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archTIS

TRUSTED TO SAFEGUARD THE WORLD'S MOST SENSITIVE INFORMATION

September 2021 Quarterly Report

UPDATE FOR THE QUARTER ENDED
30 SEPTEMBER 2021

PUBLISHED 28 OCTOBER 2021

ARCHTIS LIMITED | AR9 | ACN 123 098 671

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ARCHTIS IS TRUSTED TO SAFEGUARD THE WORLD'S MOST SENSITIVE INFORMATION

archTIS' products apply and enforce dynamic, policy-driven access controls that leverage both user and data attributes to ensure your users and partners access, share and collaborate on sensitive, classified and top secret information, securely.

September 2021 Quarterly Report (July – Sept 2021)

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*Relative Prior Comparative Period (PCP)

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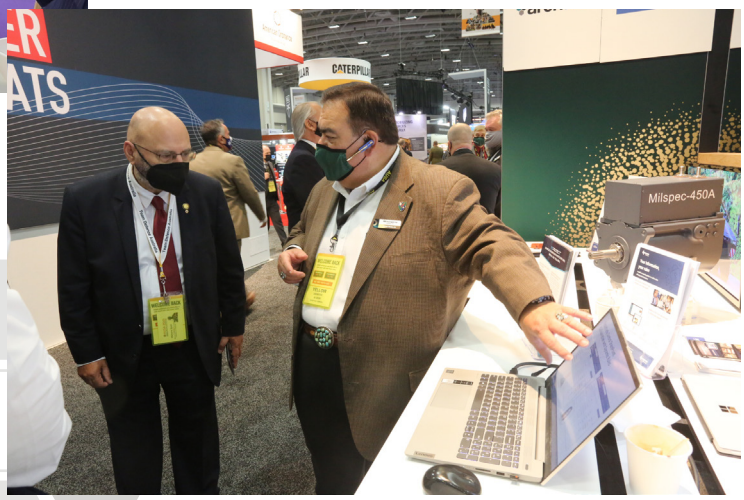
BRAND AWARENESS AND THOUGHT LEADERSHIP



Above: archTIS Director of US Federal and Defence Bill Kalogeros briefing Senior Leadership, US Army NETCOM.



Above: High Commissioner to the United Kingdom - The Hon George Brandis QC - visits archTIS VP and GM EMEA, Pete Smith and Aaron Fox, Sales Director - EMEA.



Above: archTIS Director of US Federal and Defence Bill Kalogeros presenting to the Australian Ambassador (Hon. Arthur Sinodinos) the power of NC Protect at AUSA 2021.

September 2021 Quarterly Report

ASX Announcement
28 October 2021

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ARCHTIS SEPTEMBER 2021 QUARTERLY REPORT

archTIS Limited (ASX: AR9, archTIS or the Company), a global provider of innovative software solutions for the secure collaboration of sensitive information, is pleased to provide an update for the quarter ended 30 September 2021 (Reporting Period or Quarter).

Q1 FY22 HIGHLIGHTS RELATIVE PRIOR COMPARATIVE PERIOD (PCP)

Q1 revenue $1.6M up 287%	**Annual Recurring Revenue up 91%**	**Acquisition of Cipherpoint's technology and customers**
Available Cash at quarter end for investment of $8.0M	**Gross margin of $1.2M or 72%**	**Key Global Strategic Partnership with NTT DATA**

"**Daniel Lai, archTIS Managing Director and CEO, said:** *"This was a good quarter of execution by the team despite the continuing challenges of the global pandemic. Revenue was up 287% on PCP and represents our second strongest revenue quarter ever. We have expanded our global sales team and are growing our pipeline of opportunities. The sales team are focused on several important qualified opportunities delayed due to recent COVID-19 lockdowns, which we hope to be able to finalise now that business restrictions are easing. The successful acquisition of Cipherpoint's technology and customers better positions the Company to enter the European and Singapore marketplace, and compliments our strategic and technological direction. Finally, archTIS has commenced the filing of its OTC listing. Overall, a productive quarter."*"

During the September quarter, the Company delivered several key contract wins and delivered services projects which saw gross margins exceed 70%. The Company continued to grow its global sales pipeline with the acquisition of Cipherpoint technologies and customers and is also progressing key proof of concept deployments in the U.S. Federal market. The Company also signed six new partners and expanded its global IP Co-sell partnering presence with Microsoft. As a result, over $3M of new pipeline opportunities were created. The Company is well-positioned to scale the business by pursuing new strategic acquisitions and global distribution channels. The Company continues to develop leading-edge technology offerings for the strong growth markets of cybersecurity and data protection. The positive momentum of the prior quarters has allowed the company to announce its intent to list on the U.S.-based OTCQB, which is expected to be finalised in the Q2 FY22.

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QUARTERLY OPERATIONAL REVIEW

Customer Wins and Expanded Channel Continue Growth Expansion

archTIS continued to deliver key wins across all product lines with several new customers simultaneously purchasing both Kojensi and NC Protect to provide them with a more secure platform for top secret, protected and other data stored in Microsoft 365 collaboration tools such as Teams.

Other highlights included*:

- Deployed both Kojensi and NC Protect into one of Australia's largest defence contractors to secure both protected information and sensitive information across Microsoft Teams.
- Two Australian university research institutes selected Kojensi SAAS to communicate protected information and research with key government agencies.
- A large U.S.-based defence contractor procured a regional deployment of NC Protect to identify and protect key supply chain data.
- Extended and upgraded NC Protect licensing for the U.S. National Institute of Health.
- Internal usage license for key defence reseller for NC Protect.
- Received a multi-year renewal from German social accident insurance company Berufsgenossenschaft für Gesundheitsdienst und Wohlfahrtspflege (BGW) to secure employee and guest access in SharePoint.
- Renewal with the Bank of Finland to secure and encrypt data using cp.Protect.
- Renewal of California State University to find and automatically encrypt student data with cp.Discover.

During the period, the Company also signed six new partners and expanded its global IP Co-sell partnering presence with Microsoft, resulting in the previously stated $3M of new pipeline opportunities.

**Note: Unless announced previously, none of the above contracts are individually material.*

Expansion of Global Operations in EMEA

On 6 July 2021, the Company announced the expansion of global operations in EMEA with the appointment of Pete Smith as Vice President and General Manager of EMEA, based in London, United Kingdom. archTIS finalised the formation of a U.K. corporate subsidiary, which will solidify the Company's regional presence and support existing sales operations across key government, defence and enterprise sectors in the EMEA region.

Smith's addition will also bolster the Company's existing channel footprint across the region, which includes new channel partners in Ireland, Africa, Germany and the Middle East.

Acquisition of Cipherpoint Technology Assets and Customers

On 20 September 2021, archTIS announced the acquisition of Cipherpoint Limited's technology assets including customers, staff and the European operations of the company's software division. With a purchase price of $1.4M, the bolt-on acquisition represents significant value for shareholders at ~3.8x the acquired annual recurring revenue, while being immediately accretive to archTIS earnings.

The acquisition delivers many high-profile customers and partners while extending archTIS' geographic footprint in Europe and Singapore. The asset purchase assists the Company to grow its annual recurring revenue and bolsters the Groups growing suite of data-centric and zero trust architected platforms and encryption products to support Microsoft customer environments for on-premises, hybrid and cloud deployments. Cipherpoint's software division currently provides $370K in contracted annual recurring revenue and has a growing sales pipeline across Europe, the Americas, and Asia, including a number of government and defence agencies.

QUARTERLY OPERATIONAL REVIEW (CONT)

Since the acquisition, the Company has expanded both customer and channel successes including:

- Swift deployment of NC Protect into the internal solutions campus of NTT DATA Deutschland, and have successfully trained and enabled customer-facing sales consultants across the DACH region (Germany, Austria, Switzerland).
- Initiated a paid proof-of-concept of cp.Protect with a European-based global bank.
- Signed a Teaming Agreement with NTT Singapore that will enable the licencing of NC Protect (followed by Kojensi) directly into the Singaporean Government. The Singapore Government has 100,000 employees that interact with Microsoft SharePoint and other applications on a regular basis.

Successful Completion of Merger with Nucleus Cyber

archTIS successfully completed its merger with Nucleus Cyber, following the issuance of securities as the final instalment of deferred consideration due under the terms of the Merger (ASX: 26 July 2021).

The merger has combined all operations and procedures including consolidation of accounting, CRM and marketing automation systems, development of HR systems and global managerial structural alignments; creating underlying cost savings. At the end of July, the Company also consolidated all branding under the archTIS company, folding NC Protect under archTIS and retiring the Nucleus Cyber corporate brand. The corporate brand consolidation will provide a solid foundation for archTIS to continue its growth path across key geographic regions, markets and enterprises while also exploring key acquisitions.

Intent to List on the U.S.-based OTCQB

The Company announced that it has retained US-based Viriathus Capital to assist in filing an application to list archTIS on the OTCQB ® Venture Market ("OTCQB") (ASX: 2 September 2021). The filing initiative supports archTIS' acquisition strategy for growth, makes the Company's scrip more attractive to acquiring company targets and opens the pathway to new opportunities for U.S. expansion. Listing on the OTCQB will give U.S.-based institutional and retail investors, who have already expressed interest, the ability to trade archTIS' stock and allow the Company to scale its secure collaboration technologies globally. A growing U.S. presence will also enable direct market comparisons to U.S.-based competitors.

The listing of archTIS' common shares on the OTCQB remains subject to the approval of the OTCQB and the satisfaction of applicable listing requirements and is expected to list in the current Q2 quarter.

> **Kurt Mueffelmann, Global COO and US President stated:** *"We continue to deliver on the growth strategies across all aspects of the business that have been previously communicated to the market. We are well positioned to take advantage of our impending listing on the U.S.-OTCQB to maximise global shareholder value and meet the needs of U.S. investors."*

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OUTLOOK

Future Focus and Operating Environment

The current global geo-political climate, recent SolarWinds supply-chain breach and continuing COVID-19 pandemic have significantly changed the way organisations access and share data. Open collaboration has created greater exposure for nation-state hacking, corporate espionage and increased error and accidents in the handling of all types of digital information. These factors have significantly contributed to the need for secure collaboration sharing services across government entities, enterprises and small and medium enterprises (SME); prompting organisations to increase their spend on cybersecurity and data protection.

With these technology shifts in mind, archTIS' vision remains focused on becoming the world's most trusted company for the secure sharing of sensitive 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 of and access to their sensitive and classified information anywhere, anytime.

Key goals for the balance of the FY are:

- Execution of global sales strategies:
  - Finalise delayed/deferred sales opportunities.
  - Develop and execute a multi-geography, global pipeline in APAC, the Americas and EMEA.
  - Win U.S.-based Federal and Defence business leveraging existing Australian successes and relationships across key government.
  - Drive key strategic go-to-market alliances across Microsoft field sales and channel partner through IP Co-sell.
  - Execute cross sell opportunities with existing and acquired customers.
- Pursue high-margin licenses to drive annual recurring revenue (ARR) via cross-platform technologies associated with the Company's award-winning products; Kojensi, NC Protect and now Cipherpoint products.
- Develop, maintain and validate leading-edge product technology and strategies to leverage existing rich-feature sets required by key markets and use cases.
- Look to scale faster via acquisitions where it makes sense to access new markets and customers, enhance technical capabilities, and further increase shareholder value.

INVESTOR UPDATES

archTIS will host a quarterly results webinar on 28th October 2021 at 11:00am AEDT (Sydney/Melbourne) to update shareholders on its quarterly results. Register at: https://us02web.zoom.us/webinar/register/WN_t9_p_DnmSIu5xKiMBdyafA

archTIS' Annual General Meeting will be held via Virtual Meeting Facility on 24th November 2021 at 12:30pm AEDT.

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APPENDIX 4C

Quarterly Financial Summary (unaudited)

Total unaudited revenue for the quarter was $1.6M, up 287% on PCP. Gross margin was $1.2M or 72%, compared to $0.3M or 76% in the PCP. Operating expenses were up to $2.6M; reflecting the Company's continued investment in sales and marketing resources to execute its go-to-market strategy in line with the 'Use of Funds' as presented to shareholders from the November 2020 share placement. ARR increased 91% from the PCP. Due to the impact of the COVID-19 pandemic and key Australian state and territory lockdowns on market conditions, a licence renewal ($0.7M) was deferred causing a drop in our quarter-on-quarter comparison of ARR. The inclusion of this licence renewal would have seen a 30% quarter-on-quarter ARR increase and the team is working to finalise.

The table below shows some of the financial highlights for the quarter:

A$'000	FY22 **Q1**	FY21 **Q1**
Total revenue	1,625	420.1
% increase prior comparative quarter	*287%*	
Annual Recurring Revenue	1,763	922.1
% increase prior comparative quarter	*91%*	
OPEX (after capitalising development costs)	2,620	844.4
% increase on prior quarter	*210%*	

archTIS ended the quarter with a cash balance of $8.0M; which included a $1.4M payment for the asset acquisition of Cipherpoint. Cash receipts from customers for the September quarter were $0.6M. The lower quarter on quarter comparative cash receipt collections were expected, due to the upfront payment of multi-year deals during Q4. The Group maintains a healthy cash position with on-going flexibility to execute its organic growth strategy.

The Company's net operating cash outflows for the quarter of $3.4M were mainly comprised of employee and contractor costs ($2.4M), administrative and corporate costs ($0.9M), advertising and marketing ($0.2M) and product manufacturing and operating costs ($0.1M). There were a number of one-off costs incurred to support the establishment of global infrastructure to continue expanding the business. The payments included at section 6.1 of the attached Appendix 4C relate to directors' fees and wages of $98K. The key activities carried out by staff and contractors were ongoing product development, sales, marketing, and corporate administration.

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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 2021

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	619	619
1.2	Payments for		
	research and development	-	-
	product manufacturing and operating costs	(114)	(114)
	advertising and marketing	(210)	(210)
	leased assets	(44)	(44)
	staff costs	(2,437)	(2,437)
	administration and corporate costs	(945)	(945)
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	8	8
1.8	Other (GST)	(246)	(246)
1.9	**Net cash from / (used in) operating activities**	**(3,369)**	**(3,369)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	businesses	-	-
	property, plant and equipment	(24)	(24)
	investments	-	-
	intellectual property	(1,400)	(1,400)

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
	other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	businesses	-	-
	property, plant and equipment	-	-
	investments	-	-
	intellectual property	-	-
	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	-	-
2.6	**Net cash from / (used in) investing activities**	**(1,424)**	**(1,424)**

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	75	75
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	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**75**	**75**

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	12,739	12,739
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,369)	(3,369)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,424)	(1,424)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	75	75
4.5	Effect of movement in exchange rates on cash held	14	14
4.6	**Cash and cash equivalents at end of period**	**8,035**	**8,035**

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	8,035	12,739
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)**	**8,035**	**12,739**

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	98
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.

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7.	Financing facilities *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'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**	33

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)	(3,369)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	8,035
8.3	Unused finance facilities available at quarter end (Item 7.5)	33
8.4	Total available funding (Item 8.2 + Item 8.3)	8,068
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	2.4

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

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

Answer:

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

Answer:

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

Answer:

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Compliance statement

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

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

Date: 28 October 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.

Authorised for issue by order of the Board of Directors.

ENDS

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About archTIS Limited

archTIS Limited (ASX:AR9) is a global 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 and cp. suite of products 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 or follow @arch_tis.

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ABOUT ARCHTIS LIMITED

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Australia | United States | United Kingdom



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