an unsecured credit facility, which can be drawn down by the Company, in its discretion, over a period of twelve months. A further US$352,000 may be drawn down by mutual agreement between the Lender and the Company. If the Company elects to draw down the facility, an initial payment of US$48,000 will be payable. Interest at a rate of 14.99% per annum will be payable on a quarterly basis. This facility has not been drawn upon in the current quarter.

8.	**Estimated cash available for future operating activities**	**$A**
8.1	Net cash from / (used in) operating activities (Item 1.9)	(664,672)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	635,604
8.3	Unused finance facilities available at quarter end (Item 7.5)	844,199
8.4	Total available funding (Item 8.2 + Item 8.3)	1,479,723
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	2.2

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

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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.

20 October 2020

Date: .....

Board of Directors

Authorised by: .....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow 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 cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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