

Appendix 4E

For the year ended 31 December 2019 UUV Aquabotix Limited

1. Company details

Name of entity:	UUV Aquabotix Limited
ABN:	52 616 062 072
Reporting period:	For the year ended 31 December 2019
Previous period:	For the year ended 31 December 2018

2. Results for announcement to the market

	Up/Down	% Movement		AUD\$
Revenues from	Up	108.5%	to	322,166
Loss from	Down	50.2%	to	(2,409,264)
Loss for the year	Down	50.2%	to	(2,409,264)
Dividends: No	Nil	Nil		Nil

Commentary related to the above results

Refer to the Directors Report in the attached Annual Report for commentary on the above results.

3. Net tangible assets

	As at 31 December 2019	As at 31 December 2018
	Cents	Cents
Net tangible assets per ordinary security	0.05	0.42

7. Audit qualification or review

The financial statements have been audited and an unqualified opinion containing a material uncertainty related to the going concern has been issued.

8. Attachments

The Annual Report of UUV Aquabotix Limited for the year ended 31 December 2019 is attached.

9. Signed



Peter James
Chairman

4. Details of entities over which control has been gained in the period

Not applicable.

5. Loss of control over entities

Not applicable.

6. Details of associates and joint venture entities

Not applicable.

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AQUABOTIX

ANNUAL REPORT

for the year ending

31 December 2019

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UUV Aquabotix Limited | Australia & USA

ASX:UUV (shares) | ABN 52 616 062 072

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Corporate Information

Directors & Management

Peter James (Non-Executive Chairman)
Jay Cohen (Non-Executive Director)
Robert Clisdell (Non-Executive Director)
Whitney Million (Chief Executive Officer)

Company Secretary

Winton Willesee & Erlyn Dale

Registered Office

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145 Stirling Highway
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Auditors

RSM Australia Partners
Level 13, 60 Castlereagh Street

Share Registry

Link Market Services Limited
Level 4, 152 St Georges Terrace
Perth, WA 6000
Australia

Enquiries (within Australia): 1300 288 664
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Stock Exchange Listing

UUV Aquabotix Limited shares (ASX code: UUV) are listed on the Australian Securities Exchange.

Website: www.aquabotix.com

Corporate Governance Statement:
<https://www.aquabotix.com/investors.html>

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Chairman's Review

Dear Fellow Shareholders,

Over the course of the 2019 financial year, UUV Aquabotix Limited and its US subsidiary Aquabotix Technology Corporation (together "Aquabotix" or "the Company") have demonstrated a building of traction through several achievements with key customers and marked progress towards stated strategic objectives.



Members of U.S. Navy reviewing SwarmDiver™ during the Navy's Advanced Naval Technology Exercise events

Aquabotix secured four United States Armed Forces funded contracts in 2019, two for development related to the SwarmDiver™ product and the other two for hardware to support test and evaluation activities to be carried out by the military. Beyond this, the Company secured its first international order for SwarmDiver™, receiving a contract from a major Asian military agency aligned with Australia and the United States. This order also marked the first military procurement of SwarmDiver EDGE™ and the largest single order intake for the Company in its short history. While the initial order values for these products have been relatively small, there has been clear and significant growth in the value of orders being placed and following with it a positive trajectory for resulting sales. Exemplifying this success, revenues from ordinary activities increased by 108.5% from 2018 to 2019; and, based solely on the existing order book and planned deliveries for 2020 which have already been contractually committed by customers, we anticipate continued success with this trend for increased sales moving into 2020.

Not only have revenues increased exponentially from last year, the loss for the year decreased by 50.2% for the same period.

This is in part due to the aforementioned growth in revenue, and in part attributable to the Company's attention on achieving a sustainable reduction of operating costs through increased focus and specialisation of offerings since its announced strategy shift in 2018. Prior to the strategy shift, the Company's net cash used in operations was approximately 460% higher than reported for the last quarter of 2019 (A\$1,389,706 for the 31 March 2018 quarter to A\$319,283 for the 31 December 2019 quarter).

Aquabotix continues to demonstrate the SwarmDiver™ family of vehicles for a range of potential customers and seek non-dilutive funding options for the continued development of this product. Additionally, the Company is collecting feedback from operators to better craft and tailor man-machine teaming solutions that will address recent and persistent terrorist activities and militant threats. SwarmDiver™ remains a distinct offering and the first of its kind as a micro-sized hybrid autonomous unmanned underwater and surface vehicle. This is exemplified by the fact that a few orders issued to Aquabotix to date have been placed without use of full and open competition by the United States Government, using sole source justifications. The sole source procurements provide paths for expedited order placements and serve to bolster our understanding that the Company's offerings are uniquely positioned in the marketplace.

On behalf of the Board, I would like to thank our executive team for their significant contributions this year and our shareholders for your continued support as we look forward to the growing success of Aquabotix in 2020.



SwarmDiver™ system in surf zone operation

A handwritten signature in black ink, appearing to read "Peter James".

Peter James

Independent Non-Executive Chairman

About UUV Aquabotix Limited

History of UUV Aquabotix Limited and its subsidiaries

Based in Australia and Rhode Island/Radford Army Ammunition Plant, USA, UUV Aquabotix Limited is an established underwater robotics company, which provides cutting edge, flexible use man-machine teaming solutions to counter persistent, growing, and developing security threats. The Company focuses primarily on the design and development of micro-sized, swarming autonomous products for a range of defence applications where urgent requirements exist.

Aquabotix's SwarmDiver™ is one such product, a modular, flexible autonomous system designed for near shore and shallow water use. This innovative solution is ideal for use in notoriously challenging environments such as the surf zone. SwarmDiver™ can deliver enhanced situational awareness, survivability, mobility, and lethality as a low-cost force factor multiplier for armed forces in a range of operational scenarios. The SwarmDiver™ system can be used as a stand-alone solution or integrated with a range of other systems to support many mission types and enable forces to add in both elements of surprise and continuous speed at the operational edge.

Dozens of SwarmDivers™ can be controlled as a single coordinated entity via one operator from a remote location. These multi-vehicle swarms provide an inherent redundancy and increase speed and efficiency relative to single-vehicle operations in many instances, helping to ensure mission success.

These distinguishing offerings address a range of defence and government challenges for which urgent needs exist. For example, variants of SwarmDiver™ can be used to effectively and cost-efficiently detect, locate, and ultimately counter threats such as mines, militarized ordnance, and improvised explosive devices. These threats have become increasingly common in the maritime arena in recent years, putting at risk international commerce and oil supplies. These attacks have highlighted the vulnerabilities of key shipping routes and are creating urgent needs for detection and countermeasures. In addition to addressing these types of threats, SwarmDivers™ can be used for a broad range of other activities, including distraction, diversion, creating a state of disarray, bathymetric line surveys, sound velocity profiling, and more.

Aquabotix's SwarmDiver™ is the first of its kind - a micro-sized, hybrid unmanned surface vehicle and underwater vehicle (USV/UUV) with swarming capabilities. With SwarmDiver's product characteristics being unique and the product having had successful demonstrations and initial testing activities supporting a variety of mission sets, there has been substantial interest in the SwarmDiver™ family of vehicles on a global scale. The units are priced at approximately USD\$10-20k each, depending on specification, and with units being sold in multiples for swarm functionality there is significant potential for high-value wins for this family of products.

Originally formed on 4 March 2011, as Aquabotix Technology Corporation, the firm built a reputation as a leader in the nascent underwater drone market. On 22 November 2016, UUV Aquabotix Limited was incorporated in Australia with the primary purposes of acquiring Aquabotix Technology Corporation, listing on the Australian Stock Exchange (ASX), and engaging in the business of offering the firm's products and ancillary services. UUV Aquabotix Limited listed on the ASX, on 28 April 2017, oversubscribing for a raise that brought in AUD\$7 million.

The Company owns and holds licences for valuable intellectual property in a range of unmanned, autonomous surface and underwater vehicles and underwater camera products and is an early mover in this emerging industry. With key design and system elements protected by various means, including patents, the Company continues to build on its flexible and unique offerings.

Business Model

The Company refined its business approach during 2018, setting a new strategy with plans to increase the pace of development of the Company's business. Historically, Aquabotix sold commercial/industrial-grade underwater drones and networked underwater cameras, supported by its proprietary software, to commercial customers. These commercial customers varied over several industries, all with different technological needs and requirements, leaving the Company spread thin in its participation in many verticals. In April 2018, the Company announced the release of SwarmDiver™, a hybrid micro unmanned surface vehicle ("USV") and unmanned underwater vehicle ("UUV"). The release of SwarmDiver™ exceeded the Company's expectations in the level of interest that it generated from potential customers and from credible industry and governmental partners. The Company took note that SwarmDiver™ was substantially differentiated from the



SwarmDiver™ ST-3000

About UUV Aquabotix Limited *(continued)*

Company's legacy suite of underwater vehicle products. Where the legacy products had limited competition, competition certainly existed, and market pressures were growing. In contrast, there was no other micro hybrid USV/UUV or other swarming USV with diving capabilities, to the best of the Company's knowledge, commercially available to commercial and governmental users. The Company also found that SwarmDiver™ addressed several unmet needs of the United States, Australian, and allied defence communities, meaning there could be opportunities to approach a market where interest from potential large users is urgent and sizeable. In addition to the competitive advantages and market interest in the SwarmDiver™ product, the Company noted the positioning of this product towards the higher growth market opportunities associated with autonomous and swarming unmanned underwater and surface products. Based on this combined information, the Company decided to capitalize on the interest in SwarmDiver™, particularly in the defence market, where the management team has demonstrated experience, a solid reputation, and appropriate networks.



SwarmDiver™ system conducting near shore mission

With this improved focus, the Company also undertook efforts to remain light enough at the core to be cost competitive and flexible. Cognizant of its need to reduce cash outflow and manage capital prudently, Aquabotix reduced facility footprints and labour overheads. These actions were enabled by strategic use of non-dilutive governmental customer funding for innovation, industry partnerships, and employment of contractors and contract manufacturers on an as-needed basis. These changes leave the Company well positioned to quickly adapt and scale to meet the many opportunities it has identified while operating with lower cost and providing better value propositions to its customers.

Also supporting the shift in the Company's focus to the defence industry, Aquabotix moved away from its historically strong reliance on a distributor network and instead is capitalising on more of a direct sales model, with the securing of key partnerships and early customer engagements being seen as key foundations for success. These changes afford Aquabotix an opportunity to influence requirements and shape technology offerings with specific use cases in mind. Additionally, these closer ties help move Aquabotix from a role of supplier to trusted partner for these key customers.

About UUV Aquabotix Limited *(continued)*



Members of U.S. Navy reviewing SwarmDiver™ during Navy's Advanced Naval Technology Exercises in 2019

During 2019, the Company has participated in technical evaluations, testing events, and other demonstrations of the SwarmDiver™ family of vehicles for a range of potential and existing customers. SwarmDiver™ remains in a class of its own, with limited competition and, in some instances with no commercially viable alternatives, as evidenced by a few sole source awards made to Aquabotix for this technology by United States military customers. This leaves the Company well positioned to partner with both government and large defence companies for mission-specific product development. The Company has successfully entered into cooperative research agreements with sections of the United States Navy, received funding in the form of innovation grants from the New South Wales government, and formed strategic relationships for key pursuits with Thales Australia and ManTech in the United States. It is anticipated these types of partnerships will enable the Company to continue advancing its technology and differentiating itself from competitors with customer support, limiting reliance on funding methods that would dilute shareholder's equity or add debt for the Company. In addition to pursuing sales of the swarming system and seeking non-dilutive customer funding for innovation, the Company is collecting feedback on an ongoing basis from operators to refine and tailor man-machine teaming solutions that address recent and persistent terrorist activities and militant threats. These innovative offerings, especially when developed further to meet specific user challenges, fall into high growth prospect markets, namely swarm intelligence and autonomous unmanned underwater vehicles, so exploiting the intellectual property developed in these arenas is fundamental to the Company's future trajectory.

Environment

Industry fundamentals remain strong with independent analysis projecting the global unmanned underwater vehicle market to be US\$5.2 billion by 2022 and the autonomous unmanned vehicles sub-category to grow to US\$2.7 billion at a CAGR of 24% to 2022. The swarm intelligence market is estimated to grow to US\$450 million by 2030, at a CAGR of 40% from 2020 to 2030¹.

In particular, with the defence industry trends lean towards conducting more surveillance and countermeasure work using unmanned and autonomous vehicles or man-machine teaming solutions, as opposed to traditional man-power heavy methods. This trend is supported by

¹ Market growth estimates from <https://www.marketsandmarkets.com/PressReleases/swarm-intelligence.asp> and Markets and Markets Report Code AS 2327.

About UUV Aquabotix Limited *(continued)*

exceptional spend and budget for autonomous technologies in this sector. In government fiscal year 2019, the United States Navy and Marines estimated spend for drones exceeded US\$3.7 billion².

Additionally, the underwater robotics industry has undergone rapid consolidation at substantial valuations in recent years. In December 2016, Boeing acquired Liquid Robotics at a purchase price reported to be USD\$300 million. Other recent high-profile transactions in the sector included BAE Systems' acquisition of Riptide Autonomous Solutions, General Dynamics' purchase of Bluefin Robotics, and L3 Technologies making two acquisitions, of OceanServer Technology and Open Water Power.

Market Position

It is commonly accepted that UUVs trail UAVs (Unmanned Aerial Vehicles) by approximately seven years in terms of technological advancement and market acceptance. Given we are now seeing UAVs employed in active warfare, assisting lifesavers to deploy floatation devices, surveying major infrastructure and delivering parcels to homes, it is clear to see the strides that are possible within the UUV space. From oceanography to aquaculture, to pipeline and well-head monitoring, to ship hull inspections and mapping, unique applications continue to emerge. Defence customers are among the earliest adopters of this emerging technology, and their budgets the most sizeable. With a focus on autonomous, swarming technology and capabilities in operating in challenging operational environments and as a first mover in this industry, Aquabotix is well positioned to address an urgent and growing user need in the defence space and to fill a demand that is expected to grow exponentially in the coming years.

Maritime security is a particular challenge in the Middle East and North Africa (MENA) region. Over the past five years, there has been a notable uptick in drone boat and other improvised explosive devices attacks on commercial and military vessels particularly in that region. International commerce relies heavily on maritime shipping, often through geographical bottlenecks in the MENA region. When considering those bottlenecks convey a large portion of the world's daily oil supply, it becomes clear that destabilizing any one of them could have massive economic and trade impacts on a global scale. This is why the growing threat of militant and terrorist activity through narrow bodies of water and ports is so concerning. In addition to these notable threats, there are additional challenges created by explosives in waterways planted by the world's navies both historically and in the present day. By some estimates the world's navies possess about one million sea mines, and even more unexploded ordnance from prior conflicts remains active on the ocean floors across the globe.

With a persistent and growing threat to commercial and military vessels presented by naval explosives and improvised weapons, there is an increased focus on finding methods of locating, identifying, and neutralising those threats. An important facet of this demand is securing autonomous solutions to remove the operator and keep him at a safer stand-off distance during the countermeasure missions are undertaken. Navies around the world are actively seeking cost-effective and man out-of-the-loop or man on-the-loop solutions for these challenges, and Aquabotix's goal is to establish and strengthen relationships with government, armed forces, and business leaders while marketing the use of SwarmDiver™ to address these urgent needs.

Beyond mine and explosives countermeasures, there are a variety of other urgent end-user needs that can be addressed through Aquabotix's offerings. Where urgent needs exist, governments, including the United States and Australian militaries are putting into place procedures to allow for quicker procurements of emerging technologies. The United States military is taking measures to increase the speed of acquisition for urgent, out-of-cycle requirements to support its forces, including increased funding allocations for the US Navy's rapid prototyping programs to field capabilities quickly. With these steps, the industry is seeing a rise in the use of Other Transaction Authority (OTA) agreements as a means of quickly awarding contracts for prototype development under more commercial terms. Most of these OTAs are accessed through and managed via consortiums; therefore, to increase probability of being included in one of these funding schemes, Aquabotix has joined a number of relevant industry consortia.

In addition to seeking available methods of quicker procurements, Aquabotix is continuing to develop and protect its technology to ensure it remains well positioned to support future, more sizeable requirements.

² Budget summary data from <https://dronecenter.bard.edu/files/2018/04/CSD-Drone-Spending-FY19-Web-1.pdf>.

Directors' Report

Your Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Company' or 'Aquabotix') consisting of UUV Aquabotix Limited and its controlled entities for the year ended 31 December 2019.

Directors

The following persons were directors of UUV Aquabotix Limited during the financial year and up until the date of this report, unless otherwise stated. Details of the current members of the Board, including their experience, qualifications, special responsibilities and term of office are included on page 10 of the Annual Report.

Name	Position
Peter James	Independent Non-Executive Chairman
Admiral Jay M. Cohen	Non-Executive Director
Robert Clisdell	Non-Executive Director

Chief Executive Officer

Whitney Million

Company Secretary

Winton Willesee, Joint Company Secretary, appointed 26 July 2019

Erlyn Dale, Joint Company Secretary, appointed 26 July 2019

Jonathan Swain, appointed 25 January 2018, resigned 12 June 2019

Anand Sundaraj, resigned 25 January 2018, re-appointed 12 June 2019, resigned 26 July 2019

Directors' Report *(Continued)*

Board of Directors and Executives

Peter James: Independent Non-Executive Chairman



Experience and expertise:

Mr James has over 30 years' experience in the technology, telecommunications and media industries, and has extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies. He recently completed 12 years as a Non-Executive Director for ASX-listed iiNet, Australia's second largest DSL internet Services Provider, prior to it being acquired by TPG Telecom for \$1.56bn. Mr James joined the Board of UUV Aquabotix Limited and was elected Chairman in March 2017.

Other current directorships:	Chair of ASX-listed companies Macquarie Telecom Group Limited, Nearmap Limited, DroneShield Limited and Keytone Dairy Corporation Limited.
Former directorships (last 3 years):	Non-Executive Chairman of Dreamscape Networks Limited
Interests in shares:	25,107,126
Interests in options:	26,000,000
Contractual rights to shares:	None

Admiral Jay M. Cohen: Independent, Non-Executive Director



Experience and expertise:

Admiral Jay M. Cohen is former Chief of Naval Research (United States Navy) and has served as the United States Department of the Navy Chief Technology Officer, Admiral Cohen is a graduate of the United States Naval Academy. He holds a joint Ocean Engineering degree from Massachusetts Institute of Technology (MIT) and Woods Hole Oceanographic Institution and Master of Science in Marine Engineering and Naval Architecture from MIT. Earlier in his career, he commanded USS Hyman G. Rickover and served on the U.S. Atlantic Fleet before commanding the submarine tender USS L.Y. Spear including a deployment to the Persian Gulf in support of Operation Desert Storm. Admiral Cohen was promoted to the rank of Rear Admiral in 1997 and reported to the Joint Staff as Deputy Director for Operations responsible to the President and Department of Defence leaders for strategic weapons release authority. In June 2000, he became the 20th Chief of Naval Research. He served during war as the Department of the Navy Chief Technology Officer, responsible for the \$2B+/year Navy and Marine Corps Science and Technology (S&T) Program. Unanimously confirmed by the US Senate, he was sworn in as Under Secretary for Science & Technology at the Department of Homeland Security in 2006. Since leaving government, Admiral Cohen serves on corporate boards and is an independent consultant for science and technology in support of U.S. and international defence, homeland security and energy issues and solutions.

Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	None
Interests in options:	9,400,000
Contractual rights to shares:	None

Directors' Report *(Continued)*

Robert Clisdell: Non-Executive Director



Experience and expertise

Mr. Clisdell is based in Sydney and is the Vice President at Bergen Capital (Australia) Ltd, an affiliate of the Company's largest shareholder. Prior to Bergen, Mr. Clisdell was an investment banker in the middle market corporate advisory practice for Credit Suisse's private bank in Sydney and Melbourne. Mr. Clisdell worked with Caliburn Partnership (now Greenhill & Co.) and worked in equity capital markets at Ord Minnett Corporate Finance.

In addition to his role with UUV Aquabotix Ltd, Mr. Clisdell is a Non-Executive Director of DronesShield Limited and Keytone Dairy Corporation Limited.

Mr. Clisdell began his career with Arthur Anderson and qualified as a Chartered Accountant in 2005. He holds a Bachelor of Commerce from the University of Sydney and a Graduate Diploma in Applied Finance from Finsia.

Other current directorships: Non-Executive Director of Keytone Dairy Corporation Limited (ASX:KTD) and DroneShield Limited (ASX:DRO).

Interest in shares: 8,665,197

Interest in options: 15,000,000

Contractual rights to shares: None

Whitney Million: Chief Executive Officer



Experience and expertise

Ms. Million brings a wide-ranging, yet defence-focused, experience in business winning and industrial strategy to Aquabotix. Ms. Million joined the Company following a stellar nine-year career at BAE Systems, Inc. ("BAE"), a multinational subsidiary of BAE Systems plc., the London Stock Exchange-listed defence and security company with a market capitalisation of approximately £19 billion. Ms. Million rose up through the ranks at BAE, eventually leading BAE's Global Access Program, a program centred around the identification and development of export opportunities for small and medium-sized Australian enterprises. Prior to assuming this industrial strategy role, Ms. Million support market development and new business capture for BAE by leading activities related to teaming, joint research, intellectual property licensing and transfer, and other industrial issues.

Ms. Million holds a BBA (Corporate Finance and Investments) from East Tennessee State University and has completed professional programs at University of Virginia (Procurement and Contracts Management) and at Stanford University (Strategic Decision and Risk Management).

Winton Willesee: Joint Company Secretary and Chief Compliance Officer



Experience and expertise

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 over a broad range of industries, having held directorships, chairmanships and company secretarial positions with a number of ASX-listed companies over many years.

Mr. Willesee holds a Master of Commerce, a Post-Graduate Diploma in Business (Economics and Finance), a Graduate Diploma in Applied Finance and Investment, a Graduate Diploma in Applied Corporate Governance, a Graduate Diploma in Education and a Bachelor of Business. He is a Fellow of the Financial Services Institute of Australasia, a Graduate of the Australian Institute of Company Directors, a Member of CPA Australia and a Fellow of the Governance Institute of Australia and the Institute of Chartered Secretaries and Administrators/Chartered Secretary.

Directors' Report *(Continued)*

Erlyn Dale: Joint Company Secretary



Experience and expertise

Miss Dale is an experienced corporate professional with a broad range of corporate governance, accounting and capital markets experience. Miss Dale holds positions as company secretary for a number of ASX listed public companies across a range of industries, with particular expertise in the facilitation of company listings, merger and acquisition transactions and capital raisings.

Miss Dale holds a Bachelor of Commerce (Accounting and Finance) and a Graduate Diploma in Applied Corporate Governance. She is a member of the Governance Institute of Australia/Chartered Secretary.

Meetings of Directors

The Company's full Board of Directors ('the Board') met 7 times during the year ended 31 December 2019. In addition, there were 12 sub-committee meetings held during the year ended 31 December 2019. The number of meetings eligible to be attended and the number of meetings attended by each director were as follows:

Name	Full Board Meetings		Sub Committee Meetings	
	Eligible to attend	Attended	Eligible to attend	Attended
Directors				
Peter James	7	7	12	12
Jay M. Cohen	7	7	-	-
Robert Clisdell	7	7	12	12

Eligible to attend: represents the number of board meetings held during the time the director held office.

Key Information

	Year ended 31 December 2019 AUD\$	Year ended 31 December 2018 AUD\$	% Change
Revenues from ordinary activities	322,166	154,494	108.5%
Loss from ordinary activities after tax attributable to shareholders	(2,409,264)	(4,833,146)	50.2%
Loss for the year attributable to shareholders	(2,409,264)	(4,833,146)	50.2%

Review of Operations and Financial Results

As discussed in Key Developments and Achievements, the Company was awarded four United States military funded contracts and one Asian military agency funded contract in 2019. Revenues from three of the four United States military-funded contracts are reflected in the revenues for the 12 months ended 31 December 2019. The remaining United States and Asian military-funded contracts are expected to be delivered in 2020 with revenues reflected in that year.

The loss for the consolidated entity after providing for income tax and non-controlling interest for the year ended 31 December 2019 amounted to \$2,409,264 (a more than 50% reduction in the loss position from 31 December 2018 with a loss of \$4,833,146). The significantly reduced loss position for the year reflects the impact of the management restructure during 2018 combined with the implementation of the Company's new strategic focus, resulting in substantial increases in customer funding and drastic decreases in cash used in operations.

During 2019, the Company carried out several capital raisings to raise AUD\$1,772,877 in cash (before costs) through the issue of 307,937,592 ordinary fully paid shares. As at 31 December 2019, Aquabotix had a cash and cash equivalents balance of \$260,254 (2018: 704,377).

Key Developments

Aquabotix has made significant progress over the period in developing relationships with key customers, securing strategic partnerships in the defence domain, and obtaining 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 fiscal year.

Directors' Report *(Continued)*

U.S. Navy-Funded Contracts

Aquabotix received four United States Military-funded contracts this year.

In January 2019, Aquabotix was awarded an approximately US\$70,000 contract in support of a United States Navy funded development project. Then, in April 2019, Aquabotix was awarded an approximately US\$30,500 contract to supply a SwarmDiver system for test and evaluation by the Navy. This was followed by an announcement of an award of an approximately US\$150,000 contract to supply a SwarmDiver system, training, and test support for the United States military. Both of these test and evaluation activities enabled necessary governmental evaluation activities for the Military's consideration of operational use of the product in theatre. Finally, in December 2019, Aquabotix performed development services and delivered data in support of a United States Navy-funded development effort, bringing in an additional US\$5,000. There is potential of follow on work for this contract in 2020.

While the four contracts described above are small, they have served to further establish the Company as a trusted provider to the United States Military, prove the Company's credibility to a range of domestic and international customers, and position the Company to potentially receive further, more sizeable government contracts. Generally speaking, government 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 government 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 government 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.

Other Military Agency Contracts

In September 2019, the Company announced it had received an order for its SwarmDiver Edge™ hybrid micro UUV from a military agency of a major Asian country aligned with Australia and the United States. The order was for an amount of US\$350,000, with delivery of the units to be delivered in Q1 2020 and associated services to be rendered through Q2 2020. This order represented the first SwarmDiver™ sale outside the United States and evidenced the increase in awareness of the Company's product suite globally following concerted marketing efforts in 2018 and 2019.

ManTech Strategic Agreement

Also bolstering Aquabotix's status as a leading product developer in the emerging underwater drones domain is the Teaming Agreement entered into between the Company and ManTech International Corporation, a large provider of advanced technological services to the United States Government. The parties are jointly pursuing United States Government funds under a current Government requirement related to Department of Defence Systems.

Successful Demonstrations

Following on from its several successful demonstrations in 2018 at the United States Navy's Advanced Naval Technology Exercise (ANTX), conducted at the Narragansett Bay Test Facility, the Company continued to successfully complete a series of demonstrations at the 2019 ANTX events. The Company had submitted three proposals for consideration to be included in the 2019 ANTX events, and despite the Navy being highly selective in its admission of participants for this event, all three proposals were approved by the United States Navy. ANTX was created to provide an opportunity to demonstrate future United States Navy technologies in action in the current day.

These demonstrations showcase the capabilities of SwarmDiver™ in addition to new developments, fitting the theme "Prepare for Battle: Undersea Security." Among other things, the Company demonstrated its products' ability to enhance a user's understanding of their operational environment in the very challenging shallow water and surf zones.

Principal Activities

During the financial year the principal continuing activities of the Group consisted of designing, developing, manufacturing, and selling underwater drone systems, related technologies, and man-machine teaming solutions.

Significant Changes in the State of Affairs

Other than discussed in the Review of Operations above, there have been no significant changes in the state of affairs of the Company during the year ended 31 December 2019.

Directors' Report *(Continued)*

Significant Events after the Balance Date

On 23 January 2020 (Australian time), the Company learned that without any prior notice or attempt to resolve the matter amicably, a licensor of technology incorporated into the SwarmDiver™ product, Apium Inc. ("Apium"), a small, privately held U.S. Company, filed a lawsuit against the Company's subsidiary, Aquabotix Technology Corporation ("ATC") in the U.S. District Court, Central District of California in Los Angeles. The lawsuit includes claims for actual and anticipatory breach of the license agreement, a declaratory judgement that the license is terminated and that Apium itself has not breached the license, as well as violation of the Defend Trade Secrets Act, a U.S. law often invoked in licensing disputes. The Company and ATC believe that the lawsuit is completely without merit and that Apium's actions are themselves a breach of the terms of the license agreement. ATC has already retained litigation counsel, will vigorously defend itself and its rights under the license agreement, and will be filing counterclaims against Apium and related parties.

On January 28, 2020, UUV Aquabotix Limited entered into a non-convertible unsecured credit facility agreement, replacing the above facility, with Bergen Global Opportunity Fund LP ("the Lender"), a related party to the Company. Under the agreement, the Lender made available US\$248,000 by way of an unsecured credit facility, to be drawn down at its discretion by the Company over the following 12 months subject to it meeting various administrative conditions precedent. A further US\$352,000 may be drawn down by mutual agreement between the Company and the Lender. Initial fees of US\$48,000 will be payable if the Company elects to draw down on the facility. Interest is payable on any drawn down amount at a rate of 14.99%, payable in arrears on a quarterly basis. The facility is available for a period of 12 months from the date of execution of the agreement. In the event that facility is drawn down, the maturity date for repayment of the loans is 21 January 2021. As at the date of this report, the facility has not been drawn down on.

On 31 January 2020, the Company announced it had issued 77,500,000 new fully paid ordinary shares at \$0.001 per new share to a sophisticated and professional investor to raise \$77,500. Net proceeds from this placement will be used by the Company for working capital purposes.

At the start of February 2020, the Company announced that it was selected to conduct all five demonstrations proposed by the Company for the U.S. Navy's Advanced Naval Technology Exercise ("ANTX") events scheduled for summer and early fall of 2020. For these demonstrations, Aquabotix will be partnering with the Navy and other industry participants to exhibit expanded SwarmDiver-based solutions with capabilities that generally fall into the following areas of interest: remote detection and escalated response using various assets; efficient conductivity and CTD sampling using synoptic data gathering methodology; improved decision making through alternative methods of measuring, understanding, and predicting the ocean environment; remote, distributed bottom-type characterisations; hands-free, gesture-based swarm control for use in difficult operating conditions; and secure, high-speed data transmission.

Later that same month, the Company entered into a Non-Standard Navy Cooperative Research and Development Agreement with the U.S. Naval Undersea Warfare Center, Division Newport ("NUWC"). Over the next three years, the Company will work collaboratively with NUWC on a project related to experimental coordination with swarms. Ultimately, the goal of this collaboration is to transition the results of U.S. Navy research for public and private sector use. NUWC has extensive experience, capabilities, and information on swarms, autonomy, unmanned systems, and related research. Aquabotix brings to the partnership the interest, resources, capabilities, and technical expertise to transition the results of research and development for public use.

Other than as discussed above, no other matter has arisen since 31 December 2019 that has significantly affected or may significantly affect the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely and expected results of operations

Refer to the Chairman's Review to shareholders, on page 4, for further information on likely developments and expected results of the Group.

Environmental regulation

The Group's operations are not subject to any significant environmental regulation under either Australian Commonwealth or State legislation. The Board considers that adequate systems are in place to manage the Group's obligations and is not aware of any breach of environmental requirements as they relate to the Group.

Dividends

No dividends were declared or paid to shareholders during the financial year (2018: \$nil).

Directors' Report *(Continued)*

Corporate Governance Statement

The Board of the Company recognises the importance of establishing a comprehensive system of control and accountability as the basis for the administration of corporate governance.

To the extent relevant and practical, the Company has adopted a corporate governance framework that is consistent with The Corporate Governance Principles and Recommendations (3rd Edition) as published by ASX Corporate Governance Council ("Recommendations").

The Company's Corporate Governance Statement for the financial year ending 31 December 2019 is dated and was approved by the Board of Directors on 27 February 2020. The Company's Corporate Governance Statement is available at the Company's website at <https://www.aquabotix.com/investors.html>

The Board has adopted the following suite of corporate governance policies and procedures which are contained with the Company's Corporate Governance Plan, a copy of which is available of the Company's website at <https://www.aquabotix.com/investors.html>:

- Board Charter
- Corporate Code of Conduct
- Public Sector Code of Conduct
- Audit and Risk Committee Charter
- Remuneration Committee Charter
- Nomination Committee Charter
- Continuous Disclosure Policy
- Risk Management Policy
- Remuneration Policy
- Trading Policy
- Diversity Policy
- Shareholder Communications Strategy
- Performance Evaluation Procedures
- Skills Matrix

The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

The Company is pleased to report that its practices are largely consistent with the Recommendations of the ASX Corporate Governance Council and sets out below its compliance and departures from the Recommendations for the year ended 31 December 2019.

In the context of the Company's nature, scale and operations, the Board considers that the current corporate governance regime is an efficient, practical and cost-effective method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the implementation of additional corporate governance policies and structures will be reviewed and considered.

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Principle 1: Lay solid foundations for management and oversight		
Recommendation 1.1 A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the board, the chair and management; and includes a description of those matters expressly reserved to the board and those delegated to management.	YES	The Company has adopted a Board Charter which complies with the guidelines prescribed by the ASX Corporate Governance Council. A copy of the Company's Board Charter is available on the Company's website.
Recommendation 1.2 A listed entity should: <ul style="list-style-type: none"> (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director. 	YES	<ul style="list-style-type: none"> (a) The Nomination Committee (the function of which is currently performed by the full Board) is responsible for the selection and appointment of members of the Board. The Company's Nomination Committee Charter requires the Nomination Committee to undertake appropriate checks before appointing a person or putting forward to security holders a candidate for election, as a Director. During the 2019 Financial Year, the Company did not put forward any new candidates for election as director of the Company. (b) All material information relevant to a decision on whether or not to elect or re-elect a Director will be provided to security holders prior to any general meeting at which a resolution to elect or re-elect a Director will be voted on.
Recommendation 1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	YES	Each Director and senior executive of the Company is party to a written agreement with the Company which sets out the terms and conditions of that person's appointment.
Recommendation 1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	YES	The Board Charter outlines the roles, responsibility and accountability of the Company Secretary. The Company Secretary is accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board. During the 2019 Financial Year, Winton Willesee and Eryln Dale were appointed as Joint Company Secretaries.
Recommendation 1.5 A listed entity should: <ul style="list-style-type: none"> (a) have a diversity policy which includes requirements for the board: <ul style="list-style-type: none"> (i) to set measurable objectives for achieving gender diversity; and (ii) to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period: <ul style="list-style-type: none"> (i) the measurable objectives for achieving gender diversity set by the board in accordance with the entity's diversity policy and its progress towards achieving them; and (ii) either: <ul style="list-style-type: none"> (A) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or 	PARTIALLY	<ul style="list-style-type: none"> (a) The Company has adopted a Diversity Policy however, given the current size of the Company, the Board has determined that the benefits of the initiatives recommended by the ASX Corporate Governance Council in this instance are disproportionate to the costs involved in the implementation of such strategies. Accordingly, the Board has elected to adopt a tiered approach to the implementation of its Diversity Policy which is relative to the size of the Company and its workforce. The Company's Diversity Policy provides: <ul style="list-style-type: none"> – Where the Company employs 100 or more employees, the Board undertakes to adopt practices in line with the Recommendations of the ASX Corporate Governance Council, including compliance with the requirement for the Company to set and report against measurable objectives for achieving gender diversity. – Whilst the Company's workforce remains below this threshold, the Board will continue to drive the Company's diversity strategies on an informal basis and will apply the initiatives contained in its Diversity Policy to the extent that the Board considers relevant and necessary.

<p>(B) the entity's "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012.</p>		<p>(b) The Company's Diversity Policy is available on the Company's website.</p> <p>(c)</p> <p>(i) As the Company did not employ 100 or more employees during the 2019 Financial Year, the Company did not formally define a set of measurable diversity objectives;</p> <p>(ii) As at 31 December 2019, the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation are set out below. The Company defines senior executives as those employees who directly report to the Managing Director or the Board.</p> <ul style="list-style-type: none"> - 100% of the Company's 3 board members were male; - 100% of the Company's senior executives (being CEO, Whitney Million) were female; and - 37% of the Company's entire workforce of 8 people were female.
<p>Recommendation 1.6</p> <p>A listed entity should:</p> <p>a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and</p> <p>b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>YES</p>	<p>(a) The Nomination Committee (or, in the absence of a Nomination Committee, the full Board) is responsible for evaluating the performance of the Board and individual Directors on an annual basis. The process for this is set out in the Company's Performance Evaluation Procedures Policy which is available on the Company's website.</p> <p>(b) The Board undertook formal performance evaluations during the 2019 Financial Year.</p>
<p>Recommendation 1.7</p> <p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>YES</p>	<p>(a) The Remuneration Committee (or, in the absence of a Remuneration Committee, the full Board) is responsible for evaluating the performance of senior executives on an annual basis in accordance with the Company's Performance Evaluation Procedures policy.</p> <p>(b) During the 2019 financial year, the Company did not undertake formal performance evaluations of its senior executives. The Board are satisfied, however, that informal performance evaluations occurred on a regular and ongoing basis, and the Company does intend to conduct future evaluations of its senior executives during the 2020 Financial Year.</p>
<p>Principle 2: Structure the board to add value</p>		
<p>Recommendation 2.1</p> <p>The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director, and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual</p>	<p>PARTIALLY</p>	<p>(a) The Board has determined that the function of the Nomination Committee is most efficiently carried out with full board participation and accordingly, the Company has elected not to establish a separate Nomination Committee at this stage.</p> <p>As a result, the duties that would ordinarily be assigned to the Nomination Committee under the Nomination Committee Charter are carried out by the full board.</p> <p>The Nomination Committee Charter is set out in the Company's Corporate Governance Plan which is available on the Company's website.</p>

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<p>attendances of the members at those meetings; or</p> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.</p>		<p>(b) The Board devotes time at board meetings to discuss Board succession issues at least on an annual basis. All members of the Board are involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules.</p>
<p>Recommendation 2.2</p> <p>A listed entity should have and disclose a board skill matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p>	YES	<p>The Board of the Company is comprised of directors with a broad range of technical, commercial, financial and other skills, experience and knowledge relevant to overseeing the business of the Company.</p> <p>The Company has developed a skills matrix which is used as a tool to assess the appropriate and ideal balance of skills, experience, independence and diversity necessary for the Board to discharge its duties and responsibilities effectively.</p> <p>A summary of the collective skills, experience, independence and diversity of the Board is set out in an Annexure of the Company's Corporate Governance Plan which is available on the Company's website.</p>
<p>Recommendation 2.3</p> <p>A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director</p>	YES	<p>(a) As at the 31 December 2019, the independent directors of the Company were:</p> <ul style="list-style-type: none"> - Mr Peter James (Independent Non-Executive Chairman) - Mr Jay Cohen (Independent Non-Executive Director) <p>Mr Clisdell is not considered to be independent due to the fact that during the course of the 2019 financial year he acted as the nominee of one of the Company's major shareholders.</p> <p>(b) The Board has determined the independence of each of the Company's directors in line with the guidance set out by the ASX's Corporate Governance Council and have not formed an opinion contrary to those guidelines.</p> <p>(c) The Directors in office at the date of this Statement have served continuously since their respective dates of appointment which are as follows:</p> <ul style="list-style-type: none"> - Mr Peter James: appointed 9 March 2017; - Mr Jay Cohen: appointed 9 March 2017; and - Mr Robert Clisdell: appointed 10 March 2018.
<p>Recommendation 2.4</p> <p>A majority of the board of a listed entity should be independent directors.</p>	YES	<p>The Company's Board Charter requires that, where practical, 50% of the Board should be independent.</p> <p>The Board currently comprises a total of three (3) directors, of who two (2) are considered to be independent, being greater than 50%.</p>
<p>Recommendation 2.5</p> <p>The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.</p>	YES	<p>The Board Charter provides that where practical, the Chairman of the Board will be a non-executive director.</p> <p>The Chairman, Peter James is an independent non-executive director and is not the same person as the CEO of the Company.</p>
<p>Recommendation 2.6</p> <p>A listed entity should have a program for inducting new directors and providing appropriate professional development opportunities for continuing directors to develop and maintain the skills and knowledge needed to perform their role as a director effectively.</p>	YES	<p>The Company's program for the induction of new directors is tailored to each new Director according to their personal requirements, background skills, qualifications and experience and includes the provision of a formal letter of appointment and an induction pack containing sufficient information to allow the new Director to gain an understanding of the business of the Company and the roles, duties and responsibilities of Directors.</p>

		All Directors are encouraged to undergo continual professional development and, subject to prior approval by the Chairman, all Directors have access to numerous resources and professional development training opportunities to address any skills gaps.
Principle 3: Act ethically and responsibly		
Recommendation 3.1 A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	YES	(a) The Company has a Corporate Code of Conduct that applies to its Directors, officers, managers, employees and consultants. (b) The Company's Corporate Code of Conduct is available on the Company's website.
Principle 4: Safeguard integrity in financial reporting		
Recommendation 4.1 The board of a listed entity should: (a) have an audit committee which: (i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (ii) is chaired by an independent director, who is not the chair of the board, and disclose: (iii) the charter of the committee; (iv) the relevant qualifications and experience of the members of the committee; and (v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	YES	(a) The Board has determined that the function of the Audit and Risk Committee is most efficiently carried out with full board participation and accordingly, the Company has elected not to establish a separate Audit and Risk Committee at this stage. As a result, the duties that would ordinarily be assigned to the Audit and Risk Committee under the Audit and Risk Committee Charter are carried out by the full board. The Audit and Risk Committee Charter is available on the Company's website. (b) The Board devotes time on at least an annual basis to consider the robustness of the various internal control systems it has in place to safeguard the integrity of the Company's financial reporting.
Recommendation 4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	YES	Prior to the execution of the financial statements of the Company, the Company's Chief Executive Officer and Financial Controller provided the Board with a written declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
Recommendation 4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	YES	At the Company's 2019 AGM held on 31 May 2019, a representative of the Company's audit firm, RSM Australia Partners, was present and available to answer questions from security holders relevant to the audit.
Principle 5: Make timely and balanced disclosure		
Recommendation 5.1 A listed entity should:	YES	(a) The Company has adopted a Continuous Disclosure Policy which details the processes and procedures which have been adopted by the Company to ensure that it complies with its continuous disclosure obligations as

<p>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</p> <p>(b) disclose that policy or a summary of it.</p>		<p>required under the ASX Listing Rules and other relevant legislation.</p> <p>(b) The Continuous Disclosure Policy is available on the Company's website.</p>
Principle 6: Respect the rights of security holders		
<p>Recommendation 6.1</p> <p>A listed entity should provide information about itself and its governance to investors via its website.</p>	YES	Shareholders can access information about the Company and its governance (including adopted corporate governance policies and charters) from the Company's website.
<p>Recommendation 6.2</p> <p>A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.</p>	YES	<p>The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors. The Strategy outlines a range of ways in which information is communicated to shareholders.</p> <p>A copy of the Company's Shareholder Communications Strategy policy is available on the Company's website.</p>
<p>Recommendation 6.3</p> <p>A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.</p>	YES	<p>Shareholders are encouraged to participate at all general meetings of the Company by written statement contained in every notice of meeting sent to shareholder prior to each meeting.</p> <p>The Company also accommodates shareholders who are unable to attend general meetings in person by accepting votes by proxy.</p> <p>Further, any material presented to shareholders at the meeting is released to the ASX immediately prior to the commencement of the meeting for the benefit of those shareholders who are unable to attend in person. The Company also announces to the ASX the outcome of each meeting immediately following its conclusion.</p> <p>At each general meeting, shareholders are given an opportunity to ask questions in relation to the resolutions put to shareholders at that meeting, and in respect of the Company's business and operations generally.</p> <p>At each annual general meeting, shareholders are also invited by the Chairman to ask questions to the Company's external auditor and the Board in relation to the annual financial report of the Company.</p>
<p>Recommendation 6.4</p> <p>A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.</p>	YES	Shareholders have the option of electing to receive all shareholder communications by e-mail and can update their communication preferences with the Company's registrar at any time.
Principle 7: Recognise and manage risk		
<p>Recommendation 7.1</p> <p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director, and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual</p>	YES	<p>(a) Due to its size, the Board has determined that the function of the Audit and Risk Committee is most efficiently carried out with full board participation and accordingly, the Company has elected not to establish a separate Audit and Risk Committee at this stage.</p> <p>As a result, the duties that would ordinarily be assigned to the Audit and Risk Committee under the Audit and Risk Committee Charter are carried out by the full board.</p> <p>The Audit and Risk Committee Charter is contained in the Company's Corporate Governance Plan which is available on the Company's website.</p> <p>(b) The Board devotes time at regular Board meetings on at least an annual basis to fulfil the roles and</p>

<p>attendances of the members at those meetings; or</p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.</p>		<p>responsibilities ordinarily carried out by an Audit and Risk Committee, including those tasks related to overseeing risk and maintaining the Company's risk management framework.</p>
<p>Recommendation 7.2</p> <p>The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the board; and</p> <p>(b) disclose in relation to each reporting period, whether such a review has taken place.</p>	<p>YES</p>	<p>(a) The Company's process for risk management and internal compliance includes a requirement to identify and measure risk, monitor the environment for emerging factors and trends that affect these risks, formulate risk management strategies and monitor the performance of risk management systems. The Company's Risk Management Policy details the Company's disclosure requirements with respect to the review of the Company's risk management procedures and internal compliance and controls.</p> <p>(b) A formal review of the Company's risk management framework was not undertaken during 2019. However, the full Board regularly reviews and considers risk on an ongoing basis within its regular board meetings and in consultation with management.</p>
<p>Recommendation 7.3</p> <p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p>YES</p>	<p>(a) Due to the size and nature of the Company's operations, the Company does not consider it necessary to establish a formal internal audit committee at this stage. Instead, the Audit and Risk Committee (the function of which is carried out by the full Board) is responsible for monitoring the need for a formal internal audit function.</p> <p>(b) The effectiveness of the Company's risk management and internal control processes is subject to regular and ongoing review by the Board.</p> <p>(c)</p>
<p>Recommendation 7.4</p> <p>A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	<p>YES</p>	<p>The Company's Risk Management Policy details the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (where appropriate).</p> <p>A copy of the Company's Risk Management Policy is available on the Company's website.</p>
<p>Principle 8: Remunerate fairly and responsibly</p>		
<p>Recommendation 8.1</p> <p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director, and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	<p>YES</p>	<p>(a) Due to its size, the Board has determined that the function of the Remuneration Committee is most efficiently carried out with full board participation and accordingly, the Company has elected not to establish a separate Remuneration Committee at this stage. As a result, the duties that would ordinarily be assigned to the Remuneration Committee under the Remuneration Committee Charter are carried out by the full board. The Remuneration Committee Charter is available on the Company's website.</p> <p>(b) The Board devotes time on at least an annual basis to fulfil the roles and responsibilities of the Remuneration Committee, including consideration of the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>
<p>Recommendation 8.2</p>	<p>YES</p>	<p>The Company's policies and practices regarding the remuneration of non-executive and executive Directors and</p>

<p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives and ensure that the different roles and responsibilities of non-executive directors compared to executive directors and other senior executives are reflected in the level and composition of their remuneration.</p>		<p>other senior employees are set out in the Remuneration Report contained in the Company's Annual Report.</p>
<p>Recommendation 8.3</p> <p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	<p>YES</p>	<p>(a) The Company's Remuneration Committee (the function of which is currently performed by the full Board) is responsible for the review and approval of any equity-based remuneration schemes offered to Directors and Employees of the Company. Further, in accordance with the Remuneration Committee Charter, the Remuneration Committee is also responsible for granting permission, on a case by case basis, for scheme participants to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Scheme.</p> <p>(b) The Company's policy in this regard is set out the Company's Remuneration Committee Charter, a copy of which is available on the Company's website.</p>

Directors' Report - Remuneration Report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Employment agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency

The Board as a whole carry out the function of the Nomination and Remuneration Committee, which is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive director's remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. No director is present during any discussions relating to the determination of his or her own remuneration.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting.

Directors' Report - Remuneration Report (audited) *(Continued)*

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders' value relative to the entire market and the increase compared to the consolidated entity's direct competitors.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of UUV Aquabotix Limited during the financial year and up to the date of this report, unless otherwise stated:

- Peter James – Non-Executive Chairman
- Admiral Jay Cohen – Non-Executive Director
- Robert Clisdell – Non-Executive Director

And the following persons:

- Whitney Million – Chief Executive Officer

There have been no changes to the key management personnel since the end of the reporting period.

Executive remuneration governance

The Board reviews and approves the remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders having consideration to the amount deemed to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility. The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

Remuneration committee

Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company does not currently have a Remuneration Committee. Pursuant to clause 5.1 of the Company's Board Charter <https://www.aquabotix.com/investors.html>, the full Board currently carries out the duties that would ordinarily be assigned to the Remuneration Committee under the written terms of reference for that committee.

The Board will devote time on an annual basis to fulfil the roles and responsibilities associated with setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive. The Board of Directors is responsible for overseeing performance evaluations of senior executives on an annual basis. This evaluation is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

Directors' Report - Remuneration Report (audited) *(Continued)*

Directors' remuneration

The remuneration of an Executive Director is decided by the Board, without the affected Executive Director participating in that decision-making process.

In accordance with the Constitution, the total maximum remuneration of Non-Executive Directors is initially set by the Board and subsequent variation is by ordinary resolution of shareholders in general meeting in accordance with the Constitution, the *Corporations Act 2001* and the ASX Listing Rules, as applicable.

The determination of Non-Executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director. The current amount has been set at an amount not to exceed \$300,000 per annum.

In addition, a Director may be paid fees or other amounts, subject to any necessary shareholder approval, including non-cash performance incentives such as options, as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Group's remuneration policy for Executive Directors (including the Managing Director) and senior management is designed to promote superior performance and long-term commitment to the Group. Executives receive a base remuneration which is market related and may also be entitled to performance-based remuneration at the ultimate discretion of the Board.

Overall remuneration policies are subject to the discretion of the Board and can be changed to reflect competitive market and business conditions where it is in the interests of the Group and the Company's shareholders to do so.

Executive remuneration and other terms of employment are reviewed annually by the Board having regard to performance, relevant comparative information and, where necessary, expert advice.

Executive remuneration framework

The Group's reward policy reflects the benefits of aligning executive remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Group. The main principles of the policy are:

- (a) remuneration is reasonable and fair, taking into account the Group's obligations at law, the competitive market in which the Group operates and the relative size and scale of the Group's business;
- (b) individual reward should be linked to clearly specified performance targets which should be aligned to the Group's short term and long-term performance objectives; and
- (c) executives should be rewarded for both financial and non-financial performance.

The total remuneration of Executive Directors (including the Managing Director) and other senior managers consist of the following:

- (a) Salary - Executive Directors and senior managers may receive a fixed sum payable monthly in cash;
- (b) Short term incentive - Executive Directors and nominated senior managers are eligible to participate in a profit participation plan if deemed appropriate. The Board may at its discretion award bonuses for exceptional performance in relation to each person's pre-agreed Key Performance Indicators;
- (c) Post-employment benefits – this refers to superannuation schemes; and
- (d) Long term incentives - Executive Directors may participate in share option schemes with the prior approval of shareholders. Executives may also participate in employee share option schemes, with any option issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options to executives outside of approved Employee Option Plans in exceptional circumstances.

Directors' Report - Remuneration Report (audited) *(Continued)*

KMP remuneration disclosures in detail

The Directors and other Key Management Personnel ("KMP") of the Company during or since the end of the financial year were:

Name	Position
Non-Executive Directors	
Peter James	Independent Non-Executive Chairman
Admiral Jay Cohen	Non-Executive Director
Robert Clisdell	Non-Executive Director
Key Management Personnel	
Whitney Million	Chief Executive Officer

There have been no changes to the key management personnel since the end of the reporting period.

Remuneration of KMP

Details of the remuneration of the Directors of UUV Aquabotix Limited and other KMP are set out in tables below:

	Short-term benefits				Post-employment benefits		Long-term benefits	Share-based payments		Total
	Cash Salary and fees ^{^^}	Cash bonus	Non-monetary Benefits	Other Benefits	Super-annuation	Other Post-employment benefits	Long Service Leave	Equity-settled shares	Equity-settled options [#]	
2019	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Non-Executive Directors:

	*									
Peter James	41,977	-	-	-	-	-	-	58,333	36,865	136,865
Jay M. Cohen	57,680	-	-	-	-	-	-	-	14,746	72,426
Robert Clisdell	20,834	-	-	-	-	-	-	29,166	25,805	75,805

Other Key Management Personnel:

Whitney Million	326,087	-	-	10,901	-	-	-	-	36,414	373,402
	533,767	-	-	10,901	-	-	-	-	113,830	658,498

* Represents annual Director fees of \$100,000, of which AUD\$58,333 relating to amounts owed for 2019 was settled in ordinary shares.

** Represents annual Director fees of USD\$40,000 converted to AUD.

^ Represents annual Director fees of \$50,000, of which AUD\$29,166 relating to amounts owed for 2019 was settled in ordinary shares.

*** Represents salary of USD\$225,000 converted to AUD. Of this, USD\$1,730 was paid in 2020.

Represents share options granted on 12 December 2019 and 18 December 2019 and issued to Directors, KMP and employees on 24 December 2019.

^^ All fees are net of GST.

Directors' Report - Remuneration Report (audited) *(Continued)*

2018	Cash salary and fees ^{***}	Short-term benefits			Post-employment benefits		Long-term benefits	Share-based payments		Total
		Cash bonus	Non-monetary Benefits	Other Benefits	Super-annuation	Other Post-employment benefits	Long Service Leave	Equity-settled shares	Equity-settled options	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>										
Peter James	100,000	-	-	-	-	-	-	-	-	100,000
Jay M. Cohen	53,505	-	-	-	-	-	-	-	-	53,505
Robert Clisdell	39,785	-	-	-	-	-	-	-	19,599	59,384
<i>Executive Directors:</i>										
Durval Tavares	149,004	-	-	5,785	-	-	-	-	-	154,789
Brendan Martin	175,395	100,000	-	-	21,094	-	-	-	5,560	302,049
<i>Other Key Management Personnel:</i>										
Whitney Million	219,231	-	-	6,581	-	-	-	-	157,976	383,788
David Batista	205,922	-	-	14,358	-	-	-	-	-	220,280
	942,842	100,000	-	26,724	21,094	-	-	-	183,135	1,273,795

* Represents annual Director fees of USD\$40,000 converted to AUD.

** Represents annual Director fees of \$50,000, on a prorate basis from date of start, of which only \$14,784.92 was paid in 2018.

*** Represents Director fees of USD\$17,500 converted to AUD, plus a salary of USD\$77,283 to date of cessation of services. Mr Tavares ceased being an Executive Director on 23 July 2018.

^ Mr. B Martin was paid a bonus of AUD\$100,000 in January 2018 corresponding to his services in 2017. Mr. B Martin ceased being an Executive Director on 6 June 2018.

^^ Mr Batista ceased being a KMP on 28 March 2018.

^^^ All fees are net of GST.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk – STI		At risk – LTI	
	2019	2018	2019	2018	2019	2018
<i>Non-Executive Directors:</i>						
Peter James	100%	100%	-	-	-	-
Jay M. Cohen	100%	100%	-	-	-	-
Robert Clisdell	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
Whitney Million	100%	100%	-	-	-	-

Cash bonuses are dependent on meeting defined performance measures. The amount of the bonus is determined having regard to the satisfaction of performance measures and weightings as described above in the section 'Consolidated entity performance and link to remuneration'. The maximum bonus values are established at the start of each financial year and amounts payable are determined in the final month of the financial year by the Nomination and Remuneration Committee.

No cash bonuses were paid or are payable for the financial year ended 31 December 2019 (2018: nil). There has been no forfeit of cash bonuses.

Directors' Report - Remuneration Report (audited) *(Continued)*

Employment agreements with Key Management Personnel

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Whitney Million
Title:	Chief Executive Officer
Agreement commenced:	21 March 2018
Term of agreement:	No fixed term
Details:	Base salary of USD\$225,000, to be reviewed annually by the board of Directors. 3-month termination notice upon resignation, immediate termination with cause, eligible to participate in the incentive option program as offered by the Company. In December 2019, it was agreed that Whitney Million be entitled to make an election on a quarterly basis to receive up to USD\$25,000 of the base salary in UUV ordinary shares, in lieu of cash.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Issue of ordinary shares

Ordinary shares were issued to directors in lieu of fees during the year ended 31 December 2019. Further details are disclosed in the table below. Other than as noted below, no ordinary shares were issued to directors and other key management personnel as part of compensation during the year ended 31 December 2018.

The number of shares in the Company held during the financial year by each Director of UUV Aquabotix Limited and other key management personnel, including their personally related entities, are set out in the table below:

Name		Balance at 1 January 2019	Received upon exercise of options	Other changes during the year ^	Issued in lieu of cash fees	Exercise price	Balance at 31 December 2019
Peter James	*	1,398,213	-	1,957,499	21,751,414	-	25,107,126
Robert Clisdell	**	50,000	-	70,000	8,545,197	-	8,665,197
Jay Cohen		-	-	-	-	-	-
Whitney Million		-	-	-	-	-	-
TOTAL		1,448,213	-	2,027,499	30,296,611	-	33,772,323

* 21,751,414 ordinary shares, subject to voluntary escrow restrictions until 7 October 2020, were issued in lieu of director fees of \$128,333, including GST, at a deemed issue price of \$0.0059. \$64,167, including GST, relates to amounts owed in respect of 2018.

** 8,545,197 ordinary shares, subject to voluntary escrow restrictions until 7 October 2020, were issued in lieu of director fees of \$50,417, including GST, at a deemed issue price of \$0.0059. \$18,333, including GST, relates to amounts owed in respect of 2018.

^ Ordinary shares purchased as part of renounceable rights issues announced during 2019.

Directors' Report - Remuneration Report (audited) *(Continued)*

The number of shares in the Company held during the financial year ended 31 December 2018 by each Director of UUV Aquabotix Limited and other key management personnel, including their personally related entities, are set out in the table below:

Name	Balance at 1 January 2018	Received upon exercise of options	Other changes during the year	Exercise price	Balance at 31 December 2018
Peter James	398,213	-	1,000,000	-	1,398,213
Durval Tavares*	36,245,331	-	-	-	36,245,331
Brendan Martin**	125,000	-	-	-	125,000
Robert Clisdell	50,000	-	-	-	50,000
Jay Cohen	-	-	-	-	-
Whitney Million	-	-	-	-	-
David Batista***	-	-	-	-	-
TOTAL	36,818,544	-	1,000,000	-	37,818,544

* Mr Tavares ceased being an Executive Director on 23 July 2018.

** Mr Martin ceased being an Executive Director on 6 June 2018.

*** Mr Batista ceased being a KMP on 28 March 2018.

Performance shares held by KMP

45,000,000 performance shares in UUV Aquabotix Limited were issued on 20 April 2017 to shareholders of Aquabotix Corporation Technology as part of an exchange agreement, conditional upon UUV Aquabotix Limited obtaining listing approval. 15,000,000 Class A performance shares lapsed unexercised during the year ended 31 December 2019. Further details are provided in Note 23 to the financial statements. No other performance shares were converted or redeemed, nor were any milestones for performance shares met during the year ended 31 December 2019. There were no performance share holdings held by key management personnel, including their personally related entities during 2019. Performance share holdings held by key management personnel, including their personally related entities, during the year ended 31 December 2018 are as follows:

Name	Plan	Balance at 1 January 2018	Granted as compensation	Lapsed during the period	Received upon listing of UUV Aquabotix Ltd	Exercise price	Balance at 31 December 2018
Durval Tavares*	A [^]	5,436,800	-	-	-	-	5,436,800
Durval Tavares*	B	5,436,800	-	-	-	-	5,436,800
Durval Tavares*	C	5,436,800	-	-	-	-	5,436,800
TOTAL		16,310,400	-	-	-	-	16,310,400

* Mr Tavares ceased being an Executive Director on 23 July 2018.

[^] Note Class A performance shares lapsed during the period ended 31 December 2019.

Directors' Report - Remuneration Report (audited) *(Continued)*

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable dated	Expiry date	Exercise price	Fair value per option at grant dated
Peter James	10,000,000	12 December 2019	24 December 2019	24 December 2023	\$0.005	0.0021
Peter James	10,000,000	12 December 2019	24 December 2020	24 December 2023	\$0.010	0.0015
Robert Clisdell	7,000,000	12 December 2019	24 December 2019	24 December 2023	\$0.005	0.0021
Robert Clisdell	7,000,000	12 December 2019	24 December 2020	24 December 2023	\$0.010	0.0015
Jay Cohen	4,000,000	12 December 2019	24 December 2019	24 December 2023	\$0.005	0.0021
Jay Cohen	4,000,000	12 December 2019	24 December 2020	24 December 2023	\$0.010	0.0015
Whitney Million	6,000,000	18 December 2019	24 December 2019	24 December 2023	\$0.005	0.0021
Whitney Million	6,000,000	18 December 2019	24 December 2020	24 December 2023	\$0.010	0.0015
Whitney Million	6,500,000	18 December 2019	24 December 2021	24 December 2023	\$0.015	0.0012
Whitney Million	6,500,000	18 December 2019	24 December 2022	24 December 2023	\$0.020	0.0010

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel during the financial year ended 31 December 2018 are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable dated	Expiry date	Exercise price	Fair value per option at grant dated
Robert Clisdell	1,000,000	1 June 2018	1 June 2018	30 May 2021	\$0.11	\$0.0266
Brendan Martin	300,000	11 December 2018	11 December 2018	21 December 2021	\$0.11	\$0.0254
Whitney Million	1,500,000	21 March 2018	18 April 2018	18 April 2021	\$0.11	\$0.0258
Whitney Million	1,500,000	21 March 2018	18 April 2019	18 April 2022	\$0.11	\$0.0311
Whitney Million	1,500,000	21 March 2018	18 April 2020	18 April 2023	\$0.11	\$0.0354
Whitney Million	1,500,000	21 March 2018	18 April 2021	18 April 2024	\$0.11	\$0.0393

Options granted carry no dividend or voting rights.

All options were granted over unissued fully paid ordinary shares in the Company. The number of options granted was determined having regard to the satisfaction of performance measures and weightings as described above in the section 'Consolidated entity performance and link to remuneration'. Options vest based on the provision of service over the vesting period whereby the executive becomes beneficially entitled to the option on vesting date. Options are exercisable by the holder as from the vesting date. There has not been any alteration to the terms or conditions of the grant since the grant date. There are no amounts paid or payable by the recipient in relation to the granting of such options other than on their potential exercise.

Directors' Report - Remuneration Report (audited) *(Continued)*

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 31 December 2019 are set out below:

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Peter James	36,865	-	-	26.9%
Jay Cohen	14,746	-	-	20.4%
Robert Clisdell	25,805	-	-	34.0%
Whitney Million	36,414	-	-	10.1%

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 31 December 2018 are set out below:

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Peter James	-	-	-	0%
Jay Cohen	52,952	-	-	0%
Robert Clisdell	19,599	-	-	33%
Whitney Million	157,976	-	-	41%

Performance of the Company and shareholder returns

The performance of the Company is summarised below.

	2017 \$	2018 \$	2019 \$
Sales revenue	747,131	154,494	322,166
EBITDA	(4,565,627)	(4,803,011)	(2,329,871)
Loss after income tax	(4,559,109)	(4,833,146)	(2,409,264)
Basic loss per share (cents)	(4.23)	(3.35)	(0.75)
Share price as at 31 December (cents)	9.90	5.00	0.004
Dividends proposed or paid in the year	Nil	Nil	Nil

Directors' Report - Remuneration Report (audited) *(Continued)*

Additional disclosures relating to key management personnel

Shareholding

The number of shares in UUV Aquabotix Limited held during the financial year ended 31 December 2019 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Received on exercise of options	Additions	Total
Ordinary shares					
Peter James	1,398,213	21,751,414	-	1,957,499	25,107,126
Jay Cohen	-	-	-	-	-
Robert Clisdell	50,000	8,545,197	-	70,000	8,665,197
Whitney Million	-	-	-	-	-
	1,448,213	30,296,611	-	2,027,499	33,772,323

The number of shares in UUV Aquabotix Limited held during the financial year ended 31 December 2018 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Received on exercise of options	Additions	Total
Ordinary shares					
Peter James	398,213	-	-	1,000,000	1,398,213
Jay Cohen	-	-	-	-	-
Durval Tavares*	36,245,331	-	-	-	36,245,331
Robert Clisdell	50,000	-	-	-	50,000
Brendan Martin**	125,000	-	-	-	125,000
David Batista***	-	-	-	-	-
	36,818,544	-	-	1,000,000	37,818,544

* Mr Tavares ceased to be an Executive Director on 23 July 2018.

** Mr Martin ceased to be an Executive Director on 6 June 2018.

*** Mr Batista ceased to be a KMP on 28 March 2018.

Directors' Report - Remuneration Report (audited) *(Continued)*

Option holding

The number of options over ordinary shares in the Company held during the financial year ended 31 December 2019 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired forfeited other	Balance at the end of the year	Options Vested at the end of the year	Options exercisable at the end of the year	Options unexercisable at the end of the year
Options over ordinary shares								
Peter James	6,250,000	20,000,000	-	(250,000)*	26,000,000	16,000,000	16,000,000	10,000,000
Jay Cohen	1,400,000	8,000,000	-	-	9,400,000	5,400,000	5,400,000	4,000,000
Robert Clisdell	1,050,000	14,000,000	-	(50,000)*	15,000,000	8,000,000	8,000,000	7,000,000
Whitney Million	6,000,000	25,000,000	-	-	31,000,000	9,000,000	9,000,000	22,000,000
	14,700,000	67,000,000	-	(300,000)	81,400,000	38,400,000	38,400,000	43,000,000

*These relate to the listed options issued with the IPO, which lapsed in April 2019.

The number of options over ordinary shares in the Company held during the financial year ended 31 December 2018 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired forfeited Other	Balance at the end of the year	Options Vested at the end of the year	Options exercisable at the end of the year	Options unexercisable at the end of the year
Options over ordinary shares								
Peter James	6,250,000	-	-	-	6,250,000	3,000,000	3,000,000	3,250,000
Jay Cohen	1,400,000	-	-	-	1,400,000	700,000	700,000	700,000
Robert Clisdell	50,000*	1,000,000	-	-	1,050,000	1,000,000	1,000,000	50,000
Brendan Martin	4,125,000	300,000	-	(2,000,000)	2,425,000	2,300,000	2,300,000	125,000
David Batista	6,000,000	-	-	(6,000,000)	-	-	-	-
Whitney Million	-	6,000,000	-	-	6,000,000	1,500,000	1,500,000	4,500,000
	17,825,000	7,300,000	-	(8,000,000)	17,125,000	8,500,000	8,500,000	8,625,000

No remuneration consultants were used during the year.

Other transactions with key management personnel and their related parties.

There were no transactions with key management personnel and their related parties other than as disclosed above.

This concludes the remuneration report, which has been audited.

Directors' Report *(Continued)*

Shares under option

Unissued ordinary shares of UUV Aquabotix Limited under option at the date of this report are as follows:

Option Class	Grant date	Expiry date	Exercise price	Number under option
Class B	20 April 2017	19 April 2020	\$0.22	10,000,000
Class C	20 April 2017	19 April 2020	\$0.30	700,000
Class D	20 April 2017	19 April 2021	\$0.30	700,000
Class E	20 April 2017	19 April 2021	\$0.30	5,000,000
Class F	20 April 2017	19 April 2022	\$0.30	3,000,000
Class R	21 March 2018	18 April 2021	\$0.11	1,500,000
Class S	21 March 2018	18 April 2022	\$0.11	1,500,000
Class T	21 March 2018	18 April 2023	\$0.11	1,500,000
Class U	21 March 2018	18 April 2024	\$0.11	1,500,000
Class V	1 June 2018	30 May 2021	\$0.11	1,000,000
Class W	11 December 2018	21 December 2021	\$0.11	300,000
Class X	18 July 2018	18 July 2021	\$0.11	400,000
Class Y	18 July 2018	18 July 2021	\$0.11	400,000
Class Z	18 July 2018	18 July 2021	\$0.11	400,000
Class AA	2 November 2018	2 November 2021	\$0.11	200,000
Class AB	2 November 2018	2 November 2021	\$0.11	200,000
Class AC	2 November 2018	2 November 2021	\$0.11	200,000
Class AD	12 and 18 December 2019	24 December 2023	\$0.005	32,750,000
Class AE	12 and 18 December 2019	24 December 2023	\$0.010	32,750,000
Class AF	12 and 18 December 2019	24 December 2023	\$0.015	6,500,000
Class AG	12 and 18 December 2019	24 December 2023	\$0.020	6,500,000
				107,000,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

No ordinary shares of UUV Aquabotix Limited were issued during the year ended 31 December 2019 (31 December 2018: none) and up to the date of this report on the exercise of options granted.

Indemnity and Insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executive of the Company against a liability to the extent permitted by the Corporation Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Directors' Report *(Continued)*

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 17 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 17 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of RSM Australia Partners

There are no officers of the Company who are former partners of RSM Australia Partners.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under the Section 307C of the *Corporations Act 2001* is set out on page 35.

Auditor

RSM Australia Partners continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



Peter James
Chairman
27 February 2020

RSM Australia Partners

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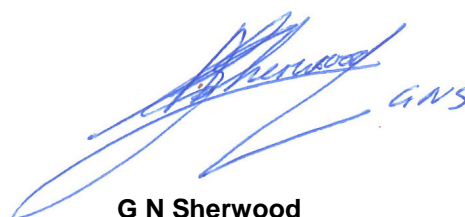
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of UUV Aquabotix Limited for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM

RSM AUSTRALIA PARTNERS



G N Sherwood
Partner

Sydney, NSW

Dated: 27 February 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	31 December 2019 \$	31 December 2018 \$
Revenue	4	322,166	154,494
Cost of goods sold		(119,298)	(149,118)
Gross profit		202,868	5,376
Other income	4	8,652	20,595
Expenses			
General and administrative expense	5	(2,163,670)	(4,090,234)
Selling and marketing expense		(53,457)	(259,382)
Research and development expense		(96,431)	(19,946)
Depreciation expense	5,10	(44,625)	(50,730)
Write down of consumables	9	-	(205,400)
Loss on disposal of assets	10	(71,096)	-
Impairment of right-of-use asset	5,11	(380,072)	-
Lease liabilities released	5,11	390,313	-
Share option expense	24	(160,256)	(281,007)
Foreign exchange gains/(losses)		(6,722)	47,582
Interest expense		(34,768)	-
Loss before income tax		(2,409,264)	(4,833,146)
Income tax expense	6	-	-
Loss after income tax		(2,409,264)	(4,833,146)
Other comprehensive income/(loss): <i>Items that may be reclassified to profit or loss</i>			
Translation of foreign controlled entity		(14,174)	58,516
Total comprehensive loss for the period		(2,423,438)	(4,774,630)
			Cents
Basic loss per share	25	(0.75)	(3.35)
Diluted loss per share	25	(0.75)	(3.35)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

	Note	31 December 2019 \$	31 December 2018 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	260,254	704,377
Trade and other receivables	8	91,204	89,957
Inventories	9	109,834	131,618
Total current assets		461,292	925,952
Non-current assets			
Right-of-use asset	11	-	-
Property, plant and equipment	10	32,752	130,741
Total non-current assets		32,752	130,741
Total assets		494,044	1,056,693
LIABILITIES			
Current liabilities			
Trade and other payables	12	169,245	259,201
Employee benefits	13	34,001	117,078
Customer deposits		12,228	12,142
Total current liabilities		215,474	388,421
Total liabilities		215,474	388,421
Net assets		278,570	668,272
EQUITY			
Share capital	21	12,065,190	10,191,710
Reserves		1,162,212	1,016,130
Accumulated losses	14	(12,948,832)	(10,539,568)
Total equity		278,570	668,272

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

	Issued Capital \$	Options reserve \$	Foreign exchange reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2018	8,941,710	764,960	(21,279)	(5,773,496)	3,911,895
Loss for the year	-	-	-	(4,833,146)	(4,833,146)
Exchange difference on translation of foreign operations	-	-	58,516	-	58,516
Total comprehensive income/(loss) for the period	-	-	58,516	(4,833,146)	(4,774,630)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued during the year (Note 21)	1,250,000	-	-	-	1,250,000
Share options lapsed in the year	-	(67,074)	-	67,074	-
Share options issued in the year (Note 24)	-	281,007	-	-	281,007
Balance at 31 December 2018	10,191,710	978,893	37,237	(10,539,568)	668,272
Balance at 1 January 2019	10,191,710	978,893	37,237	(10,539,568)	668,272
Loss for the year	-	-	-	(2,409,264)	(2,409,264)
Exchange difference on translation of foreign operations	-	-	(14,174)	-	(14,174)
Total comprehensive loss for the period	-	-	(14,174)	(2,409,264)	(2,423,438)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued in the year (Note 21)	1,873,480	-	-	-	1,873,480
Share options issued in the year (Note 24)	-	160,256	-	-	160,256
Balance at 31 December 2019	12,065,190	1,139,149	23,063	(12,948,832)	278,570

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

	Note	31 December 2019 \$	31 December 2018 \$
Cash flows from operating activities			
Receipts from customers		320,245	300,669
Payments to suppliers and employees		(2,327,444)	(4,737,593)
Net cash flows used in operating activities	27	(2,007,199)	(4,436,926)
Cash flows from investing activities			
Purchase of plant and equipment		-	(39,246)
Net cash flows used in investing activities		-	(39,246)
Cash flows from financing activities			
Net proceeds from issue of shares and convertible notes	21	1,772,877	1,250,000
Proceeds from borrowings		200,000	-
Repayment of borrowings		(200,000)	-
Share issue costs	21	(133,146)	-
Payments in respect of finance lease		(90,006)	-
Net cash flows from financing activities		1,549,725	1,250,000
Cash and cash equivalents at beginning of period		704,377	3,887,828
Net decrease in cash and cash equivalents		(457,474)	(3,226,172)
Effects of exchange rate changes on cash and cash equivalents		13,351	42,721
Cash and cash equivalents at the end of the financial year		260,254	704,377

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Corporate Information

The consolidated financial report of UUV Aquabotix Limited ("the Company") and its controlled entities (together "the Group") for the year ended 31 December 2019 was authorised for issue in accordance with a resolution of the Directors on 27 February 2020.

UUV Aquabotix Limited is a company incorporated in Australia, limited by shares which are publicly traded on the Australian Stock Exchange.

The principal activity of the Company during the period was the design, development, manufacture and sale of unmanned underwater vehicles ("UUVs").

Statement of compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

Accounting Standards are Australian Accounting Standards ("AAS"). Compliance with AAS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ("IFRS").

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Group is a for-profit entity.

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) New accounting standards and interpretations

The Company has adopted all of the new, revised or amended Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

Any new or amended Accounting Standards or interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations came into effect from 1 January 2019:

AASB 16 Leases

The Company adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact on the financial position of the consolidated entity from the adoption of AASB 16 upon initial application of AASB 16 is detailed below.

- Recognised right-of-use assets of \$387,640, discounted based on the interest rate of 12%.
- Recognised lease liabilities of \$387,640 in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Net assets reduced by \$nil

Notes to the Financial Statements *(Continued)*

(b) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on the basis of historical cost as explained in the accounting policies below.

The consolidated financial statements are presented in Australian dollars ("AUD"), unless otherwise noted, which is also the functional currency of the Company. The principal accounting policies are set out below.

Going Concern

The financial statements have been prepared on an accruals basis under the historical cost convention unless otherwise stated in the notes.

During the year ended 31 December 2019, the Group incurred losses of \$2,409,264 and had net cash outflows used in operating activities of \$2,007,199.

The ability of the Group to continue as a going concern is dependent on a number of factors, the most significant of which is its ability to generate sufficient returns from operating activities, or to raise further capital, thus resulting in a material uncertainty that may cast doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

This consolidated financial report has been prepared on the basis that the Company will continue to meet its commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business.

The Directors believe that there are reasonable grounds to believe that the Group will continue as a going concern for a period of at least 12 months following the date of this Report, after consideration of the following factors:

- on January 28, 2020, UUV Aquabotix Limited entered into a non-convertible unsecured credit facility agreement, replacing the above facility, with Bergen Global Opportunity Fund LP ("the Lender"), a related party to the Company. Under the agreement, the Lender made available US\$248,000 by way of an unsecured credit facility, to be drawn down at its discretion by the Company over the following 12 months subject to it meeting various administrative conditions precedent. A further US\$352,000 may be drawn down by mutual agreement between the Company and the Lender. Initial fees of US\$48,000 will be payable if the Company elects to draw down on the facility. Interest is payable on any drawn down amount at a rate of 14.99%, payable in arrears on a quarterly basis. The facility is available for a period of 12 months from the date of execution of the agreement. In the event that facility is drawn down, the maturity date for repayment of the loans is 21 January 2021. As at the date of this report, the facility has not been drawn down on;
- the Company had net current assets of \$245,818, net assets of \$278,570 as well as cash and cash equivalents of \$260,254 as at 31 December 2019;
- the Company expects to generate increased revenues from the sale of SwarmDiver™ products within the next 12 months and beyond;
- the Company has the ability to issue additional shares to raise further working capital and has been successful in doing this previously, as evidenced by the successful capital raising completed during financial year ended 31 December 2019;
- the Company has the ability to apply for additional grants to fund research and development activities for additional components or to further enhance the capabilities of its existing products. During 2019, the Company benefitted from one such arrangement with the Defense Innovation Network in Australia as well as U.S. Military-funded development contracts;
- the Company has the ability to apply for additional grants to fund export and marketing activities to further promote the sale of its products. During 2019, the Company received one such grant for participation in a trade show, and the Company has already been notified of acceptance for its first 2020 trade show support; and
- the Company also has the ability to scale down its operations in order to further curtail expenditure in the event insufficient cash is available to meet projected expenditure.

Accordingly, the Directors believe that the Group will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The report does not include any adjustments relating to the amounts or classification or recorded assets or liabilities that might be necessary if the Group does not continue as a going concern.

Notes to the Financial Statements *(Continued)*

(c) Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

(d) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of UUV Aquabotix Limited ('company' or 'parent entity') as at 31 December 2019 and the results of all subsidiaries for the year then ended. UUV Aquabotix Limited and its subsidiaries together are referred to in these financial statements as the 'Group' or 'the Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance. The CODM, who is responsible for allocating resources and assessing performance of the operating segments is the CEO.

(f) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

(g) Foreign currency translation

The financial statements are presented in Australian dollars, which is UUV Aquabotix Limited's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

The table below shows the average exchange rates and the exchange rates as at the reporting date for the period.

	USD	
	2019	2018
As at 31 December	0.70	0.71
Average rate for the period ending 31 December	0.69	0.75

Notes to the Financial Statements *(Continued)*

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into consideration any trade rebates or discounts. Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

The Group enters into sales transactions involving either a sale to the client or the sale of services. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction in order to reflect the substance of the transaction.

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Sale of goods

Revenue from sales of goods is recognised when the entity has delivered a product to the customer, which is defined as upon shipment. The recorded revenue is the gross amount of sale, including any fees payable for the transaction. Such fees are included in cost of goods sold.

Sale of services

Revenue from sales of services is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(i) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Notes to the Financial Statements *(Continued)*

(i) Income tax *(continued)*

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

The Group currently does not recognise any deferred tax assets or liabilities.

(j) Goods and services and other value-added taxes ("GST")

Revenue, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the taxation authority, in which case it is recognised as part of the acquisition cost of an asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of other receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts.

(l) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowances for expected credit losses. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance for expected credit losses is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the allowance for expected credit losses is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. They are initially recognised at fair value. Due to their short-term nature they are subsequently measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements *(Continued)*

(o) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(p) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(q) Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

The group makes mandatory fixed percentage contributions for all Australian resident employees to complying third party superannuation funds.

Contributions to these superannuation funds are expensed in the period they are incurred.

Share-based payments

Equity-settled share-based compensation benefits are provided to certain key employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The costs of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk-free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The costs of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Notes to the Financial Statements *(Continued)*

(r) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities, unless the outflow of resources is remote, in which case no liability is recognised.

(s) Contributed equity

Costs directly attributable to the issue of new shares are shown as a deduction from the equity proceeds net of any income tax benefit.

(t) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(u) Research and development

Research costs are expensed as incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Otherwise, development costs are expensed as incurred. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit.

(v) Property, plant and equipment

Plant and equipment is recorded at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Furniture and equipment	3 - 5 years
Demonstration equipment	2 years
Manufacturing tools	5 - 7 years
Moulds	7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

(w) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Financial Statements *(Continued)*

(x) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

(y) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of UUV Aquabotix Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(z) Financial instruments – recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs.

The Company's financial assets include loans, trade and other receivables. After initial recognition, financial assets are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

The Company's financial liabilities include borrowings, trade and other payables. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

(aa) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely dependent of the cash inflows from other assets or other groups of assets (cash generating units).

(bb) Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

(cc) Reclassifications

During the period, certain amounts have been reclassified in order to comply with new accounting standards.

(dd) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian accounting standards and interpretations that have recently been issued or amended but are not mandatory for 31 December 2019 reporting periods have not been early adopted by the Group. The Group has not yet assessed the impact of these new or amended standards and interpretations.

Notes to the Financial Statements *(Continued)*

2. Critical accounting judgements, estimates and assumptions

In the application of the Group's accounting policies, which are described in Note 1, Management is required to make judgements, estimates and assumptions in the preparation of the financial statements about matters that are not readily available from other sources. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Details of the key assumptions used are set out in Note 24.

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Notes to the Financial Statements *(Continued)*

3. Segment information

The Group is organised into one operating segment, being the development and subsequent sale of unmanned underwater vehicles. This segment is based on the internal reports that are reviewed and used by the Board of Directors and the CEO (jointly referred to as the Chief Operating Decision Makers ('CODM')) to assess performance and determine the allocation of resources on a regular basis.

The chief operating decision maker reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting are consistent with those adopted in the financial statements.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans are eliminated on consolidation.

Major customers

During the year ended 31 December 2019, approximately AUD\$156,000 (2018: AUD\$110,000) of the consolidated entity's external revenue was derived from sales to a major US customer.

Geographical segment information

The following tables present certain information regarding geographical segments for the years ended 31 December 2019 and 31 December 2018.

Segment performance 31 December 2019	USA \$	Australia \$	Elimination \$	Total \$
External sales	322,166	-	-	322,166
Total segment revenue	322,166	-	-	322,166
Other income	-	6,500	-	6,500
Interest income	1,656	496	-	2,152
Depreciation	(43,290)	(1,335)	-	(44,625)
Finance costs	(26,118)	(8,650)	-	(34,768)
Income tax credit/(expense)	-	-	-	-
Loss after income tax expense	(1,323,787)	(1,084,477)	-	(2,409,264)
<i>Assets and liabilities</i>				
Segment assets	203,675	6,546,799	(6,256,430)	494,044
Segment liabilities	(6,322,312)	(148,592)	6,256,430	(215,474)

Segment performance 31 December 2018	USA \$	Australia \$	Elimination \$	Total \$
External sales	154,494	-	-	154,594
Total segment revenue	154,494	-	-	154,494
Other income	339	3,714	-	4,054
Interest income	3,151	13,390	-	16,541
Depreciation	(49,395)	(1,335)	-	(50,730)
Finance costs	-	-	-	-
Income tax credit/(expense)	-	-	-	-
Loss after income tax expense	(3,694,113)	(1,139,033)	-	(4,833,146)
<i>Assets and liabilities</i>				
Segment assets	434,331	5,642,022	(5,019,660)	1,056,693
Segment liabilities	(5,215,008)	(193,074)	5,019,660	(388,422)

Notes to the Financial Statements *(Continued)*

	31 December 2019 \$	31 December 2018 \$
4. Revenue		
Revenue from contracts with customers		
Sale of goods	285,013	11,632
Rendering of services	37,153	142,862
	<u>322,166</u>	<u>154,494</u>
Other revenue		
Interest revenue	2,152	16,541
Other revenue	6,500	4,054
	8,652	20,595
Total revenue	<u>330,818</u>	<u>175,089</u>
In the year ended 31 December 2019 and 31 December 2018, all revenues were generated through sales within the United States of America. The recognition of the sale of goods was at a point in time, and the rendering of services was recognised upon completion of the services provided.		
5. Expenses		
Loss before income tax includes the following specific expenses:		
General and administrative expense		
Defined contribution superannuation expense	8,978	21,046
Salaries and compensation	1,313,093	2,814,775
Professional fees	538,430	705,364
Travel	73,989	173,080
Minimum lease payments	22,674	114,448
Amounts in respect of lease settlement	90,637	-
Other occupancy expenses	23,577	98,469
Other	92,292	163,054
Total corporate and support expense	<u>2,163,670</u>	<u>4,090,234</u>
Depreciation		
Right-of-use asset	17,527	-
Plant and equipment	27,098	50,730
	<u>44,625</u>	<u>50,730</u>
Share option expense		
Share option expense	160,256	281,007
Foreign exchange losses/(gains)		
Foreign exchange losses/(gains)	6,722	(47,582)
Costs associated with leases ⁽ⁱ⁾		
Impairment of right-of-use asset	380,072	-
Release of lease liabilities	(390,313)	-
	<u>(10,241)</u>	<u>-</u>

(i) Further details regarding the lease liabilities and right-of-use asset are disclosed in Note 11

Notes to the Financial Statements *(Continued)*

	31 December 2019 \$	31 December 2018 \$
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6. Income taxes

The components of tax recognised in profit or loss include:

Current tax	-	-
Deferred tax	-	-
Aggregate income tax expense	-	-

The income tax for the year can be reconciled to the accounting profit as follows:

Loss before income tax expense	(2,409,264)	(4,833,146)
Income tax credit calculated at the Australian statutory rate of 30%	(722,779)	(1,449,944)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income tax:		
Other non-allowable items	-	-
Carried forward tax benefits not recognised in the current year	722,779	1,449,944
Income tax expense/(credit) recognised in profit or loss (relating to continuing operations)	-	-

The Group has carried forward tax losses of approximately \$11,625,177 (2018: \$9,360,618) relating to international operations, which will expire at various dates over the next seven years. Such losses may also be subject to changes in ownership provisions. Accordingly, some or all of the international losses may be limited in future periods or may expire before being able to be applied to reduce future foreign income tax liabilities.

The benefit of these losses will only be recognised when it is probable that future taxable profits will be available against which the benefits of the deferred tax assets can be utilised.

7. Cash and cash equivalents

Cash at bank and in hand	255,254	554,377
Short-term deposits	5,000	150,000
Total cash and cash equivalents	260,254	704,377

Notes to the Financial Statements *(Continued)*

	31 December 2019 \$	31 December 2018 \$
8. Trade and other receivables		
Trade receivables	7,130	-
Less: allowance for expected credit losses	-	-
Total trade and other receivables	7,130	-
Prepayments and other receivables	74,883	80,830
Security deposits	9,191	9,127
	84,074	89,957
Total trade and other receivables	91,204	89,957

Allowance for expected credit losses

The Group has not recognised any loss in profit or loss in respect of allowances for expected credit losses for the year ended 31 December 2019 (2018: \$nil).

Past due but not impaired

Customers with balances past due but without allowance for expected credit losses amount to \$nil as at 31 December 2019 (\$nil as at 31 December 2018).

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of receivables past due but not impaired are as follows:

0 to 3 months over due	7,130	-
3 to 6 months overdue	-	-
	7,130	-

9. Inventories

	31 December 2019 \$	31 December 2018 \$
Raw materials and finished goods	109,834	131,618

A write down of \$nil (2018: \$205,400) was recorded during the year ended 31 December 2019.

Notes to the Financial Statements *(Continued)*

10. Property, plant and equipment

	31 December 2019 \$	31 December 2018 \$
Plant and equipment – at cost	218,286	342,850
Less: accumulated depreciation	(185,534)	(212,109)
	32,752	130,741

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below

	Moulds \$	Tools \$	Furniture & Equipment \$	Total \$
Balance at 1 January 2018	16,711	20,904	22,752	60,367
Additions	-	-	39,246	39,246
Disposals	-	-	-	-
Transfers from inventory	-	76,456	-	76,456
Depreciation	(16,805)	(23,905)	(10,020)	(50,730)
Exchange differences	1,002	1,130	3,270	5,402
Balance at 31 December 2018	908	74,585	55,248	130,741
Additions	-	-	-	-
Disposals	-	(47,617)	(23,642)	(71,259)
Depreciation	(922)	(17,364)	(8,812)	(27,098)
Exchange differences	14	166	188	368
Balance at 31 December 2019	-	9,770	22,982	32,752

11. Right-of-use asset

On 1 January 2019, the Company adopted AASB 16, *Leases*. In doing so, as noted in Note 1, a right of use asset of \$387,640 and a corresponding lease liability of the same amount were recognised on the balance sheet on 1 January 2019. Since then, the Company vacated the property and negotiated a settlement to prematurely terminate this lease with the landlord. This resulted in an impairment loss the first half of 2019, with a corresponding adjustment to the outstanding lease liability was recognised in August 2019 to reflect the updated negotiated position between the parties. The agreed settlement terms effectively reduced the total expected cash outflow related to this lease by approximately \$400,000 over the next four years. As at 31 December 2019, there was \$22,437 within other payables and accrued expenses outstanding to complete the settlement terms.

	2019 \$	2018 \$
Balance at 1 January	-	-
Additions – AASB 16	387,640	-
Exchange differences	9,959	-
Less: accumulated depreciation	(17,527)	-
Less: Impairment	(380,072)	-
Balance at 31 December	-	-

As at 31 December 2019, the Company did not have any property, plant and equipment secured under leases.

Notes to the Financial Statements *(Continued)*

12. Current liabilities – trade and other payables

	31 December 2019	31 December 2018
	6	\$
Trade payables	11,976	80,412
Accrued expenses		
Other payables and accrued expenses	157,269	178,789
Trade and other current liabilities	169,245	259,201

13. Employee benefits

	31 December 2019	31 December 2018
	\$	\$
Employee benefits – less than 1 year	34,001	117,078
Total employee benefits	34,001	117,078

Amounts not expected to be settled within the next 12 months

The current liability for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

14. Accumulated losses

	31 December 2019	31 December 2018
	\$	\$
Accumulated losses at the beginning of the financial year	(10,539,568)	(5,773,496)
Transfer from reserves - share options lapsed in the period	-	67,074
Loss after income tax expense for the financial year	(2,409,264)	(4,833,146)
Accumulated losses at the end of the financial year	(12,948,832)	(10,539,568)

15. Loan facility and related parties

On 24 March 2019, UUV Aquabotix Limited entered into a non-convertible unsecured credit facility agreement with Long Hill Capital II, LLC, one of the Group's shareholders. Under the agreement, Long Hill Capital II, LLC made available up to AUD\$200,000 provided that the Group draw down on the facility within 60 days of entering into the agreement. No fees were incurred in the set up of this facility, and interest is charged at a rate of 12% per annum, payable in arrears each quarter. The facility has a maturity date of 20 March 2020.

The Group drew down on the full facility within 60 days of entering into the agreement and subsequently repaid the full amount plus interest of \$4,035 in June 2019.

On January 28, 2020, UUV Aquabotix Limited entered into a non-convertible unsecured credit facility agreement, replacing the above facility, with Bergen Global Opportunity Fund LP ("the Lender"), a related party to the Company. Under the agreement, the Lender made available US\$248,000 by way of an unsecured credit facility, to be drawn down at its discretion by the Company over the following 12 months subject to it meeting various administrative conditions precedent. A further US\$352,000 may be drawn down by mutual agreement between the Company and the Lender. Initial fees of US\$48,000 will be payable if the Company elects to draw down on the facility. Interest is payable on any drawn down amount at a rate of 14.99%, payable in arrears on a quarterly basis. The facility is available for a period of 12 months from the date of execution of the agreement. In the event that facility is drawn down, the maturity date for repayment of the loans is 21 January 2021. As at the date of this report, the facility has not been drawn down on.

Notes to the Financial Statements *(Continued)*

16. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and inter-company funding. Due to the geographical position of the Group and its activities, it is exposed to a variety of financial risks: market risk (including foreign currency risk), interest rate risk, credit risk and liquidity risk. The Directors' overall risk management program focuses on enabling the Group to meet its financial targets and obligations whilst minimising the potential adverse effects on financial performance.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors. These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and mitigates financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Market Risk

Foreign currency risk

The Group operates in both Australia and the United States of America. Transactions occur in both AUD and USD and cash and cash equivalents used to fund working capital requirements are held in both AUD and USD denominated bank accounts.

Transactional currency exposure arises from sales or purchases other than the group entities' functional currency. Foreign exchange risk arises from commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the reporting Group's functional currency. The Group uses cashflow forecasting to manage its working capital.

The Group is also exposed to foreign currency exchange risk when capital is raised in AUD and transferred to the US entity. The Group closely monitors foreign currency movements but does not use hedging instruments to manage such risk. In order to protect against exchange rate movements, throughout the year, the Group held amounts denominated in foreign currencies as cash and cash equivalents.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	31 December 2019 \$	31 December 2018 \$
Cash	45,279	187,592
Trade and other receivables	16,320	-
Total Financial assets	61,599	187,592
Trade and other payables	(30,167)	(25,578)
Total Financial liabilities	(30,167)	(25,578)

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group is not exposed to any significant interest rate risk. The Group does not have any long-term borrowings. During the period, the Group drew down on a loan facility of AUD\$200,000, with interest rate of 12%. This was repaid within the period. Periodically, the Group places amounts into short-term term deposits to make the most of higher interest rates. Subsequent to the end of the financial year, the Group entered into a new unsecured interest bearing credit facility as disclosed in Note 15.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any

provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral. Credit risk is limited to major banks.

Notes to the Financial Statements *(Continued)*

16. Financial risk management *(continued)*

Liquidity risk

The Group manages liquidity risk by maintaining sufficient liquid assets (mainly cash and cash equivalents) in both Australia and the USA to be able to pay debts as and when they become due. The Group achieves this through the continual monitoring of cashflows and the maturity profile of term deposits. The Group can potentially also raise additional capital as required to manage its liquidity risk.

Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial liabilities.

Contractual maturities of financial liabilities	Less than 6 months \$	6-12 Months \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total contractual cash flows \$	Carrying amount (assets)/ liabilities \$
As at 31 December 2019							
Trade and other payables	168,863	382	-	-	-	169,245	169,245
Other financial liabilities	12,228	-	-	-	-	12,228	12,228
Total	181,091	382	-	-	-	181,473	181,473
As at 31 December 2018							
Trade and other payables	80,412	-	-	-	-	80,412	80,412
Other financial liabilities	190,931	-	-	-	-	190,931	190,931
Total	271,343	-	-	-	-	271,343	271,343

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

17. Remuneration of auditor

During the year, the following fees were paid or payable for services provided by the auditor, RSM Australia Partners and its related practices:

	31 December 2019 \$	31 December 2018 \$
Review services	12,000	12,000
Audit services	30,000	33,000
Total auditor's remuneration	42,000	45,000

Notes to the Financial Statements *(Continued)*

18. Key Management Personnel disclosure and related party transactions

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	31 December 2019 \$	31 December 2018 \$
Short-term employee benefits	457,168 [^]	1,069,566
Post-employment benefits	-	21,094
Share-based payments	201,330 ^{^^}	183,135 [*]
Total Key Management Personnel compensation	658,498	1,273,795

* Included in 2018 are AUD\$5,560 that relate to amounts paid in respect of termination payments.

[^] Excludes amounts paid in respect of Directors' fees that were settled in ordinary shares.

^{^^} Includes AUD\$87,500 paid in shares in respect of fees paid to Directors.

Details of the share options granted to directors and other members of key management personnel of the Group are included in Note 24. Any additional detail in respect of remuneration disclosures for key management personnel are provided in the Remuneration Report on pages 22- 32.

19. Commitments

Lease commitments

The cash flows in the table below relate to the minimum payments for non-cancellable operating leases.

	31 December 2019 \$	31 December 2018 \$
Committed at the reporting date but not recognised as liabilities payable:		
Within one year	-	113,304
One to five years	-	491,727
More than five years	-	75,985
	-	681,016

Operating lease commitments related to the contracted amounts for the rent of the offices in Fall River under operating leases expiring in over five years with the option to extend. The lease had various escalation clauses. The Group vacated the property during the year ended 31 December 2019 and negotiated a settlement to prematurely terminate this lease with the landlord. There are no unrecorded lease commitments as at 31 December 2019.

Notes to the Financial Statements *(Continued)*

20. Parent entity financial information

The individual financial statements for the accounting parent entity, UUV Aquabotix Limited, show the following aggregate amounts:

	31 December 2019 \$	31 December 2018 \$
Statement of profit or loss and other comprehensive income		
Loss for the year	(1,085,477)	(1,139,034)
Total comprehensive loss	(1,085,477)	(1,139,034)
Statement of financial position		
Current assets	6,546,799	5,640,352
Total assets	6,546,799	5,642,021
Current liabilities	(149,593)	(193,074)
Total liabilities	(149,593)	(193,074)
Net assets	6,397,206	5,448,947
Share Capital	10,286,627	8,250,001
Share issue costs	(806,111)	(642,965)
Share option reserve	1,139,149	978,893
Accumulated losses	(4,222,458)	(3,136,981)
Total Equity	6,397,206	5,448,947

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2019 and 31 December 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2019 and 31 December 2018.

Notes to the Financial Statements *(Continued)*

21. Issued equity

	Note	No. of shares	\$
Balance at 1 January 2018		135,000,001	8,941,711
Shares issued from capital raising	(a)	25,000,000	1,250,000
Balance at 31 December 2018		160,000,001	10,191,711
Shares issued during the period with regard to capital raising	(b)	307,937,592	1,609,729
Shares issued during the period in lieu of Director fees	(c)	30,296,611	178,750
Shares issued in exchange for services rendered	(d)	18,750,000	85,000
Balance at 31 December 2019		516,984,204	12,065,190

Note (a) During the financial year ended 31 December 2018, the Company issued 25,000,000 shares under capital raisings to raise AUD\$1,250,000.

Note (b) During the period ended 31 December 2019, the Company undertook capital raisings and issued 307,937,592 ordinary shares, raising AUD\$1,609,729, net of capital raising costs of \$163,146. Of these costs, \$30,000 was settled in shares in exchange for services rendered by professional advisers as per Note (d) below.

Note (c) During the period ended 31 December 2019, the Company issued 30,296,611 shares in lieu of cash payment for Director fees, totalling \$178,750.

Note (d) During the period ended 31 December 2019, the Company issued 18,750,000 in exchange for services rendered by professional advisers, with an aggregate deemed value of \$85,000.

22. Changes in composition of entity

	Number of Shares	Number of Unlisted Options	Number of Listed UUV options	Number of Performance Shares
Opening balances at 1 January 2019	160,000,001	28,500,000	35,000,000	45,000,000
Shares issued during the period	356,984,203	-	-	-
Options exercised during the period	-	-	-	-
Shares lapsed during the period ⁽ⁱ⁾	-	-	-	(15,000,000)
Options lapsed during the period ⁽ⁱⁱ⁾	-	-	(35,000,000)	-
Options issued to Directors and Management	-	78,500,000	-	-
Closing balance at 31 December 2019	516,984,204	107,000,000	-	30,000,000

(i) These performance shares lapsed unexercised on 26 April 2019.

(ii) These Class A options were issued to all shareholders who subscribed for shares under the Initial Public Offering. The options had a strike price of \$0.22 and an expiry date of 20 April 2019.

Unlisted Options:

78,500,000 Unlisted Options were issued to Directors and Management during the year to 31 December 2019 (2018: 13,100,000). These Options are subject to various escrow and vesting conditions relating to length of employment with the Company. In 2018, 13,200,000 of these unlisted options lapsed unexercised as a result of staff leaving the Company. See Note 24 for further details.

Notes to the Financial Statements *(Continued)*

23. Performance shares:

The original shareholders of Aquabotix Technology Corporation were historically granted 45,000,000 Performance Shares, each convertible into one Ordinary Share in UUV Aquabotix Limited upon achievement of various performance milestones, as detailed in the table below. During the period ended 31 December 2019, the Class A Performance Shares lapsed unexercised as the conditions required to convert them into Ordinary Shares were not met.

Shareholders	Performance Shares	Number in issue at 31 December 2019
Class A Performance Shares	each share is convertible 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 B Performance Shares	each share will convert into one fully paid ordinary share upon the Company achieving, in relation to the Company's 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.	15,000,000
Class C Performance Shares	each share is convertible into one fully paid ordinary share upon the Company achieving, in relation to the Company's 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.	15,000,000

24. Options issued

A share option plan has been established by the Group and approved by shareholders at a general meeting, whereby the Group may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the company to certain key management personnel of the Group. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

During the year ended 31 December 2019, 78,500,000 share options were issued to directors, management and other employees of the Group at exercise prices of \$0.005 to \$0.020 per share, representing a Black Scholes valuation of \$135,082. Of these share options issued, 67,000,000 were issued to directors and key management personnel, representing a Black Scholes valuation of \$113,830. No options lapsed during 2019 and the total share option expense recognised in the period was \$160,256. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued at various dates between January and December 2019.

2019	Class AD Options	Class AE Options	Class AF Options	Class AG Options	Options issued in 2018*	Options issued in prior years*
New options	32,750,000	32,750,000	6,500,000	6,500,000	13,100,000	15,400,000
Options lapsed					-	-
Expiry (yrs)	4	4	4	4	0-4	0-4
Exercise price (\$)	0.005	0.010	0.015	0.020	0.11	0.22-0.30
Vesting period (yrs)	-	1	2	3	0-3	0-3
Underlying volatility	80.0%	80.0%	80.0%	80.0%	60%	60%
Risk free interest rate	0.90%	0.87%	0.95%	0.95%	1.57%-1.90%	1.57%-1.90%
Calculated FV of each option (\$)	\$0.0021	\$0.0015	\$0.0012	\$0.0010		
Expense recorded in period (\$)	\$70,231	\$1,103	\$86	\$47	65,037	23,662
Total Expense						160,256

* Represents options issued in prior years, still in issue and not lapsed or cancelled as at 31 December 2019

Class AD options were issued to directors and management and were expensed immediately. Class AE options were issued to directors and management and will be expensed over their vesting period. Class AF and Class AG options were issued to the CEO and will be expensed over their vesting periods.

The weighted average share price during the financial year ended 31 December 2019 was \$0.07 (2018: \$0.07).

The weighted average remaining contractual life of options outstanding at the end of the financial year ended 31 December 2019 was 0.65 years (2018: 1.26 years).

Notes to the Financial Statements *(Continued)*

25. Earnings (loss) per share

	31 December 2019 \$	31 December 2018 \$
(a) Loss attributable to the owners of UUV Aquabotix Limited		
Loss after income tax attributable to the owners of UUV Aquabotix Limited	(2,409,264)	(4,833,146)
	Cents	Cents
(b) Loss per share		
Basic loss per share	(0.75)	(3.35)
Diluted loss per share	(0.75)	(3.35)
	Number	Number
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	321,327,466	144,232,878

All performance shares and share options were considered anti-dilutive in the period ended 31 December 2019 and 31 December 2018.

26. Contingent liabilities

As at 31 December 2019 the Group had no contingent liabilities. We draw your attention to Note 28 in relation to a potential litigation threat that the Directors consider to be without merit.

27. Reconciliation from loss after income tax to net cash outflow from operating activities

	31 December 2019 \$	31 December 2018 \$
Operating loss for the year after tax	(2,409,264)	(4,833,146)
<i>Add/ (deduct) non-cash items- income and expenses</i>		
Depreciation	44,625	50,730
Write down of consumables	-	205,400
Share option expense	160,256	281,007
Effects of foreign currency translation	6,722	(47,582)
Impairment of Right-Of-Use asset	380,072	-
Lease liabilities release	(390,313)	-
Loss on disposal of assets	71,096	-
Operating expenses paid in shares	145,000	-
<i>Change in operating assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(1,247)	207,531
Decrease/(increase) in inventory	21,784	(98,363)
(Decrease)/increase in trade and other payables	(89,955)	(253,046)
(Decrease)/increase in other operating liabilities	54,025	50,543
Net cash flows from (used in) operating activities	(2,007,199)	(4,436,926)

Notes to the Financial Statements *(Continued)*

28. Events after the reporting date

On 23 January 2020 (Australian time), the Group learned that without any prior notice or attempt to resolve the matter amicably, a licensor of technology incorporated into the SwarmDiver™ product, Apium Inc. ("Apium"), a small, privately held U.S. Company, filed a lawsuit against the Company's subsidiary, Aquabotix Technology Corporation ("ATC") in the U.S. District Court, Central District of California in Los Angeles. The lawsuit includes claims for actual and anticipatory breach of the license agreement, a declaratory judgement that the license is terminated and that Apium itself has not breached the license, as well as violation of the Defend Trade Secrets Act, a U.S. law often invoked in licensing disputes. The Company and ATC believe that the lawsuit is completely without merit and that Apium's actions are themselves a breach of the terms of the license agreement. ATC has already retained litigation counsel, will vigorously defend itself and its rights under the license agreement, and will be filing counterclaims against Apium and related parties.

On January 28, 2020, UUV Aquabotix Limited entered into a non-convertible unsecured credit facility agreement, replacing the above facility, with Bergen Global Opportunity Fund LP ("the Lender"), a related party to the Company. Under the agreement, the Lender made available US\$248,000 by way of an unsecured credit facility, to be drawn down at its discretion by the Company over the following 12 months subject to it meeting various administrative conditions precedent. A further US\$352,000 may be drawn down by mutual agreement between the Company and the Lender. Initial fees of US\$48,000 will be payable if the Company elects to draw down on the facility. Interest is payable on any drawn down amount at a rate of 14.99%, payable in arrears on a quarterly basis. The facility is available for a period of 12 months from the date of execution of the agreement. In the event that facility is drawn down, the maturity date for repayment of the loans is 21 January 2021. As at the date of this report, the facility has not been drawn down on.

On 31 January 2020, the Company announced it had issued 77,500,000 new fully paid ordinary shares at \$0.001 per new share to a sophisticated and professional investor to raise \$77,500. Net proceeds from this placement will be used by the Company for working capital purposes.

At the start of February 2020, the Company announced that it was selected to conduct all five demonstrations proposed by the Company for the U.S. Navy's Advanced Naval Technology Exercise ("ANTX") events scheduled for summer and early fall of 2020. For these demonstrations, Aquabotix will be partnering with the Navy and other industry participants to exhibit expanded SwarmDiver-based solutions with capabilities that generally fall into the following areas of interest: remote detection and escalated response using various assets; efficient conductivity and CTD sampling using synoptic data gathering methodology; improved decision making through alternative methods of measuring, understanding, and predicting the ocean environment; remote, distributed bottom-type characterisations; hands-free, gesture-based swarm control for use in difficult operating conditions; and secure, high-speed data transmission.

Later that same month, the Company entered into a Non-Standard Navy Cooperative Research and Development Agreement with the U.S. Naval Undersea Warfare Center, Division Newport ("NUWC"). Over the next three years, the Company will work collaboratively with NUWC on a project related to experimental coordination with swarms. Ultimately, the goal of this collaboration is to transition the results of U.S. Navy research for public and private sector use. NUWC has extensive experience, capabilities, and information on swarms, autonomy, unmanned systems, and related research. Aquabotix brings to the partnership the interest, resources, capabilities, and technical expertise to transition the results of research and development for public use.

Other than as discussed above, no other matter has arisen since 31 December 2019 that has significantly affected or may significantly affect the results of those operations, or the consolidated entity's state of affairs in future financial years.

Directors' Declaration

In the opinion of the Directors:

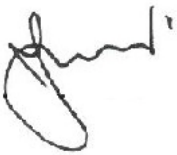
- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer for the year ended 31 December 2019 required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors



Peter James
Independent Non-Executive Chairman

27 February 2020

INDEPENDENT AUDITOR'S REPORT To the Members of UUV Aquabotix Limited

Opinion

We have audited the financial report of UUV Aquabotix Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a loss after tax of \$2,409,264 and had net cash outflows used in operating activities of \$1,977,197 during the year ended 31 December 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed this matter
<p>General and Administrative Expenses Refer to Note 5 in the financial statements</p>	
<p>During the year, the Group incurred significant general and administrative expenses as a function of the Group's ongoing operations in both the Australia and Unites States operating segments.</p> <p>This was considered a key audit matter due to the size of the expenditures relative to the financial statements in total.</p>	<p>Our audit procedures in relation general and administrative included:</p> <ul style="list-style-type: none"> • Obtaining a detailed understanding of the individual expense types grouped within the general and administrative expenditures, then segregating each item for further testing; • Performing analytical review procedures and analysing key movements between the current and prior period by account and by grouping; • Predictively recalculating total expense amounts by classification based on supporting evidence; • Testing a sample of expenditure items to supporting documentation; • Assessing the application of the translation of amounts between the Group's functional currency and other currencies comparing to independent exchange rate data; and • Considering the adequacy of the Group's disclosures relating to the amount and nature of these expenses.
<p>Share-based payments Refer to Note 24 in the financial statements</p>	
<p>The Group issued share options to directors and employees during the year. These were equity-settled options, which management valued using a Black Scholes model.</p> <p>Share-based payments are technically complex to account for and are subject to significant management judgement in determining the inputs used to determine the fair value.</p> <p>This was considered a key audit matter due to the technical complexity and judgments required in determining if the transactions were appropriately accounted for in accordance with AASB 2 <i>Share Based Payments</i>.</p>	<p>Our audit procedures in relation to share-based payments included:</p> <ul style="list-style-type: none"> • Making inquiries of management and reviewing relevant agreements to understand the share-based payment schemes established in the year. • Critically evaluate the key assumptions used in determining the fair value of the share options at grant date having consideration of the market, the share price, the expected volatility, the vesting period, and the number of options expected to vest. • Recalculating the estimated charge to the Statement of Profit or Loss and the related balance in the Reserves.

	<ul style="list-style-type: none"> • Reviewing the accounting treatment adopted by management and ensuring it is in line with the treatment set out in AASB 2 <i>Share Based Payments</i>. • Considering the adequacy of the Group's disclosures in respect of the judgements taken in the valuation models.
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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 32 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of UUV Aquabotix Limited, for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM

RSM AUSTRALIA PARTNERS


GNS

G N Sherwood
Partner

Sydney, NSW
Dated: 27 February 2020

Shareholder Information

The shareholder information set out below was applicable as at 31 January 2020.

1. Quotation

Listed securities in UUV Aquabotix Ltd are quoted on the Australian Securities Exchange under ASX code UUV (Fully Paid Ordinary Shares).

2. Voting Rights

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

- (a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
- (b) on a show of hands, every person present, who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

There are no voting rights attached to any Options or Performance Shares on issue.

3. Distribution of Equity Securities:

i) Fully paid Ordinary Shares

Shares Range	Holders	Units	%
1 - 1,000	30	2,840	-
1,001 - 5,000	29	112,737	0.02
5,001 - 10,000	55	476,975	0.08
10,001 - 100,000	288	14,250,631	2.40
100,001 and above	386	579,641,021	97.50
Total	788	594,484,204	100.00%

On 31 January 2020, there were 544 holders of unmarketable parcels of less than 38,281,290 ordinary shares (based on the closing share price of \$0.002).

ii) Class B Performance Shares expiring on 28 April 2020

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	3	169,639	1.13
100,001 and above	9	14,830,361 ¹	98.87
Total	12	15,000,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Long Hill Capital II LLC – 7,791,004 performance shares
- Aquabotix Tech. Corp. 401(K)
- Durval Tavares – 3,457,472 performance shares

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Shareholder Information *(continued)*

iii) Class C Performance Shares expiring on 28 April 2020

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	3	169,639	1.13
100,001 and above	9	14,830,361 ¹	98.87
Total	12	15,000,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Long Hill Capital II LLC – 7,791,004 performance shares
- Aquabotix Tech. Corp. 401(K)
- Durval Tavares – 3,457,472 performance shares

iv) Class B Unlisted Options exercisable at \$0.22 on or before 19 April 2020

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	3	10,000,000 ¹	100.00
Total	3	10,000,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Melshare Nominees Pty Ltd – 5,000,000 options
- Bannaby Investments Pty Ltd – 2,500,000 options
- IFM Pty Limited <IFM Super Fund> – 2,500,000 options

v) Class C Unlisted Options exercisable at \$0.30 on or before 19 April 2020

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	700,000 ¹	100.00
Total	1	700,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Jay Martin Cohen – 700,000 options

Shareholder Information *(continued)*

vi) Class D Unlisted Options exercisable at \$0.30 on or before 19 April 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	700,000 ¹	100.00
Total	1	700,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Jay Martin Cohen – 700,000 options

vii) Class E Unlisted Options exercisable at \$0.30 on or before 19 April 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	2	5,000,000 ¹	100.00
Total	2	5,000,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Peter Richard James – 3,000,000 options
- Tricity Partners Pty Limited <Martin Family> – 2,000,000 options

viii) Class F Unlisted Options exercisable at \$0.30 on or before 19 April 2022

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	3,000,000 ¹	100.00
Total	1	3,000,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Peter Richard James – 3,000,000 options

Shareholder Information *(continued)*

ix) Class R Unlisted Options exercisable at \$0.11 on or before 18 April 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	1,500,000 ¹	100.00
Total	1	1,500,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Whitney Gayle Million – 1,500,000 options

x) Class S Unlisted Options exercisable at \$0.11 on or before 18 April 2022

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	1,500,000 ¹	100.00
Total	1	1,500,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Whitney Gayle Million – 1,500,000 options

xi) Class T Unlisted Options exercisable at \$0.11 on or before 18 April 2023

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	1,500,000 ¹	100.00
Total	1	1,500,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Whitney Gayle Million – 1,500,000 options

Shareholder Information *(continued)*

xii) Class U Unlisted Options exercisable at \$0.11 on or before 18 April 2024

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	1,500,000 ¹	100.00
Total	1	1,500,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Whitney Gayle Million – 1,500,000 options

xiii) Class V Unlisted Options exercisable at \$0.11 on or before 30 May 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	1,000,000 ¹	100.00
Total	1	1,000,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Rondy Investments Pty Ltd <Clisdell Family> – 1,000,000 options

xiv) Class W Unlisted Options exercisable at \$0.11 on or before 21 December 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	300,000 ¹	100.00
Total	1	300,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Tricity Partners Pty Limited <Martin Family> – 300,000 options

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Shareholder Information *(continued)*

xv) Class X Unlisted Options exercisable at \$0.11 on or before 18 July 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	2	400,000 ¹	100.00
Total	2	400,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Matthew Moore – 200,000 options
- Crystal Glenn – 200,000 options

xvi) Class Y Unlisted Options exercisable at \$0.11 on or before 18 July 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	2	400,000 ¹	100.00
Total	2	400,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Matthew Moore – 200,000 options
- Crystal Glenn – 200,000 options

xvii) Class Z Unlisted Options exercisable at \$0.11 on or before 18 July 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	2	400,000 ¹	100.00
Total	2	400,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Matthew Moore – 200,000 options
- Crystal Glenn – 200,000 options

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Shareholder Information *(continued)*

xviii) Class AA Unlisted Options exercisable at \$0.11 on or before 2 November 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	200,000 ¹	100.00
Total	1	200,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Ian Estaphan Owen – 200,000 options

xix) Class AB Unlisted Options exercisable at \$0.11 on or before 2 November 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	200,000 ¹	100.00
Total	1	200,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Ian Estaphan Owen – 200,000 options

xx) Class AC Unlisted Options exercisable at \$0.11 on or before 2 November 2021

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	200,000 ¹	100.00
Total	1	200,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Ian Estaphan Owen – 200,000 options

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Shareholder Information *(continued)*

xxi) Class AD Unlisted Options exercisable at \$0.005 on or before 24 December 2023

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	7	32,750,000 ¹	100.00
Total	7	32,750,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Peter Richard James – 10,000,000 options
- Rondy Investments Pty Ltd <Clisdell Family> – 7,000,000 options

xxii) Class AE Unlisted Options exercisable at \$0.010 on or before 24 December 2023

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	7	32,750,000 ¹	100.00
Total	7	32,750,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Peter Richard James – 10,000,000 options
- Rondy Investments Pty Ltd <Clisdell Family> – 7,000,000 options

xxiii) Class AF Unlisted Options exercisable at \$0.015 on or before 24 December 2023

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	6,500,000 ¹	100.00
Total	1	6,500,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Whitney Gayle Million – 6,500,000 options

Shareholder Information *(continued)*

xxiv) Class AG Unlisted Options exercisable at \$0.020 on or before 24 December 2023

Shares Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 and above	1	6,500,000 ¹	100.00
Total	1	6,500,000	100.00%

¹Holders who hold more than 20% of the above securities are:

- Whitney Gayle Million – 6,500,000 options

4. Substantial Shareholders

The following shareholders have lodged substantial holding notices with the Company as at 31 January 2020:

Name: Deniz Diogo

Holder of: 6,798,457 fully paid ordinary shares, representing 5.04%

Notice Received: 1 May 2017

Name: Durval Tarvares

Holder of: 34,839,787 fully paid ordinary shares, representing 25.78%

Notice Received: 1 May 2017

Name: UUV Aquabotix Ltd

Holder of: 30,296,611 fully paid ordinary shares, representing 5.86%

Notice Received: 10 October 2019

Name: Azalea Investments Pty Ltd

Holder of: 107,427,265 fully paid ordinary shares, representing 18.08%

Notice Received: 31 January 2020

5. Restricted Securities

The restricted securities listed on the Company's register as at 31 January 2020 are:

30,296,611 Fully Paid Ordinary Shares escrowed to 7/10/2020

6. On market buy-back

There is currently no on market buy-back in place.

7. Application of funds

The Company has applied its cash and assets readily convertible to cash in a way that is consistent with its business objectives detailed in its IPO prospectus.

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Shareholder Information *(continued)*

8. Twenty Largest Shareholders:

The twenty largest shareholders of the Company's quoted securities as at 31 January 2020 are as follows:

	Name	No. of Shares	%
1	AZALEA INVESTMENTS PTY LTD	88,722,265	14.92
2	AQUABOTIX TECH. CORP. 401(K) DURVAL TAVARES	23,049,813	3.88
3	PETER RICHARD JAMES	21,751,414	3.66
4	SUPER ONLY PTY LTD <SYPAQ SYS EMPLOYEES S/F A/C>	20,000,000	3.36
4	MR CRAIG GRAEME CHAPMAN <NAMPAC DISCRETIONARY>	20,000,000	3.36
5	SCINTILLA STRATEGIC INVESTMENTS LIMITED	19,250,000	3.24
6	CHINCHERINCHEE NOMINEES PTY LTD	18,750,000	3.15
7	BEIRNE TRADING PTY LTD	18,156,121	3.05
8	GRANT SUPER FUND 2017 PTY LTD <GRANT SUPERFUND A/C>	10,142,857	1.71
9	MR CRAIG GRAEME CHAPMAN <NAMPAC DISCRETIONARY A/C>	10,000,000	1.68
9	MR PAUL LESLIE DUNCAN	10,000,000	1.68
9	MR KIM AARON MULLER	10,000,000	1.68
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <ST A/C>	9,923,786	1.67
11	RONDY INVESTMENTS PTY LTD <CLISDELL FAMILY>	8,545,197	1.44
12	MR KEVIN DANIEL LEARY & MRS HELEN PATRICIA LEARY <KEVIN & HELEN LEARY S/F A/C>	7,500,000	1.26
13	ABHI SUPER PTY LTD <K PRAKASH & UG RAO S/F A/C>	7,000,000	1.18
14	DURVAL TAVARES	6,337,330	1.07
15	AQUABOTIX TECH CORP 401(K) DENIZ A DIOGO	6,163,223	1.04
16	PHOENIX-IG PTY LTD <ZAW SUPERFUND A/C>	6,000,000	1.01
17	MR TONY GUSMAN	5,610,000	0.94
18	MRS ANNA MARIA VICINO	5,000,000	0.84
18	SCINTILLA CAPITAL PTY LTD	5,000,000	0.84
19	MISS EMILY CHAI	4,600,000	0.77
20	MR RAJENDRAM KESAVAN PARTHASARATHY & MRS SREEPRIYA PARTHASARATHY <PARTHASARATHY SUPERFUND A/C>	4,500,000	0.76
	Total	346,002,006	58.20%

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