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21 October 2020
ASX Announcement: AR9

September 2020 Quarterly Report

Highlights

- Strongly executing on $15m sales pipeline, securing $5m in new revenue contracts during the quarter including:
  - Landmark $4.2m contract with Australian Department of Defence Joint Capabilities Group including our first Kojensi Enterprise sales; and,
  - Information Security Services contract with KPMG for an Australian Commonwealth National Security Agency to the value of $400k.
- Renewal of key Government services contracts to the value of $400k.
- First Nucleus Cyber license sale to 12th Level. 12th Level specialises in big data, analytics and artificial intelligence (AI) to solve complex data integration for organisations including the Australian Department of Defence.
- First Kojensi Gov licences renewal with a 40% increase in seats with the Attorney General's Department.
- Bailey Abbott signed as a Kojensi Reseller for South Australia with a focus on the Space and Defence Industry, as well as Government more broadly.
- Strong balance sheet with ~$3m cash on hand as at 30 September 2020.
- Key changes to Board of Directors and the establishment of an Advisory Board.

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archTIS Limited (**ASX: AR9**, **archTIS** or the **Company**), an award-winning technology company focused on protecting sensitive information, is pleased to provide an update for the quarter ended 30 September 2020.

Quarterly financial summary

During the quarter ended 30 September 2020, the Company's cash reserves increased from $2.466m to $2.988m. This was mainly due to proceeds from the exercise of options of $1.315m offset by net cash used in operating activities of $793k.

The main operating cash outflows for the September quarter were payments for staff and contractors. The key activities carried out by these staff and contractors were ongoing product development, sales and marketing, and corporate administration.

Cash receipts from customers for the September quarter were $231k (prior June 2020 quarter was $190k). Cash receipts are likely to increase in subsequent quarters as revenue is received from the landmark Department of Defence contract.

archTIS ended the September quarter with a cash balance of $2.988m providing the Company with financial flexibility to execute on the pipeline opportunities in the Defence, Education and Space sectors, as well as potential merger and acquisition activities.

Subsequent to quarter's end, a further $175.2k has been received from the exercise of options.

Operations Update

During the quarter, archTIS secured over $5m worth of contracts and renewals including the following:

- Landmark $4.2m contract with the Department of Defence to perform a risk reduction activity for multi-national information sharing and cross domain services to guide Defence's acquisition decisions for capability programs. Providing best-of-breed trusted information security and collaboration solutions to aid Australia's information and cyber security response by implementing the Kojensi platform across multiple layers within Defence. This places archTIS in a strong position to capitalise on other opportunities within the $15bn announced by Defence for funding cyber and information warfare capabilities. The contract is payable over instalments, the first payment of $1.2m expected in the month of October 2020.
- Renewal of two software maintenance and services contract with Government agencies, demonstrating the value of the services provided by archTIS.
- A new reseller agreement with Adelaide company Bailey Abbott. This will extend the sales capabilities for our Kojensi Platform with a focus on Adelaide-based Space and Defence Industry Suppliers, as well as the South Australian Government.
- archTIS has won our first Nucleus Cyber sale with the sale of licences to 12th Level. 12th Level are a software engineering company with specialist capability in big data, analytics and AI. They are well positioned in Defence, assisting in solving complex Defence Capability measurement by providing enterprise grade systems built to intuitively collect, connect and create information thus providing insight and reduced data overload.
- Renewal and upgrade of the contract with the Attorney General's Department for a further 20 licences. This is our first annual renewal and with a 40% increase in licensed users. This demonstrates the value the Department is getting from Kojensi and highlights the need for trusted and secure collaborative information sharing software in Government.
- Supporting KPMG with an Information Security services contract for an Australian Commonwealth National Security Agency focusing on information security architecture, information sharing, integration and cross domain services.

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The current quarter is covered by the Use of Funds projection detailed in the Company's prospectus of August 2018. Below is a high-level comparison of anticipated versus actual expenditure for the Company.

Use of Funds at listing[1]	Anticipated	Actual	Variance	%
Ongoing product development	$2,350,000	$2,701,000	$351,000	15
Sales and marketing	$1,650,000	$1,222,000	($428,000)	(26)
Repayment of banking facility	$300,000	$300,000	$ -	-
Expand customer support capability	$1,000,000	$560,000	($440,000)	(44)
Working capital and other expenses	$3,000,000	$3,360,000	$360,000	12
Costs of the offer	$800,000	$615,000	($185,000)	(23)
TOTALS	**$9,100,000**	**$8,758,000**	**($342,000)**	

Total actual cash costs to 30 September 2020 were less than anticipated at time of listing by $342k. There were some variances by expense category as follows:

- Product development was 15% higher than anticipated due to work being performed to address specific customer requirements where the customer partly funds the enhancement. The enhancements and additional features will improve archTIS' products for all customers going forward. The Board was comfortable exceeding the original amount anticipated following the successful capital raise of $2.26m during Q4FY20.
- Sales and marketing expenditure to date was below expectations due to delayed sales and marketing activity following the final release of the Kojensi product 15 months ago.
- Repayment of banking facility occurred as planned.
- Expenditure on the expansion of Kojensi's customer support capability was below initial expectations due to a reconfiguration of timings and scheduled activity following the final release of the Kojensi product 15 months ago
- Working capital and other expenses were 12% higher than expectations. The Board was comfortable exceeding the original amount anticipated following the successful capital raise of $2.26m during Q4FY20.
- Cash costs of the offer were below anticipated levels, however there was a non-cash cost component (being share-based payment) which took the total cost of the offer to just over $1m as reported in our FY19 annual report.

[1] Use of Funds as per the Company prospectus dated 1 August 2018 was updated in a Statement of Commitments Notice dated 19 September 2018

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Payments to related parties

During the quarter the Company made payments to members of the Board of $117k.

Australian Government funding tailwinds

During the quarter, the Australian Government committed to the following funding initiatives to mitigate the growing threat to Information and Cyber Security:

- $270b of funding to Department of Defence, including $15b over the next decade to cyber and information welfare capabilities; and,
- $1.67b over the next decade to Australia's Cyber Security strategy.

These Government funding initiatives have substantial information sharing requirements that archTIS is well positioned to potentially capture though the Kojensi platform, either directly or indirectly to private markets tendering to Government.

Board of Directors and Advisory Board

During the quarter, archTIS announced a streamlined Board of Directors reducing the number of directors from six to three, and the creation of a strategic Advisory Board to be led by former Chairman and Non-Executive Director Professor Stephen Smith.

Dr Miles Jakeman AM was appointed new Chairman of the revised Board, along with Leanne Graham as Independent Non-Executive Director, and Daniel Lai as Executive Director/CEO.

Former Non-Executive Director Wayne Zekulich, retired Brigadier Alison Creagh AM CSC and Jeremy Waine, join Stephen Smith on the Advisory Board where they will focus on driving growth through new sales opportunities.

archTIS founder and former Executive Director Bruce Talbot will focus on further enhancing archTIS' technology.

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Daniel Lai, archTIS CEO commented: "I am pleased by the results archTIS has achieved in the first quarter of the financial year. archTIS continues to execute against its strategic plan for growth and the successful commercialisation of Kojensi. archTIS has positioned itself strongly to take advantage of the current economic and market circumstances."

Authorised for issue by the Board of Directors.

ENDS

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About archTIS Limited

archTIS Limited (ASX:AR9) is an award winning technology company focused on protecting sensitive information. Leveraging its strong pedigree with Government and Defence, the company has developed an industry-leading information security platform (Kojensi) for sharing and collaborating on sensitive or classified information.

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Appendix 4C

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

Name of entity

archTIS Limited

ABN	Quarter ended ("current quarter")
79 1230 986 71	30 September 2020

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	231	231
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(20)	(20)
	(c) advertising and marketing	(26)	(26)
	(d) leased assets	(57)	(57)
	(e) staff costs	(611)	(611)
	(f) administration and corporate costs	(365)	(365)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	55	55
1.8	Other (GST)	-	-
1.9	**Net cash from / (used in) operating activities**	**(793)**	**(793)**

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**-**	**-**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	1,315	1,315
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**1,315**	**1,315**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	2,466	2,466
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(793)	(793)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1315	1315
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**2,988**	**2,988**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	2,988	2,466
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**2,988**	**2,466**

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6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	117
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: Amounts included at item 6.1 relate to payments to directors of the Board.

7.	Financing facilities *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	Total facility amount at quarter end $A'000	Amount drawn at quarter end $A'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	50	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	50	-

7.5	**Unused financing facilities available at quarter end**	41

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

Unsecured corporate credit card facility of $50,000 (annual interest rate 20.24%) with Westpac Banking Corporation.

8.	Estimated cash available for future operating activities	$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(793)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	2,988
8.3	Unused finance facilities available at quarter end (Item 7.5)	41
8.4	Total available funding (Item 8.2 + Item 8.3)	3,029
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	3.82

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

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

Answer: N/A

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

Answer: N/A

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

Answer: N/A

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 21 October 2020

Authorised by: Board of Directors

(Name of body or officer authorising release – see note 4)

Notes

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

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

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

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

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

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