

SHAREHOLDER AND INVESTOR UPDATE Q4 FY2018

Dear Shareholder,

On behalf of CleanSubSea's Board and management team, I'm pleased to provide you with an update on the performance of your company for Q4 FY2018 and July 2018.

This period has not been without its challenges, with significant changes at the Board and executive level and capital constraints impacting our progress. During this time, we placed a hold on tests and trials while management of cash and capital strategies were carefully considered.

These challenges aside, we have a number of exciting developments to report, including the invitation from the International Maritime Organisation (IMO) to be founding members of the IMO Glofoul Initiative which proposes to provide a global biofouling management framework.

We are also delighted to announce we have received additional funding through the federal R&D rebate program and National Energy Resources Australia (NERA). Funding has enabled us to continue the commercial optimisation of the Envirocart™ technology and assisted us in building collaborative relationships with universities and industry to enhance the technology further.

I am very pleased to say the leadership team is confident that the company is now in a position to pursue the optimal pathway forward with the last few commercial trials required before establishing sustainable commercial operations.

As you read through the update, I encourage you to reach out with any questions or items you would like to discuss. My contact details are included at the end of the newsletter.

Thank you for your ongoing support and commitment to CleanSubSea.

A handwritten signature in black ink, appearing to read 'R. Dyhrberg'.

Roger Dyhrberg
Executive Chairman & Managing Director

Q4 HIGHLIGHTS

- Strengthening Competitive Advantage
- Completion of first naval vessel clean
- Board and Executive changes and appointment of a new Board Member, Company Secretary, and Corporate Advisor
- Review of capital raising strategy
- Ongoing strategic partner negotiations
- Funding secured through NERA the R&D rebate
- Envirocart™ shortlisted for approved NZ preferred in-water hull cleaning technology
- Invitation to be a founding member of IMO's Glofoul Initiative



- Ongoing strategic partner negotiations and discussions
- \$500,000 NERA Funding secured
- \$550,000 secured through R&D rebate
- \$499,000 R&D rebate application submitted

BALANCE SHEET, EXPENSES AND FUNDING

The Company is pleased to inform shareholders that a number of initiatives have been implemented to assist the Company in reducing its cash outflows. Also, the Company has secured additional non-dilutive capital through both recent fundings from NERA, as well as accelerating the receipt of R&D rebate funding. As a result, the Company has addressed its immediate term cash flow issues and has secured the requisite “breathing space” to develop a more robust and longer-term capital raising strategy, which it is developing with the assistance of Geoff Pocock from Polaris Consulting (WA) as detailed in the Corporate section.

CSS secures approval of \$500,000 NERA funding

National Energy Resources Australia (NERA) offers CSS \$500,000 for further development of the Envirocart technology aimed at servicing the Oil & Gas sector. This work commenced this month.

Funding has enabled us to continue the commercial optimisation of the Envirocart™ technology and assisted us in building collaborative relationships with universities and industry to improve the technology.

CSS secures \$550,000 R&D rebate

CSS received \$550,432 cash R&D rebate from the ATO. These funds are being used to recommence maintenance and modifications on the current Envirocart system.

CSS submits \$500,000 R&D rebate

CSS has submitted an R&D rebate application with the Commonwealth Government. Once this \$499,612 rebate is received, CSS will use these funds to support further preparation for the manufacture of Envirocart units 2 & 3 and working capital.

Ongoing strategic partner negotiations & discussions

CSS remains in negotiations with two possible strategic partners who are considering possible investment positions in the company. Another two organisations have also shown early stage interest in discussions so far. The company will keep shareholders informed on these initiatives as they develop further.



- Envirocart™ optimisations continue
- Proposed changes to the ANZECC Water Quality Guidelines
- Naval Vessel Cleaning Commenced

OPERATIONS

Upgrades to the Envirocart™

As discussed in the March 2018 Newsletter, significant operational changes were made to the magnetic drive cart and cleaning head that materially increased the operational efficiency of the Envirocart™. These modifications were designed, installed and trialled before the planned RAN cleans which commenced in mid-April.

Similarly, CSS is making progress in achieving the forecasted water quality standards as advised by the Department of Water and Environmental Regulation (DWER). The tighter regulation requires a design review of our filtration capabilities. Recent testing has demonstrated significantly improved filtration system performance, and CSS is confident we will meet the requirements set out by the DWER. This system will set a new global high bar that will ensure we can achieve the highest standards of other tightly regulated countries such as the US and UK.

Although these improvements have consumed additional working capital and delayed commercialisation, we firmly believe our efforts will be rewarded by the establishment of increased technological barriers to entry. These inclusions have also materially increased the operational efficiency of the Envirocart™ unit, while enabling us to service a more extensive range of vessel types & sizes, all contributing to faster cleaning times and a broader addressable market.

We continue to work with government authorities and engage with critical stakeholders including prominent operators to ensure the relevance and commercialisation of our technology.

Commercial clean of Australian Naval Frigate

We are very excited to confirm the Envirocart technology was engaged by Naval Shipping Management (NSM) through our local Licensee, Franmarine Underwater Services (FUS), to complete the first In Water Hull Clean of an Australian Naval vessel in over 20 years. The vessel was cleaned effectively to certain specifications, and further learning and understanding of the technology application for these types of vessels were also gained.

Further Naval clean opportunities through NSM are expected in the near term, but due to the signed Deed of Confidentiality in place, we are unable to reference future looking events.

CSS Licensee included in Defence West service contractor directory

CSS's Australian Licensee, Franmarine Underwater Services (FUS), is the only commercial diving and underwater contractor selected for inclusion within the WA Defence Industry Capability Directory that was officially launched in May by Minister Paul Papalia. This positions FUS as the preferred and only registered commercial diving service provider to all Naval vessels in WA, which of course includes In Water Hull Cleaning.



- Envirocart™ shortlisted for approval as NZ preferred in-water hull cleaning technology
- Announcement of IWHC in UK

Envirocart™ technology selected for NZ MPI trials

In late June 2018, the Envirocart™ was shortlisted to be approved as a certified technology to assist with the implementation of the new Clean Hull biofouling management framework put in place in May by the New Zealand Minister of Primary Industries. The trials associated with this shortlisting and approval are expected to commence in Q1 2019.

Further tests, trials & modifications

Due to decisions made at the executive level, the opportunity for learnings from the RAN vessel clean through further tests, trials and modifications were placed on hold during the April to June timeframe as capital management strategies were carefully reviewed. Much needed maintenance and further modifications learnt from the RAN vessel clean have now recommenced, with further commercial clean trials planned for October 2018. It is expected these enhanced improvements will enable CSS to recommence commercial cleans on a more continual basis and set the blueprint for manufacturing Envirocart™ Systems 2 & 3.

UMC announces the reintroduction of closed-circuit IWHC into the UK

Leading Marine Services operator UMC has declared publicly it will be reintroducing closed circuit In Water Hull Cleaning (IWHC) activities into the south of England. UMC has signed a Memorandum of Understanding with CSS to operate a new Envirocart system under a licensing agreement in the UK. This new activity is expected to begin operations in 2019.

CSS invited to be a founding member of the IMO GloFoul Initiative

CSS has been invited by the International Maritime Organisation (IMO) to become a founding member of the new global initiative GloFoul. This offer has been made in recognition of the Envirocart™ and its leading position as a commercial technology that can effectively support the introduction of the new GloFoul initiative and the new biofouling management standards it will roll out into jurisdictions around the world.



- Appointment of Captain Walter Purio as new Non-Executive Director
- New Company Secretary and Corporate Advisors engaged
- CSS invited to be founding members of the IMO GloFoul Initiative

CORPORATE

Board Changes

We are very pleased to be able to announce the appointment of Captain Walter Purio as a new Non-Executive Director of the company. Walter brings a wealth of maritime experience and knowledge to the Board, with a rich background in providing insight and advice specific to marine issues within the industry which explore the potential to develop a sustainable regional and global footprint in the Southern Hemisphere and the Asia Pacific region.

Captain Purio has a BS degree from the U.S. Merchant Marine Academy and MBA's from the University of Chicago and the Katholieke Universitat Leuven, Belgium. Captain Purio is also the CEO of the LNG Marine Fuel Institute, which is committed to realising environmental benefits, energy security across Australia and the introduction of a new industry for Western Australia in support of the Institute's noble cause to work for an outcome greater than itself.

We feel the appointment of Walter to our Board will be fortuitous and well aligned with CleanSubSea's goals and values.

After serving on the Board for two years, Ian Campbell resigned as Chairman and Non-Executive Director of CleanSubSea on 13 July 2018. We would like to take this opportunity to thank Ian for his contribution over this time. The Board subsequently appointed Roger Dyhrberg as Executive Chairman.

New Company Secretary

After serving for over two years, Steven Wood of Grange Consulting has stepped down as our Company Secretary. We would like to thank Steve for all his hard work and contribution to the company during this time.

We are very pleased to announce the appointment of Shannon Coates as the new Company Secretary. Shannon is a qualified lawyer and has over 20 years' experience in corporate law and compliance. She is currently Managing Director of Evolution Corporate Services, a boutique advisory firm providing company secretarial and corporate support to boards and various committees across a variety of industries and also serves as a non-executive Director on several listed and unlisted company boards.

CSS appoints Geoff Pocock of Polaris Consulting as new Corporate Advisor

CSS is very happy to announce the appointment of Geoff Pocock of Polaris Consulting as the company's new Corporate Advisor. Until recently, Geoff was Founder and Managing Director of ASX-listed Hazer Group Ltd, who successfully floated on ASX in late 2015 and raised nearly \$14m over the past three years under Geoff's stewardship. Through his time with Hazer and previously, Geoff has nearly 20 years of strategy and corporate finance experience, focusing on the commercialisation of new technologies, and the Board is confident he has the expertise and experience to develop a robust strategy that will enable the Company to secure the capital it needs.

Geoff is currently working with the Executive team to assess the company's short and longer term capital needs and then develop a strategy to ensure the Company has sufficient capital to execute its commercialisation activities. It is expected further detail will be provided to shareholders over the coming months with the results of the strategy evaluation and planning work currently ongoing. It is anticipated that the selected strategy will also offer existing shareholders further opportunity to invest in the Company, and additional information on this and other opportunities will be provided to shareholders in due course.



Roger Dyhrberg

Executive Chairman & Managing Director

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