

## archTIS December 2020 Quarterly Report

### Nucleus Cyber Acquisition and Record-breaking Customer Cash Receipts Highlight Transformational Quarter

archTIS Limited (ASX: AR9, archTIS or the Company), a provider of innovative software solutions for the secure collaboration of sensitive information, is pleased to provide an update for the quarter ended 31 December 2020.

#### Highlights

Nucleus Cyber Merger Completed	\$8.4M successful funding placement with institutional and sophisticated investors	Cash receipts from customers increased 8.7x from prior quarter to over \$2M
Available Cash at quarter end for investment of \$12.1M	Revenue up 61% from prior quarter	Software Subscription Licenses up 165% from prior quarter

Daniel Lai, archTIS Managing Director, said: "Over the past quarter archTIS has put itself in a position of strength heading into the new year. We executed on our mission of being the world leader in dynamic access control platforms to securely share and collaborate on sensitive and classified information. The results of the last quarter included a record-breaking increase in customer receipts, a significant capital placement to provide for sales and marketing growth investments and the merger of Nucleus Cyber to broaden our product portfolio, expand our executive team and provide global access to key alliance partners, including Microsoft. I would like to personally thank our dedicated employees, valued customers and shareholders as we set up for a transformational 2021."

#### Operations & Technology Update

##### Nucleus Cyber Merger Finalised

With the transaction closed on 24 December, (which only allows one week of Nucleus Cyber's financial numbers in the quarterly filing), archTIS merged with award winning US cyber security company Nucleus Cyber. This transformational event put archTIS onto the global stage and opens up the largest software client base in the world through Microsoft and its suite of collaboration solutions for Microsoft 365, Teams – with over 115 million daily active users, Yammer, OneDrive, SharePoint and Files Shares.

During the quarter, the Company acquired 100% of the shares of Nucleus Cyber Inc. The purchase consideration was through the issuance of shares in archTIS. Upon settlement, the

Company paid out \$1.064m to retire long term loans, specific accounts payables and acquisition transaction costs of Nucleus Cyber Inc (these amounts being netted off in calculating the number of shares issued). On acquisition, archTIS also acquired cash balances of Nucleus Cyber of \$331,000.

Further shares may be issued to the vendors of Nucleus Cyber Inc if the business meets certain revenue targets in June 2021 (Deferred Consideration Shares). The maximum value of these shares will be \$2.7m. The number of shares is determined using the Volume Weighted Average Price (VWAP) of Company shares in the month of June 2021. The VWAP "floor" is \$0.33 meaning the maximum number of Deferred Consideration Shares is 8,181,819.

The table below shows a summary in relation to the Deferred Consideration Shares:

	Number of Deferred Consideration shares
Issued during the quarter	-
Maximum number to be issued in the future	8,181,819

*Basis on which Deferred Consideration Shares will be paid out.*

The number of Deferred Consideration Shares to be issued will be determined by reference to the percentage of the actual Nucleus Cyber Annual Recurring Revenue (ARR) in the month ending 30 June 2021 to the \$1,000,000 hurdle. The full number of shares will be issued if the achieved ARR is 100% or more of the \$1,000,000 hurdle, 50% of the Deferred Consideration Shares will be issued if the achieved ARR is 50% or more of the hurdle and no Deferred Consideration Shares will be issued if the achieved ARR is less than 50% of that hurdle. If the achieved ARR falls between 50%-100% of that hurdle, then a number of Deferred Consideration Shares equal to that percentage will be issued.

#### **Other Key In-Quarter Activities**

- Completed \$8.4M placement with new and existing institutional investors and sophisticated shareholders.
- Accelerated pipeline growth through the expansion of the global reseller network in the Americas, Europe and Asia Pacific regions as well as renewal /expansion of specific existing accounts within the archTIS and Nucleus customer base.
- Appointed Kurt Mueffelman (formerly Nucleus Cyber CEO) as Global COO. Kurt is a seasoned sales-focused CEO and COO with over 25 years' experience in the technology industry and NASDAQ-listed companies.
- Added additional sales and marketing headcount in Australia and the Americas.

## Quarterly financial summary – Increased Quarterly Customer Receipts 8.7x

archTIS ended the December 2020 quarter with a cash balance of \$12.13M; providing the Company with financial flexibility to execute on the go-to-market strategy of the merged entity.

During the quarter, the Company's cash reserves to \$12.13M. Cash receipts from customers for the December quarter were \$2.01M; 8.7x increase from the prior September 2020 quarter of \$231k.

Additional cash receipts were due to proceeds from a share placement of \$8.4M and proceeds from the exercise of options of \$834k.

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

Subsequent to quarter's end, a further \$540k has been received from the exercise of options.

Given the strength of this cash position and the fact that archTIS has now been listed for over two years, the company will seek ASX approval to cease issuing quarterly Appendix 4Cs in accordance with ASX Listing Rule 4.7B and Guidance Note 23.

## Payments to related Parties

During the quarter the Company made payments to members of the Board of \$85k.

## Future Focus and Operating Environment

The current global geo-political climate, recent SolarWinds supply-chain breach and COVID-19 pandemic has significantly changed the way organizations access and share data. The remote worker and work-from-home environment has changed how individuals access and share sensitive information. Open collaboration has created greater exposure for nation-state hacking, corporate espionage and increased error and accidents in the handling of all types of information. All the above factors have significantly shifted the need for secure collaboration across government entities, enterprises and even small and medium enterprises (SME); all which has provided more budget within organisations to secure the very information being used on a day-to-day basis.

archTIS' vision is to be the World's most trusted company with its most valuable Information. archTIS achieves this through the development of attribute-based access control (ABAC) platforms that enable information owners to create, manage and administer the use and access to their sensitive and classified information anywhere, anytime.

Key goals for the balance of the fiscal year (30Jun21):

- Expand global sales distribution strategies:
  - o Establish a multi-geography, global presence in APAC, the Americas and Europe, Middle East and Africa (EMEA).
  - o Create a US-based Federal and Defence focused business unit to leverage existing Australian successes and relationships across key government agencies including Defence and Intelligence as well as the Defence Industrial Base (DIB) of Northrop Grumman, BAE, Raytheon, Lockheed, Leidos, Thales and others.
  - o Drive go-to-market key strategic alliances across Microsoft field sales and channel partner through IP Co-sell.
- Create market awareness, lead generation and demand for attribute-based access controls (ABAC).
- Pursue high-margin licenses to drive annual recurring revenue (ARR) via cross-platform technologies associated with both award-winning products of Kojensi and NC Protect.
- Develop, maintain and validate leading-edge product technology and strategies to leverage existing rich-feature sets required by key markets and use cases
- Drive operational efficiency through tight system integrations between archTIS and Nucleus Cyber.
  - o Explore global product and market expansion acquisitions to enhance capabilities, market distribution and increase shareholder value.

Authorised for issue by order of the Board of Directors.

**ENDS**

**For further enquiries please contact:**

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**About archTIS Limited**

archTIS Limited (ASX:AR9) is a provider of innovative software solutions for the secure collaboration of sensitive information. The company's award-winning data-centric information security solutions protect the world's most sensitive content in government, defence, supply chain, enterprises and regulated industries through attribute-based access and control (ABAC) policies. archTIS products include Kojensi, a multi-government certified platform for the secure access, sharing and collaboration of sensitive and classified information; and NC Protect for enhanced information protection for file access and sharing, messaging and emailing of sensitive and classified content across Microsoft 365 apps, Dropbox, Nutanix Files and Windows file shares. For more information visit [archtis.com](http://archtis.com) or follow @arch\_tis.

## Appendix 4C

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

Name of entity

archTIS Limited

ABN

79 1230 986 71

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	2,012	2,243
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(25)	(45)
(c) advertising and marketing	(12)	(38)
(d) leased assets	(57)	(114)
(e) staff costs	(969)	(1,580)
(f) administration and corporate costs	(709)	(1,074)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	911	966
1.8 Other (GST)	79	79
<b>1.9 Net cash from / (used in) operating activities</b>	<b>1,231</b>	<b>438</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) entities	331	331
	(b) businesses	-	-
	(c) property, plant and equipment	(97)	(97)
	(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	Payments to settle liabilities on settlement including transaction costs	(1,064)	(1,064)
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(830)</b>	<b>(830)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	8,400	8,400
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	834	2,149
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(488)	(488)
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 (6 months) \$A'000
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>8,746</b>	<b>10,061</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	2,988	2,466
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,231	438
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(830)	(830)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	8,746	10,061
4.5	Effect of movement in exchange rates on cash held	(3)	(3)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>12,132</b>	<b>12,132</b>

<b>5.</b>	<b>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</b>	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	12,132	2,988
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>12,132</b>	<b>2,988</b>

**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

85

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)

1,231

8.2 Cash and cash equivalents at quarter end (Item 4.6)

12,132

8.3 Unused finance facilities available at quarter end (Item 7.5)

41

8.4 Total available funding (Item 8.2 + Item 8.3)

12,173

8.5 **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**

9.88

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

Given the strength of this cash position and the fact that archTIS has now been listed for over two years, the company will seek ASX approval to cease issuing quarterly Appendix 4Cs in accordance with ASX Listing Rule 4.7B and Guidance Note 23.

### 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: 29 January 2021

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.