

ASX Announcement
25 August 2021

APPENDIX 4E: FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2021

The following sets out the requirements of Appendix 4E with the stipulated information:

1. Reporting Period

Report for the financial year ended : 30 June 2021
Previous corresponding period is the financial year ended : 30 June 2020

2. Results for announcement to the market (Item 2)

				\$
Revenues from ordinary activities	up	743%	to	4,626,879
Loss from ordinary activities after tax attributable to members	down	24.5%	to	(2,991,402)
Net Loss for the period attributable to members	down	24.5%	to	(2,991,402)
Dividends				na
Record date for determining entitlements to a dividend				na

Brief explanation of any of the figures reported above necessary to enable the figures to be understood (Item 2.6)

Refer to the audited financial statements in the attached 2021 Annual Report.

3. Statement of Comprehensive Income (Item 3)

Refer to page 27.

4. Statement of Financial Position (Item 4)

Refer to page 28.

5. Statement of Cash Flows (Item 5)

Refer to page 30.

6. Statement of Changes in Equity (Item 6)

Refer to page 29.

7. Dividends (Item 7)

No dividends were paid or declared during the year.

8. Dividend Reinvestment Plan (Item 8)

There was no dividend reinvestment plan in operation which occurred during the financial year.

9. Net Tangible Assets per Security (Item 9)

	2021	2020
Net tangible asset backing per ordinary security	\$0.084	\$0.042

10. Details of Entities over which Control has been Gained or Lost during the Period (Item 10)

<i>Name of entities for which AR9 gained control</i>	<i>Date of gain of control</i>
Nucleus Cyber Inc.	23/12/2020
Nucleus Cyber Pty Ltd	23/12/2020
<i>Name of entities for which AR9 lost control</i>	<i>Date of loss of control</i>
na	na

11. Details of Associates and Joint Venture Entities (Item 11)

Not applicable

12. Details of Significant Information Relating to the Entity's Financial Performance and Financial Position (Item 12)

Refer to the audited financial statements in the attached 2021 Annual Report.

13. For Foreign Entities, which set of Accounting Standards is Used in Compiling the Report (Item 13)

Not applicable

14. Commentary on Results for the Period (Item 14)

Refer to the audited 2021 Annual Report attached for further information.

15. Audit of the Financial Report (Items 15 to 17)

The attached 2021 Annual Report has been audited.

All documents comprise the information required by listing rule 4.3A.



TRUSTED TO SAFEGUARD THE WORLD'S
MOST SENSITIVE INFORMATION

ANNUAL REPORT 2021

ARCHTIS LIMITED | AR9 | ACN 123 098 671

For personal use only

For personal use only

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.

For personal use only



TABLE OF CONTENTS

Corporate Directory	4
Letter from the Chairman	5
Letter from the CEO	6
Highlights at a Glance	7
Executive Leadership	8
Overview of FY21	10
Director's Report	14
Financial Statements	26
Consolidated Statement of Profit or Loss and Other Comprehensive Income	27
Consolidated Statement of Financial Position	28
Consolidated Statement of Changes in Equity	29
Consolidated Statement of Cash Flows	30
Notes to the Financial Statements	31
Directors' Declaration	60
Independent Auditor's Declaration	61
Independent Auditor's Report to the Members of archTIS Limited	62
Shareholder Information	66

CORPORATE DIRECTORY

Directors	Miles Jakeman AM Daniel Lai Leanne Graham
Joint Company Secretaries	Erlyn Dale Winton Willesee
Registered Office	Level 3, archTIS House 10 National Circuit Barton ACT 2600
Principal Place of Business	Level 3, archTIS House 10 National Circuit Barton ACT 2600
Share Register	Automatic Level 2, 267 St Georges Terrace Perth, WA 6000
Auditor	RSM Australia Partners Equinox Building 4, Level 2 70 Kent Street Deakin, ACT 2600
Stock Exchange Listing	archTIS Limited shares are listed on the Australian Securities Exchange (ASX: AR9)
Website	www.archtis.com
Corporate Governance Statement	https://www.archtis.com/archtis-asx-ar9-investor-relations/





LETTER FROM THE CHAIRMAN

Dr Miles Jakeman AM

A DEFINING YEAR FOCUSED ON ESTABLISHING PRODUCT-MARKET FIT & ASSOCIATED SALES OPPORTUNITIES

Dear Shareholders,

Thank you for your continued support and investment in archTIS. As Chairman, I'd like to personally thank you for your trust and confidence as we take the business to its next stage of growth.

Financial Year 2021 (FY21) will go down as a bitter-sweet period for the company as we entered into new global market opportunities. Amongst the personal loss and economic challenges experienced by hundreds of millions of people across the globe, archTIS is pleased to deliver a transformational and record-breaking financial year.

archTIS' financial performances this year was substantially higher in every single reporting metric. This outstanding performance has us well positioned as we enter into FY22 with record revenues of \$4.6M, up 743% from the prior reporting period, a strong year-end cash balance of \$12.7M, marquee global customers on recurring contracts, industry leading solutions that solve some of the largest security challenges facing organisations today and lastly, and most importantly, a very seasoned and experienced executive team that has done this before and is delivering significant value to shareholders.

The pain and suffering brought on by COVID-19 also brought on new business opportunities with the massive global growth of the remote worker and a US\$10B data-centric security market. Remote work has brought new challenges to collaboration and has exposed a broader need around security; particularly associated with breaches and loss of sensitive information originating from employees and contractors (insider threats). Nation-states, corporate espionage and human error have exponentially added to the challenges global organisations are facing in securing their data. Despite increased spending on security, the daily papers are filled with headlines touting the latest breaches of personal data, intellectual property, classified military documents and simple mistakes such as emailing the wrong file or putting something sensitive into the wrong folder. The old security model is broken and archTIS is leading the way toward new and innovative methodologies that make collaboration more secure, easier to use, simple to deploy and scalable.

During the year, we quickly realised that as we grew, we were going to need to better scale our governance and operations. We took three key steps to: (1) optimising the Board of Directors to include seasoned technology executive at Xero Leanne Graham, along with our founder and current Managing Director Daniel Lai; (2) appointed co-secretaries in Eryln Dale and Winton Willesee; and (3) hired Kylie Sheather as our full-time CFO who comes from a large technology company and ASX experienced background.

Operationally, we had two key defining moments. In December, we merged with US-based Nucleus Cyber, which immediately expanded archTIS' global footprint with new markets across North America, Europe, Middle East and Africa. The business merger has created product diversity with increased cross-selling opportunities created by tapping into Nucleus Cyber's existing product offering within the Microsoft software suite. The Company also secured our largest deal since inception, a landmark \$4.2M contract with the Australian Department of Defence, confirming archTIS' ability to digitally protect the sharing of highly sensitive information. The Department of Defence subsequently procured \$1.4M of NC Protect; thus, demonstrating the cross-marketability for both our offerings.

These events have not only validated our technology and product offerings but have laid a strong foundation for FY22. The Company is focused on driving shareholder value through continued top-line revenue growth via high margined licensed offerings, providing key investments in the continued expansion of sales distribution channels and market awareness, product innovation to support our innovative approach toward data-centric security and opportunistically seek an acquisition strategy that expands product offerings and geographical distribution.

Finally, to all our shareholders and outstanding global staff, thank you for your support during what has been a transformational year for archTIS. We look forward to continuing to deliver on strategic initiatives to drive growth and long-term value in the coming financial year.

Yours sincerely,

Dr Miles Jakeman AM, Chairman
25 August 2021



LETTER FROM THE CEO & MANAGING DIRECTOR

Daniel Lai

Dear Shareholders,

FY21 has been significant for archTIS as we continued to deliver on several of our strategic goals including:

- Executing sales and expanding archTIS products across Government agencies including Defence and Intelligence, and regulated commercial industry sectors.
- Expanding our strategic alliances and global distribution network.
- Continue to expand upon industry leading product innovations.
- Identify merger and acquisition opportunities to more rapidly scale the business.
- Establishing the foundations for a global high-growth and predictable annual recurring revenue business.

These goals were achieved despite the current geopolitical climate and COVID-19 pandemic, which has impacted the way organisations and individuals' access and share sensitive information. Now, more than ever, archTIS is well positioned to be trusted to safeguard the world's most sensitive information.

The successful execution of this strategy has resulted in a series of record-breaking financial metrics compared to last year's financial results, including:

- Total Revenue of \$4.6M (743% increase);
- Annual Recurring Revenue of \$1.9M (681% increase);
- Cash receipts of \$7.4M, (846% increase); and
- Gross Profit of \$3.1M (1,159% increase) across a 67% gross margin.

This of course could not have been achieved without the hard work from a dedicated team. Through the Nucleus Cyber acquisition we welcomed former Nucleus Cyber CEO, Kurt Mueffelmann, as Global COO & US President. Kurt has been instrumental in leading global sales and operation efforts including Microsoft product suite sales over the past six months and continues to accelerate archTIS' global growth strategy and partnerships.

Finally, archTIS has rounded out the executive team with the recruitment of Kylie Sheather as our global Chief Financial Officer.

With their combined public company expertise, a strong senior leadership team to drive product, sales and marketing strategy, and the establishment of experienced sales teams in EMEA, US and Asia Pacific, we are strongly positioned to expand our growth and customer base in FY22. I expect that this year will also come with many challenges due to the ongoing pandemic and global market uncertainty, however, the market tailwinds of cyber security, work from home and Defence spending will continue to present growth opportunities for archTIS.

FY21 has been a transformational year for archTIS which now has the Company in a strong position for growth as we commence the new financial year. I would like to thank the Board for their support and guidance and the dedicated archTIS team that is driving our success. I would also like to take this opportunity to thank our shareholders for their continued support.

Yours sincerely,

Daniel Lai, CEO & Managing Director

25 August 2021

HIGHLIGHTS AT A GLANCE

FOR THE YEAR ENDED 30 JUNE 2021*

Cash
\$12.7M
+425%

Gross Profit
\$3.1M
+1,159%

Revenue
\$4.6M
+743%

Cash Receipts
(customers)
\$7.4M
+846%

ARR
\$1.9M
+681%

archTIS
Company ASX Listed
2018

Gross Margin
67%
+50%

EBITDA
(\$1.5M)
+44%

*Compared to prior corresponding period

EXECUTIVE LEADERSHIP



Daniel Lai

Chief Executive Officer
& Managing Director

Daniel Lai is the Chief Executive Officer (CEO) and Managing Director of archTIS. He has extensive industry experience in successfully delivering outcomes as part of a senior executive team to both government and commercial organisations. Most importantly Lai has direct experience in implementing organisational change to address the real challenges businesses confront today in a rapidly evolving environment.

Over his career, he has had many successes including leading the Security Enterprise Architecture for the Single Information Environment for the Department of Defence, leading enterprise change as the National Manager for Service Delivery for the Australian Customs and Border Protection Service, and restructuring and implementing enterprise ITIL services for the Australian Customs and Border Protection Service. Lai is a regular speaker at industry events and has been featured in the Financial Review and CIO magazine.



Kurt Mueffelmann

Global Chief
Operating Officer &
US President

As Global Chief Operating Officer (COO) and US President of archTIS, Kurt Mueffelmann brings over 25 years of technology leadership to the companies. He brings his passion for start-ups, and proven strategies for scaling go to market efforts and achieving hyper revenue growth to the role.

Mueffelmann has overseen the growth and sale of four technology companies and earned two Deloitte Fast 500 company awards at previous companies. He has served as CEO of Cryptzone, HiSoftware (acquired by Cryptzone), Create!form International (acquired by Bottomline Technologies), and RealWord (acquired by Microsoft Great Plains). Mueffelmann was Vice President and General Manager of both the Document Output Solutions and Business Process Solutions divisions of Bottomline Technologies where he was responsible for over \$40M in profitable revenue while broadening the product lines and expanding the distribution model.

Mueffelmann has served on the advisory boards of numerous companies and professional organisations within the technology industry.

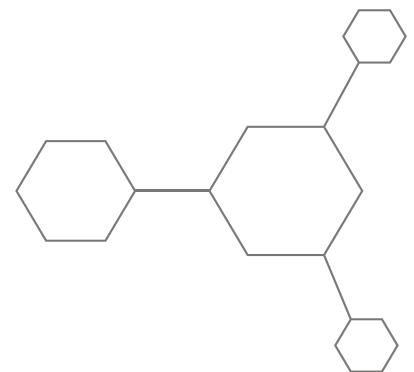


Kylie Sheather

Chief Financial Officer

Kylie Sheather is the Chief Financial Officer (CFO) of archTIS. With extensive knowledge of software as a service companies, Sheather has held senior financial roles for medium and large listed companies. Sheather's strong project management, associated process re-engineering and change management skills support the Company's expansion goals.

Sheather most recently served as TechnologyOne Director of Finance and Business Partnering. Her prior roles include Group Financial Controller at ASX-listed engineering services company LogiCamms and held a number of senior roles at Boom Logistics.



EXECUTIVE LEADERSHIP



Leigh Rowland
Chief Engineer

As the Chief Engineer of archTIS, Leigh Rowland is responsible for driving the evolution of the company's technology to provide secure collaboration and seamless integration into supported platforms. Under his leadership, NC Protect has expanded from its core strength of protecting documents in SharePoint on-premises, to extend the same protection to cloud collaboration and storage repositories including SharePoint Online, Microsoft 365, Microsoft Teams, and Nutanix, as well as the protection of Exchange emails.

He began his career at Xerox and has been involved in a series of successful startups as a consultant and development leader including Cyxtera, Cryptzone (acquire by Cyxtera), and Create!form International. His involvement with NC Protect began back in 2011 and he has continued to be involved in the design and development of the industry leading security solution.



Irena Mroz
Chief Marketing Officer

Irena Mroz is Chief Marketing Officer (CMO) of archTIS. She is responsible for defining the company's branding, demand generation and public relations. An innovative strategist with impeccable attention to detail, Mroz leverages more than 20 years of B2B marketing expertise to direct the company's marketing strategy and communications programs.

Mroz has built her successful career by empowering start-ups and public software companies to exceed growth objectives through successful demand generation programs, product positioning, high profile events and product evangelism. Mroz was the VP of Marketing at Infocyte, a malware and threat hunting solution. She served as the SVP of Marketing for Cryptzone's network and application security solutions, and VP of Marketing for HiSoftware, a provider of compliance and security solutions acquired by Cryptzone. She has held senior marketing positions at Bottomline Technologies and Create!form International.



Matt Kluku
Vice President & General Manager Asia Pacific

Kluku has 27 years experience in the Information and Communication Technologies Industry in Sales, Marketing, Technical and Customer Experience in Australian ICT and large multinational technology and advisory companies such as Gartner, NetApp, CA Technologies and Oracle.

As Vice President & General Manager Asia Pacific, Kluku's primary focus is building archTIS' presence with global Defence, Intelligence, Federal and State Governments and Defence Industry companies, as well as building and growing our partner eco-system supporting these markets, both within the Asia Pacific region.



Pete Smith
Vice President & General Manager EMEA

As Vice President & General Manager EMEA of archTIS, Pete Smith brings over 30 years' experience in sales and management to the role, particularly with startups and emerging IT security brands.

With a record of forging strong, long-term partnerships with customers and partners, Smith has successfully delivered dynamic growth across the EMEA region in a number of different market verticals at technology companies including OCR, Netwrix, Intalio, Cable & Wireless, and SonicWall amongst others. With a keen understanding of how best to harness cutting edge technology to its full advantage, Smith advises customers on how to anticipate changes, and stay one step ahead of threats.

OVERVIEW OF FY21

FOR THE YEAR ENDED 30 JUNE 2021

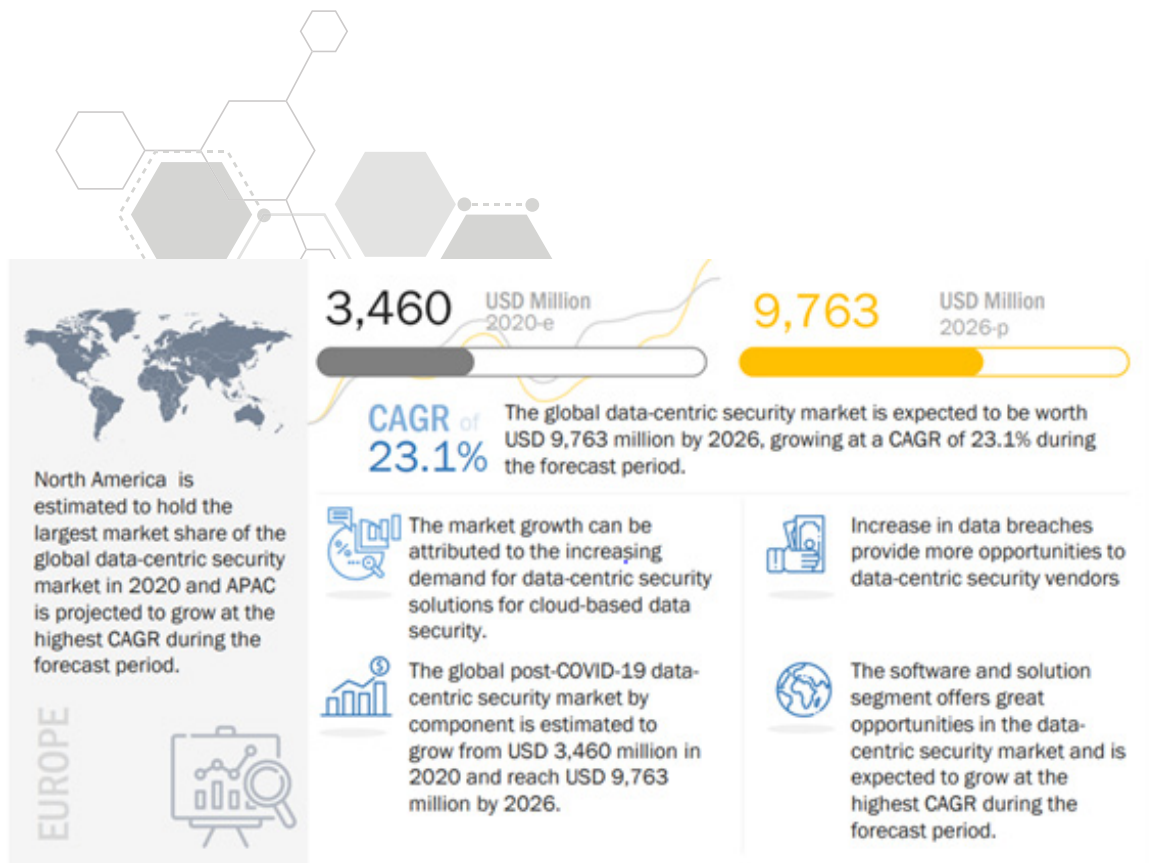
As a global technology provider of innovative software solutions for the secure collaboration of sensitive information, archTIS' underlying mission is to "safeguard the world's most sensitive information".

Cybersecurity breaches from nation-state hacking, corporate espionage and human error continue to be a significant threat to organisations and governments totalling trillions of dollars on an annual basis. While most organisations look to protect the edge or perimeter by keeping the bad guys out, archTIS' innovative technology provides dynamic and intelligent data-centric approaches that protects data, the "crown jewels" of the organization, in real-time.

Adding to the challenge, the COVID-19 pandemic has created unprecedented challenges and opportunities as organisations around the world have transitioned towards remote work environments. The dichotomy of collaboration places increasing importance on the ability to access and share information safely and securely.

archTIS' two information security solutions, Kojensi and NC Protect, dynamically change the access and sharing rights of unstructured documents and files based upon a zero trust, data-centric architecture that is enforced through attribute-based access controls (ABAC). This creates tighter control over data without adding complexity, delivering products that are easy to use, rapidly implemented and scalable while allowing organisations to leverage investments in their existing systems.

MarketsandMarkets research projects the global data-centric security market size will increase from USD 3,460 million in 2020 to USD 9,763 million by 2026, a CAGR of 23.1%. This predicted growth is fuelled by cloud migration, BYOD, and the creation of world-wide remote workforce due to COVID 19 and the different requirements and use cases on how to best protect information as a result.



Source: MarketsandMarkets Analysis

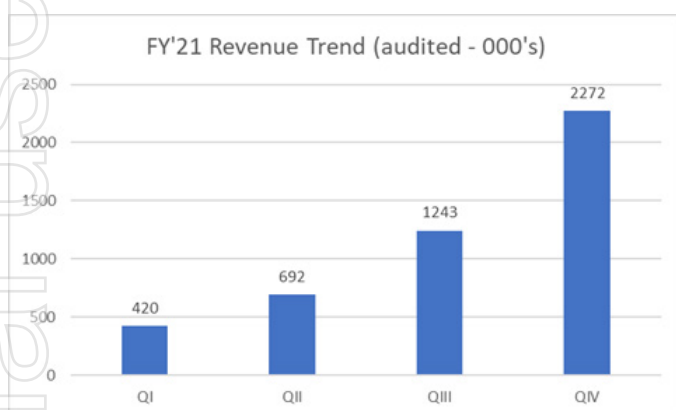
OVERVIEW OF FY21 (CONT.)

FOR THE YEAR ENDED 30 JUNE 2021

FY21 Financial Targets Exceeded

FY21 was a foundational and transformational year for archTIS which will allow the Company to benefit from a large and growing market opportunity and associated tailwinds.

archTIS delivered significant financial gains in FY21, finishing the year with record-breaking financial performances across all areas. The Company achieved total group revenues of \$4,626,879, an increase of 743% over the prior FY20 corresponding period of \$548,747.



As part of the growth in revenues, the Company has been focused on generating more predictable annual recurring revenues (ARR). ARR for FY21 grew to \$1.939M, an increase of more than 681% over the prior corresponding period. The focus on ARR will lead to higher gross margins and increased predictability across the business.

The Company also finished with a strong cash balance of \$12.7M up 425% from the prior corresponding period; well-positioning the entity for investment growth into FY22.

Nucleus Cyber Merger

During FY21, archTIS expanded its market opportunity in the information security sector with the merger of US-based Nucleus Cyber. The 100% scrip merger has enabled the business to scale up through the expansion of a global sales distribution network, increased sales pipeline, and additional key alliance partnerships. Namely with Microsoft, and robust technology-leading product innovation focused on the Microsoft suite of collaboration applications used by over 85% of the global enterprises.

The merger of Nucleus Cyber was announced in October 2020 and became effective in December 2020. In just over six months since the announcement, the Company has accelerated sales and grown market

share by expanding sales distribution networks globally through key partner alliances, including a Microsoft IP Co-sell partnership, and has continued to enhance product development and innovation.

The combined Company achieved over \$2.35M of total contract sales value attributed to Nucleus Cyber's NC Protect product in the last half of FY'21. This is more than a 470% increase in just a six-month period from the \$500k in sales though the entire 2020 calendar year. Sales consisted of Microsoft IP Co-sell deals, multi-year licenses to large government defence agencies, leading financial services and manufacturing firms and existing customer renewals, which are driving ARR as well as additional licensing into key accounts.

Through the Nucleus Cyber merger, the Company has expanded global sales distribution capabilities and established an expanded multi-geography presence in APAC, the Americas and EMEA. A US-based Federal and Defence focused business unit to leverage existing Australian successes and relationships has also been created to leverage the prior successes in Australia.

Enhanced channel partnerships and key strategic alliances have been possible through NC Protect's IP co-sell agreement with Microsoft. During the six-month period, the Company signed 12 new Microsoft and general security resellers across all geographical areas. Two key partnerships were announced this year with Thales and Raytheon.

Product innovation and development continued to be a focal point for the combined business. A new initiative, "KojNC," was created to provide consistent core features and functionality in both Kojensi and NC Protect products. archTIS also strengthened the NC Protect product line with a major version release that added new capabilities based on market requests and customer feedback.

Sales to the Australian Department of Defence

In September 2020, the Company secured a landmark contract with the Australia Department of Defence Joint Capabilities Group with a total contract value of \$4.2M which included the licenses of archTIS Kojensi and associated enterprise services for multi-national information sharing and cross-domain services. This is the Company's largest contract to date, evidencing both its growing maturity as well as the Department's commitment to invest in premium sovereign information security capabilities.

In Q4 FY21, the Department of Defence also procured two multi-year contracts totalling approximately \$1.4M for the licensing of NC Protect to secure information collaboration across the Microsoft suite of offerings. This win was also part of the Microsoft IP Co-sell

OVERVIEW OF FY21 (CONT.)

FOR THE YEAR ENDED 30 JUNE 2021

program where archTIS and Microsoft collaborated on the strategy and licensing to better leverage core Microsoft applications across the agency while providing an increased layer of data-centric protection.

A Growing Experienced Team

During FY21, several executive and management changes were implemented as a result of the Nucleus Cyber merger and continued growth across archTIS' existing business. The Nucleus Cyber merger saw Kurt Mueffelmann, Former CEO of Nucleus Cyber, join the Company, bringing 25-years of deep executive technology experience and sales connections within North America and across the Microsoft suite of products and reseller channels. Additional Nucleus Cyber executives Irena Mroz and Leigh Rowland joined the team as Chief Marketing Officer and Chief Engineer respectively.

Post-merger, multiple key hires were made in new regions to aid in the expansion of the business into new, strategic markets. In EMEA, Pete Smith joined as Vice President, General Manager of EMEA to formalize regional presence and channel partners. In North America, Bill Kalogeros was appointed Director, Federal and Defence Industry Base, to lead the newly created US Federal and Defence practice.

In April 2021, archTIS appointed Kylie Sheather as Chief Financial Officer to grow the Company's financial management systems, strategic analysis and cost management to support the Group's global expansion.

Corporate

The Company recently announced the successful completion of the merger with Nucleus Cyber. The Company has effectively combined all operations and procedures including consolidation of accounting, CRM systems, website, sales teams, business development pipelines and the use of external advisors such as lawyers and auditors. The Company also consolidated all branding under the archTIS company, folding NC Protect under archTIS and retiring the Nucleus Cyber corporate brand. The business combination leverages talent and networks of the combined team strengthening archTIS' sales model and delivering ongoing operational cost efficiencies.

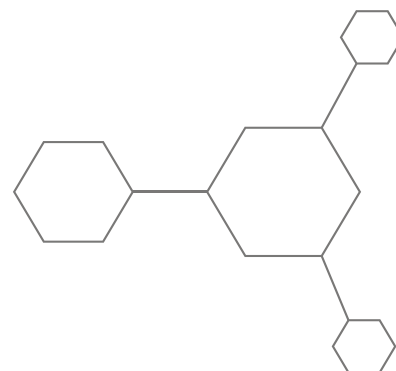
As part of the funding requirements for the Nucleus Cyber acquisition and to provide the necessary working capital to continue to grow the business and drive the sales pipeline across the combined Nucleus Cyber and Kojensi product offerings, archTIS raised \$8.4M through a share placement in November 2020. The Company remained in a strong financial position at the end of the financial year to continue with identified growth initiatives and a cash balance of \$12.7M.

Looking ahead

The growing market for secure information sharing combined with the transformational changes delivered in FY21 and a strong cash balance at year end, have archTIS well positioned to continue with top-line revenue growth across high margin licensed offerings in FY22.

Important goals for FY22 include:

- Aggressively continue to drive triple-digit growth through annual recurring revenue to create repeatability and predictability.
- Deliver product superiority across a data-centric and attribute-based access control approach.
- Focus on capturing global market share in more-highly regulated industries with specific focus on replicating the early-successes in prior wins with Australian Ministry of Defence and large global defence contractors.
- Leverage global direct sales distribution and partner resellers to continue the expansion of pipeline opportunities.
- Continue significant alliance pipeline opportunities with Microsoft, Thales, Raytheon, and other opportunistic partners that drive awareness and shortened sales-cycle revenue opportunities.
- Explore key acquisition opportunities that have the potential to further expand revenue-associated product offerings via complimentary areas or "tuck-ins" and/or expansion of geographical distribution channels.
- Provide an innovative, exciting and enjoyable place of employment for staff, partners and customers.





DYNAMIC ACCESS & DATA PROTECTION FOR MICROSOFT 365 APPS & FILE SHARES

SENSITIVE & CLASSIFIED INFORMATION - SHARED SECURELY

NC PROTECT™



Discover, classify and secure sensitive information



Share sensitive and classified files securely



Prevent data loss, misuse and human error



Accredited secure document collaboration



Audit and report for compliance



Enforce zero trust with attribute-based access control (ABAC)

For personal use only



DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the Group (referred to hereafter as the 'Group') consisting of archTIS Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021 ('Reporting Period' or 'FY21').

DIRECTORS' REPORT

DIRECTORS

The following persons were directors of archTIS Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

- Miles Jakeman
- Daniel Lai
- Leanne Graham
- Bruce Talbot (resigned 31 July 2020)
- Stephen Smith (resigned 31 July 2020)
- Wayne Zekulich (resigned 31 July 2020)

COMPANY SECRETARY

As at the date of this report, the role of company secretary is held by Winton Willesee and Erlyn Dale, jointly, following their appointment on 12 February 2021.

Prior to this, the role of Company Secretary was held by Group CFO, James Palmer, for the period from 31 July 2020 to 28 May 2021, and Baden Bowen for the period from February 2018 until his resignation on 31 July 2020.



Dr Miles Jakeman AM
Chairman of the Board



Daniel Lai
Managing Director
& CEO



Leanne Graham
Non-Executive Director



Winton Willesee
Company Co-Secretary



Erlyn Dale
Company Co-Secretary

DIRECTORS AND MEETINGS OF DIRECTORS

The qualifications and experience of directors, including current and recent directorships, are as follows:

Dr Miles Jakeman AM Chairman of the Board

Jakeman is a specialist in business strategy, leadership, high performance team development, and risk management. As a company director, former CEO and technology business founder, he brings deep domain expertise in these areas and has successfully guided companies across global markets to deliver outstanding year-on-year results. After 30 years of industry experience, with the last 20 years as a director, he has also built an excellent network in the government, enterprise, and healthcare sectors.

Jakeman co-founded and was the Managing Director of Australian software and technology success story, The Citadel Group Limited ("Citadel"). During his time as Managing Director, he grew Citadel from a start-up to an ASX-listed company with over 300 staff and a market capitalisation of more than \$400 million. The company was subsequently sold to Pacific Equity Partners for \$503 million.

Miles has a Bachelor of Science (Hons), a Graduate Diploma in Asian Studies, a Doctorate of Philosophy (PhD) in Asian Studies and a second PhD in Business Leadership. He is conversant in Bahasa Indonesia, Malay and Tok Pisin. Professionally, Jakeman is a Fellow of the Australia Institute of Company Directors (AICD) and has successfully

completed both the AICD Diploma of International Company Directors and the Mastering and the Boardroom Advanced Diploma. Miles was appointed as a Member of the Order of Australia (AM) for significant service to business, national security, and to the community.

Interest in Shares and Options:
1,634,545 ordinary shares and 360,000 options

Other current directorships:
GetBusy plc (AIM: GetB), Fifth Domain Pty Ltd, The Shepherd Centre Charity

Former directorships (last 3 years): Executive Director and Deputy Chairman of Citadel Group, Manteena Security Australia Pty Ltd (resigned 20 August 2021)

DIRECTORS' REPORT

DIRECTORS AND MEETINGS OF DIRECTORS (CONT.)

Daniel Lai

Managing Director & CEO

Daniel Lai is a founding member of the Company and has successfully developed the business with its partners to be recognised by the Australian and United States Departments of Defence as a thought leader in information sharing strategies. Most importantly Lai has direct experience in implementing organisational change to address the real challenges businesses confront today in a rapidly evolving environment.

Interest in Shares and Options:

9,574,252 ordinary shares

Other current directorships: None

Former directorships (last 3 years):

None

Leanne Graham

Non-Executive Director

With over 30 years in the software sector, Leanne Graham has assisted technology companies with her broad experience and SaaS expertise. In 2018, Graham was awarded the New Zealand Order of Merit for her services to the software industry. Graham is also a director of Bill Identity Limited (formerly BidEnergy Limited), and Dough Limited.

Interest in Shares and Options:

753,636 ordinary shares

Other current directorships: Non-Executive Director of Bill Identity Limited and Dough Limited

Former directorships (last 3 years):

Executive Chairman of Health House International Limited (formerly Velpic Limited) (resigned 19 March 2021) and Non-Executive Director of AppsVillage (resigned 10 June 2020).

Stephen Smith

Non-Executive Director (and former Chairman of the Board) (21 February 2018 – 31 July 2020)

Stephen Smith was a member of the House of Representatives from 1993 to 2013. He served as a minister in the Rudd and Gillard Governments, including as Minister for Foreign Affairs (2007-2010), Minister for Trade (2010), and Minister for Defence (2010-2013). Stephen has also served as a board member for two not-for-profit organisations including Perth USAsia Centre and LNG Marine Fuel Institute.

Interest in Shares and Options:

1,080,000 options (as at date of resignation, being 31 July 2020)

Other current directorships: Chairman of Sapien Cyber Board from 16 Sept 2019

Former directorships (last 3 years):

None

Wayne Zekulich

Non-Executive Director (21 February 2018 – 31 July 2020)

Wayne Zekulich is a consultant with extensive banking and investment banking experience covering mergers and acquisitions, arranging and underwriting financings and debt and equity capital markets. Zekulich is a member of the Curtin Business School of Accounting Advisory Board and the John Curtin Gallery Board, a member of the University of Western Australia Audit Committee and a Board member of ARTrinsic Inc.

Interest in Shares and Options:

100,000 ordinary shares and 540,000 options (as at date of resignation, being 31 July 2020)

Other current directorships: None

Former directorships (last 3 years):

None

Bruce Talbot

Executive Director (12 December 2006 – 31 July 2020)

Bruce Talbot has been involved in the creation, implementation and management of advanced computer security systems and capabilities. He has over 20 years' experience in the Australian Defence Force and a further 20 years in the commercial sector working for CA Technologies, Hitachi Data Systems, Airservices Australia and the Australian Federal Police.

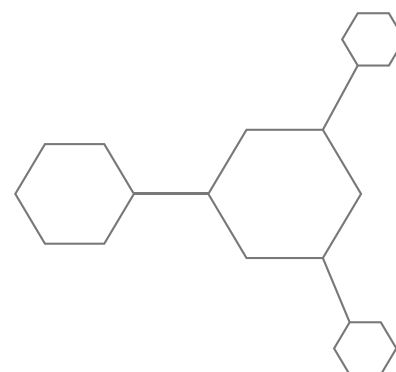
Interest in Shares and Options:

7,286,436 ordinary shares and 1,080,000 options (as at date of resignation, being 31 July 2020)

Other current directorships: None

Former directorships (last 3 years):

None



DIRECTORS' REPORT

DIRECTORS AND MEETINGS OF DIRECTORS (CONT.)

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2021, and the number of meetings attended by each director were:

	Number of Meetings Held*	Number Attended
Miles Jakeman	12	12
Daniel Lai	12	12
Leanne Graham	12	12
Stephen Smith (resigned 31 July 2020)	1	1
Bruce Talbot (resigned 31 July 2020)	1	1
Wayne Zekulich (resigned 31 July 2020)	1	1

* Held represents the number of meetings held during the time the director held office.

The Directors have determined that the Group's operations continue not to be of a sufficient magnitude to require the Board Committees outlined in the Corporate Governance Plan. The Board is carrying out the duties that would ordinarily be assigned to each committee under the written terms of reference for that committee.

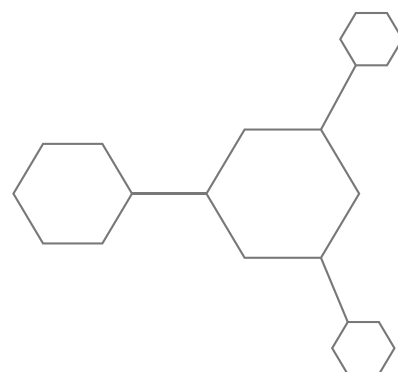
PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the Group consisted of:

- Sales of a secure information management and collaboration software: Kojensi either in-cloud or on-premises and NC Protect for users of the Microsoft software suite; and
- Consulting and solutions services for secure information sharing and inter-organisational collaboration related to the above software sales.

DIVIDENDS

No dividends were paid during the financial year.



DIRECTORS' REPORT

Review of Operations

Refer to pages 10-12 of the annual report for an overview of FY21 operations.

Effects of Coronavirus (COVID-19) pandemic on the Company

The Company took early and positive steps to protect its employees, clients and the public by initiating work from home practices. archTIS staff worked remotely using Kojensi as our remote access platform. The initial effect of the pandemic was to slow the conversion of sales pipeline as potential customers delayed IT projects to focus on the immediate impacts to their business. However cyber security and trusted information shared quickly emerged as a growing issue with most companies as they sent their workforce to work remotely from their homes. This has highlighted the need for our product more than ever and created a greater market need and increased our sales pipeline in the medium to long term.

Significant changes in the state of affairs

On 23 December, 2020 archTIS Limited, acquired 100% of the ordinary shares of Nucleus Cyber Inc for the total consideration of \$7,517,522. Nucleus Cyber Inc provides advanced information protection solutions that prevent data loss and protect against insider threats across the Microsoft software suite. Nucleus Cyber's 'NC Protect' solution provides a simple fast and inexpensive solution to tailor information protection for file sharing, messaging and chat across collaboration tools.

There were no other significant changes in the state of affairs of the Group entity during the financial year.

Matters subsequent to the end of the financial year

Completion of Nucleus Cyber Acquisition

At the Company's Annual General Meeting in December 2020, the Company's Shareholders approved the acquisition of Nucleus Cyber Inc (Merger), which provided for the issue of Initial Consideration Shares, Second Tranche Shares and Third Tranche Shares (each as defined in the Notice of Meeting released on ASX on 23 November 2020 (Notice of Meeting)).

On 24 December 2020, the Company completed the issue of 15,171,879 Initial Consideration Shares and 1,011,769 Second Tranche Shares in accordance with the terms of the Merger.

Subsequent to the end of the Reporting Period, on 26 July 2021, the Company issued the final tranche of consideration shares, being 6,087,272 Third Tranche Shares, and issued 303,030 Shares (Retention Bonus

Shares) to certain retained employees, in accordance with the terms of the Merger.

The above represents full and complete settlement of the consideration payable by the Company in respect of the Merger.

Expansion into Europe, Middle East and Africa

The company announced on 6 July 2021 its expansion into Europe, Middle East and Africa (EMEA) with the appointment of Pete Smith as the Vice President and General Manager of EMEA, based in London, United Kingdom (UK) and the creation of a new UK corporate subsidiary, archTIS UK Limited.

COVID-19

As the impact of the Coronavirus (COVID-19) pandemic is ongoing, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on continued measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any further economic stimulus that may be provided.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

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 ensure the directors and executives of the company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

DIRECTORS' REPORT

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 Group, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Shares under option

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

Class Code	Grant Date	Expiry Date	Exercise Price	Number Under Option
AR901	10 Oct 2017	10 Oct 2022	\$ 0.10	420,000
AR903	22 May 2018	1 Jul 2023	\$ 0.20	800,000
AR905	06 Sep 2018	6 Sept 2022	\$ 0.24	1,330,000
AR907	20 Nov 2019	1 Jul 2023	\$0.20	250,000
AR908	13 Feb 2020	13 Feb 2023	\$0.20	360,000
AR909	30 Jun 2020	1 Jul 2023	\$0.10	500,000
Total options on issue				3,660,000

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.



DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel remuneration arrangements for the Group, 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.

Overview of remuneration approach and framework

From time to time, the Board of Directors ('the Board') reviews the remuneration arrangements for its Directors and Executive Officers, to ensure reward for performance is competitive and appropriate for the results delivered. The performance of the Group 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 remuneration of Directors and other key management personnel is not directly linked to the Group's performance.

The remuneration of Directors and other key management personnel is fixed annually. Bonuses are structured to reward outstanding performance against agreed Key Performance Indicators (KPI's) including financial and non-financial metrics.

The Group did not engage a remuneration consultant to provide recommendations in respect of the remuneration of key management personnel.

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

Non-executive directors' 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 Board.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The company's Constitution provides that the maximum annual aggregate remuneration for non-executive directors will be not more than a fixed sum determined by a general meeting. The current maximum annual aggregate remuneration has been fixed at \$275,000 per annum, however the Company intends to seek shareholder approval at its upcoming annual general meeting to increase this amount to \$500,000 per annum.

Executive remuneration

The Group 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 Board based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

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.

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 Group's direct competitors.

Details of remuneration

Amounts of remuneration

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

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT.)

Details of remuneration (cont.)

During the Reporting Period, the key management personnel of the Group consisted of the following personnel of archTIS Limited. The following persons were key management personnel of the Group during the whole of the Reporting Period and up to the date of this report, unless otherwise stated:

2021

Directors

Miles Jakeman AM	Chairman	
Daniel Lai	Managing Director & Chief Executive Officer	
Leanne Graham	Non-executive Director	
Stephen Smith	Non-executive Director	(until resignation on 31 July 2020)
Wayne Zekulich	Non-executive Director	(until resignation on 31 July 2020)
Bruce Talbot	Non-executive Director	(until resignation on 31 July 2020)

Key Management Personnel

Kurt Mueffelmann	Global Chief Operations Officer	(commenced on 23 December 2020)
James Palmer	Chief Financial Officer	(until resignation on 28 May 2021)
Kylie Sheather	Chief Financial Officer	(commenced on 29 April 2021)

During the prior comparative period, the key management personnel of the Group consisted of the following personnel of archTIS Limited.

2020

Directors

Stephen Smith	Chairman	
Daniel Lai	Managing Director & Chief Executive Officer	
Bruce Talbot	Executive Director & Chief Architect	
Leanne Graham	Non-executive Director	
Wayne Zekulich	Non-executive Director	
Miles Jakeman AM	Non-executive Director	(commenced on 13 February 2020)

Key Management Personnel

James Palmer	Chief Financial Officer	(commenced on 16 December 2019)
Matthew Kluken	Head of Business Development & Sales	
Nick Main	Chief Technology Officer	
Marcelle Newbound	Head of People & Customer Experience	
Phillip Dean	Principal Consultant	
Sarah Young	Chief Financial Officer	(16 July 2019 to 29 October 2019)

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT.)

Details of remuneration (cont.)

	Short-Term Benefits			Long-Term Benefits			Total	% of salary assoc. with performance	Options as a % of total
	Salary	Cash Bonus	Fees	Share Based Payments	Post employment Super	Long Service Leave			
	\$	\$	\$	\$	\$	\$			
2021									
Non-Executive Directors									
Miles Jakeman AM	-	-	72,917	7,687	6,927	-	87,531	-	8%
Leanne Graham	-	-	54,756	-	-	-	54,756	-	-
Stephen Smith	-	-	6,250	-	594	-	6,844	-	-
Wayne Zekulich	-	-	4,167	-	396	-	4,563	-	-
Executive Directors									
Daniel Lai	276,966	-	-	-	26,312	5,000	308,278	-	-
Bruce Talbot	19,171	-	-	-	1,808	320	21,299	-	-
Key Management Personnel									
James Palmer	-	-	222,509	-	-	-	222,509	-	-
Kylie Sheather	26,639	-	-	-	-	443	27,082	20%	-
Kurt Mueffelmann*	167,250	-	-	-	-	-	167,250	20%	-
2020									
Non-Executive Directors									
Stephen Smith	75,000	-	-	11,254	7,125	-	93,379	-	12%
Leanne Graham	-	-	54,756	5,627	-	-	60,383	-	9%
Wayne Zekulich	50,000	-	-	5,627	4,750	-	60,377	-	9%
Miles Jakeman AM	16,667	-	-	10,577	1,583	-	28,827	-	37%
Executive Directors									
Daniel Lai	230,054	-	-	18,757	18,567	3,842	271,220	-	7%
Bruce Talbot	230,054	-	-	11,254	18,567	3,842	263,717	-	4%
Key Management Personnel									
Philip Dean	177,457	-	-	11,254	16,858	3,015	208,585	-	5%
Matthew Kluken	161,872	50,805	-	-	20,194	-	232,871	22%	-
Nick Main	-	-	273,600	-	-	-	273,600	-	-
Marcelle Newbound	125,832	-	-	-	11,913	-	137,744	-	-
Sarah Young	70,806	-	-	-	6,727	-	77,533	-	-
James Palmer	-	-	83,300	-	-	-	83,300	-	-

*Estimated AUD remuneration based on USD to AUD 2020/21 average exchange rate of 1.338

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT.)

Share-based compensation

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:

	Grant Date	Vesting Date	Expiry Date	Exercise Price	Value Per Opt	Number under Option
AR908 Class						
Non-Executive Directors						
Miles Jakeman	13 Feb 20	13 Feb 21	13 Feb 23	\$0.20	\$0.041	180,000
	13 Feb 20	13 Feb 22	13 Feb 23	\$0.20	\$0.041	180,000

During the previous financial year, AR908 options were granted to a newly appointed director over unissued fully paid ordinary shares in the company. The options are exercisable by the holder from the vesting date. Options vested are to lapse within one month of the Eligible Participant to the Plan ceasing to be an employee.

There are no amounts paid or payable by the recipient in relation to the granting of such options other than on their potential exercise. Options granted carry no dividend or voting rights.

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Opening Balance	Received as part of remuneration	Additions	Disposals	Closing Balance
Non-Executive Directors					
Miles Jakeman AM	-	-	1,634,545	-	1,634,545
Leanne Graham	50,000	-	703,636	-	753,636
Stephen Smith ¹	-	-	-	-	-
Wayne Zekulich ¹	100,000	-	-	-	100,000
Executive Directors					
Daniel Lai	7,410,616	-	2,163,636	-	9,574,252
Bruce Talbot ¹	7,486,436	-	-	-	7,486,436
Key Management Personnel					
James Palmer ²	-	-	-	-	-
Kylie Sheather	-	-	-	-	-
Kurt Mueffelmann	-	-	17,772,859	-	17,772,859

¹ As at date of resignation, being 31 July 2020

² As at date of resignation, being 28 May 2021

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT.)

Share-based compensation (cont.)

Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Opening Balance	Granted	Exercised	Expired /Forfeited /Other	Closing Balance
Non-Executive Directors					
Miles Jakeman AM	540,000	-	180,000	-	360,000
Leanne Graham	540,000	-	540,000	-	-
Stephen Smith ¹	1,080,000	-	-	-	1,080,000
Wayne Zekulich ¹	540,000	-	-	-	540,000
Executive Directors					
Daniel Lai	1,800,000	-	1,800,000	-	-
Bruce Talbot ¹	1,080,000	-	-	-	1,080,000
Key Management Personnel					
James Palmer ²	-	-	-	-	-
Kylie Sheather	-	-	-	-	-
Kurt Mueffelmann	-	-	-	-	-

¹ As at date of resignation, being 31 July 2020

² As at date of resignation, being 28 May 2021

Change to FY22 remuneration, Daniel Lai, Managing Director and CEO

On 25 August, 2021, the Board approved a change to the FY22 remuneration for Managing Director and CEO, Daniel Lai, in recognition of the Company's outstanding performance during the year ended 30 June 2021.

Details are as follows:

Remuneration Component	Amendment
Fixed remuneration	Base salary (excluding statutory superannuation) increased from \$230,054 to \$300,00 per annum effective from 22 March 2021.
Short-term incentive	A maximum annual performance based cash bonus entitlement of up to \$120,000, payable upon the achievement of certain performance metrics across the following categories: <ul style="list-style-type: none"> Up to 40% payable upon the achievement of defined revenue growth targets Up to 40% payable upon the achievement of defined annual recurring revenue targets Up to 20% payable upon the achievement of defined operating expenses cap targets
Long-term incentive	Subject to shareholder approval to be sought at the 2021 Annual General Meeting, it is proposed that Daniel Lai be granted 612,245 performance rights under the Company Employee Incentive Plan. The quantum is calculated based a notional maximum value of \$150,000 and the AR9 closing share price of \$0.2450 on July 1, 2021, being the commencement of the performance period. The performance rights will be subject to vesting conditions across the same performance metrics as the STI noted above, being: <ul style="list-style-type: none"> Up to 40% payable upon the achievement of defined revenue growth targets Up to 40% payable upon the achievement of defined annual recurring revenue targets Up to 20% payable upon the achievement of defined operating expenses cap targets Further information will be set out in the Notice of Meeting convening the 2021 Annual General Meeting which will be provided to shareholders in due course.

All other terms of Daniel Lai's contract remain unchanged including his termination notice period of six months.

THIS CONCLUDES THE REMUNERATION REPORT, WHICH HAS BEEN AUDITED.

DIRECTORS' REPORT

Auditor

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

Non-audit services

Details of the amounts paid or payable to RSM for non-audit services provided during the financial year by the auditor are outlined in note 25 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 RSM'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 25 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 RSM; 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 RSM'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.

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.

Auditor's independence declaration

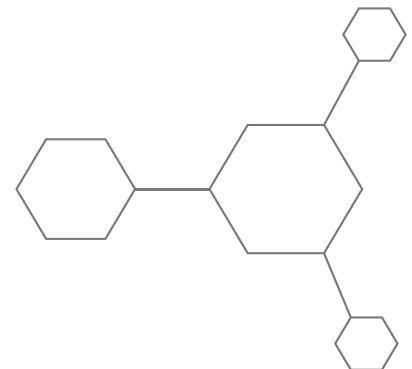
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 61.

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,



Miles Jakeman AM
Chairman
25 August 2021
Canberra, ACT



For personal use only



FINANCIAL STATEMENTS

TABLE OF CONTENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income	27
Consolidated Statement of Financial Position	28
Consolidated Statement of Changes in Equity	29
Consolidated Statement of Cash Flows.	30
Notes to the Financial Statements	31
Directors' Declaration	60
Independent Auditor's Declaration.	61
Independent Auditor's Report to the Members of archTIS Limited.	62
Shareholder Information	66

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 \$	2020 \$
Revenue	3(a)	4,626,879	548,747
Cost of Sales		(1,543,500)	(303,929)
Gross Profit		3,083,379	244,818
Other Income	3(b)	1,637,165	670,775
Sales and Marketing	4	(614,310)	(477,528)
General Administration	4	(7,440,624)	(4,163,433)
Loss before Income Tax		(3,334,391)	(3,725,369)
Income Tax (Expense) / Benefit		342,989	-
Other Comprehensive Income		-	-
Total Comprehensive Loss for the Year		(2,991,402)	(3,725,369)
Basic earnings per share	31	(1.49)	(2.94)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	2021 \$	2020 \$
ASSETS			
Current assets			
Cash and cash equivalents	6	12,739,159	2,428,648
Trade and other receivables	7	573,614	58,896
Other assets	8	330,369	194,943
Deferred tax and other	18	1,434,753	886,008
Total current assets		15,077,895	3,568,495
Non-current assets			
Property, plant and equipment	9	107,909	39,356
Intangible assets	10	13,709,090	4,261,450
Right of use asset	11	1,092,021	1,052,957
Deferred tax and other	18	263,781	-
Total non-current assets		15,172,801	5,353,763
Total assets		30,250,696	8,922,259
LIABILITIES			
Current liabilities			
Trade and other payables	12	1,004,502	140,708
Employee benefits	14	265,941	219,140
Other current liabilities	15	4,040,557	291,171
Lease liability		144,357	116,079
Total current liabilities		5,455,356	767,098
Non-current liabilities			
Employee benefits	16	57,697	28,346
Provisions	17	2,495,366	74,249
Deferred tax and other	18	1,662,952	-
Lease liability		936,349	1,241,383
Total non-current liabilities		5,152,365	1,343,978
Total liabilities		10,607,721	2,111,077
NET ASSETS		19,642,975	6,811,182
EQUITY			
Issued capital	19	31,513,233	15,713,392
Reserves	20	1,831,404	1,808,050
Retained profits (accumulated losses)	21	(13,701,663)	(10,710,260)
TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF ARCHTIS LIMITED		19,642,975	6,811,182

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

Consolidated	Note	Issued capital \$	Reserves \$	Retained profits \$	Total equity \$
Balance at 1 July 2020		15,713,392	1,808,050	(10,710,261)	6,811,181
Total comprehensive income for the year		-	-	(2,991,402)	(2,991,402)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	19	16,297,106	-	-	16,297,106
Option fees	19	-	-	-	-
Capital raise fees	19	(497,265)	-	-	(497,265)
Foreign exchange reserve	20	-	(12,982)	-	(12,982)
Share-based payments	20	-	36,336	-	36,336
Balance at 30 June 2021	19,20	31,513,233	1,831,404	(13,701,663)	19,642,975
Balance at 1 July 2019		13,701,686	1,613,150	(6,726,078)	8,588,758
Introduction of AASB 16		-	-	(258,814)	(258,814)
Total comprehensive income for the year		-	-	(3,725,369)	(3,725,369)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	19	2,250,873	-	-	2,250,873
Option fees	19	-	-	-	-
Capital raise fees	19	(239,167)	-	-	(239,167)
Foreign exchange reserve	20	-	-	-	-
Share-based payments	20	-	194,900	-	194,900
Balance at 30 June 2020	19,20	15,713,392	1,808,050	(10,710,261)	6,811,181

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASHFLOW

FOR THE YEAR ENDED 30 JUNE 2021

	Note	Consolidated 2021 \$	2020 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		7,355,766	777,694
Payments to suppliers and employees (inclusive of GST)		(8,711,350)	(5,109,408)
Receipts from R&D Tax Incentive		791,541	1,494,825
COVID-19 Government Cash Boost		94,467	50,750
Interest received		5,201	38,786
Interest paid		(61,429)	(90,434)
Net cash provided by (used in) operating activities	30	(525,804)	(2,837,787)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(103,775)	(3,640)
Net cash provided by (used in) investing activities		(103,775)	(3,640)
Cash flows from financing activities			
Proceeds from issue of shares		11,199,257	2,116,554
Costs of capital raise	19	(497,265)	-
Repayments under leases		(76,701)	(101,679)
Net cash provided by (used in) financing activities		10,625,291	2,014,875
Cash acquired through acquisition		331,060	
Net increase (decrease) in cash held		10,326,772	(826,552)
Cash and cash equivalents at beginning of period		2,428,648	3,255,200
Effects of exchange rate changes on cash and cash equivalents		(16,261)	-
Cash and cash equivalents at end of period	6	12,739,159	2,428,648

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1. 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 the years presented, unless otherwise stated.

(a) Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The consolidated group incurred a loss after tax of \$2,991,402 (2020 \$3,725,369) and had net operating cash outflows of \$525,804 (2020: \$2,837,787). The entity has prepared a cash flow forecast which indicates that the entity has sufficient cash to meet its debts as and when they fall due and payable.

The Directors believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- The consolidated entity is currently exploring sales opportunities with various potential customers across the Government and Private sectors;
- Following a successful capital raising in November 2020 of \$8.4 million the Group has cash at bank as at 30 Jun '21 of \$12.7 million;
- if necessary, the Company will consider additional capital raising activities through the issue of new share capital.

(b) New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new 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 are most relevant to the Group.

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 re-measurement 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.

(c) 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').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

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) Parent company information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 28.

(e) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of archTIS Limited ('company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. archTIS Limited and its subsidiaries together are referred to in these financial statements as 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.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1. Significant Accounting Policies

(e) Principles of consolidation (cont.)

A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(f) Foreign currency translation

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

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars 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 translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

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 at disposition of the foreign operation or net investment.

(g) Revenue recognition

The Group earns revenues from consulting services, the sale of solution services and software for secure information sharing and inter-organisational collaboration. It recognises revenue as follows:

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 recognised as a refund liability.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest

Interest revenue 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.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

(h) 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, associates or joint ventures, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1. Significant Accounting Policies

(h) Income tax (cont.)

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.

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.

archTIS Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

(i) 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.

Deferred tax assets and liabilities are always classified as non-current.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

(k) 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 provision 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 provision for impairment of trade receivables 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 impairment allowance 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 provision for impairment.

(l) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concession due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1. Significant Accounting Policies

(m) Property, plant and equipment

Each class of plant and equipment is stated 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:

Leasehold Improv.	Term of lease
Office furniture & equipment	2-4 years
Computer Equipment	2-4 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.

(n) Leases

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.

(o) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a systematic basis matched to the future

economic benefits over the useful life of the project.

Research and development tax incentive

The Research and Development Tax Incentive (RDTI) is a 43.5% refundable tax offset that is calculated as 43.5% of the eligible research and development expenditure that has been incurred by the Group. The Directors consider any payment arising from the RDTI to be a form of government assistance and are of the view that it is appropriate to recognise RDTI receipts as Government Grants in accordance with AASB120 Accounting for Government Grants and Disclosure of Government Assistance.

As such, RDTI refunds are recognised when there is a sufficient degree of certainty that the Group will comply with the conditions attaching to RDTI and that the payment will be received. Such refunds are recognised in the Statement of profit and loss and other comprehensive income on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the assistance is intended to compensate. The proportion of the refund that relates to capitalised development is deducted against the carrying amount of the related non-current assets. Any remaining proportion that cannot be recognised on either of the preceding bases is recognised in the Statement of profit and loss and other comprehensive income as "Income from research and development claim".

Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1. Significant Accounting Policies

(p) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(q) 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. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) 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.

(s) 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.

(t) Provisions

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.

(u) 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.

Other long-term employee benefits

The liability for annual leave and long service leave that is not expected to be settled within 12 months of the reporting date, are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Other long-term employee benefits

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Binomial 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, the expected dividend yield 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 cost 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.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying the Binomial option pricing model, taking into consideration the terms and conditions on which the award was granted.

The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1. Significant Accounting Policies

(u) Employee benefits (cont.)

Market conditions are taken into consideration in determining fair value therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

(v) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the

use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(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.

(x) Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

(y) Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

(z) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of archTIS 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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1. Significant Accounting Policies

(aa) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the 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 tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

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

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 yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2020. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting

policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. The application of the Conceptual Framework did not have a material impact on the consolidated entity's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 2: Critical Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. 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. The resulting accounting judgements and estimates will seldom equal the related actual results. 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 payment transactions

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 Binomial 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.

Finite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether finite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and

calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

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

Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and is subject to estimation around the valuation of intangibles which may have an impact on the assets and liabilities, depreciation and amortisation reported.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 3. Revenue

	Consolidated	
	2021	2020
	\$	\$
(a) Revenue from contracts with customers		
Product Licence and Implementation Revenue	1,469,381	231,781
Product Maintenance	51,601	20,483
Consulting	3,105,897	296,483
	<u>4,626,879</u>	<u>548,747</u>
(b) Other Revenue		
Government Grants (i)	1,173,749	664,219
Interest Income	2,758	6,556
Other Income (ii)	460,662	-
	<u>1,637,168</u>	<u>670,775</u>

(i) Government grants include an amount of \$94,467 received as a cash flow boost for employers as part of the Australian Government's response to the COVID-19 pandemic. A subsidiary of the company received Jobkeeper payments of \$14,400 during the period.

(ii) Other income includes a benefit recognised for a reduction to the annual rental cost for the Canberra head office property lease.

Product Licence and Implementation Revenue

Product Licence and Implementation Revenue includes revenue from archTIS solutions developed, customised and maintained for customers. For the year ended 30 June 2021, this includes development versions of Kojensi, Kojensi Field and NC Protect delivered to Australian and international customers.

Consulting

Consulting Revenue includes archTIS services relating to IT engineering, systems integration and security consulting.

Note 4. Expenses

	Consolidated	
	2021	2020
	\$	\$
(a) Employee Benefits		
Salaries and wages	1,975,771	975,517
Superannuation	194,447	187,858
Other Employee Benefits	290,827	556,829
Share Based Payments	7,687	77,489
less : capitalised to software development	(197,108)	(872,050)
	<u>2,271,624</u>	<u>925,643</u>
(b) Depreciation and Amortisation Expense		
Depreciation - property, plant and equipment	35,222	50,266
Amortisation - intangibles	1,689,285	830,394
	<u>1,724,507</u>	<u>880,660</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 4. Expenses (cont.)

(c) Finance costs

Interest and finance charges paid/payable

79,448	90,434
79,448	90,434

(d) Contractors

Payments to contractors

1,649,089	785,477
1,649,089	785,477

(e) Hosting Charges

Hosting charges

143,144	254,663
143,144	254,663

Note 5. Income Tax Expense

Consolidated

Note	2021 \$	2020 \$
Income tax expense		
Deferred tax	(390,784)	(593,614)
Deferred tax not recognised	47,795	593,614
Deferred tax derecognised	-	-
Deferred tax on tax losses not recognised	-	-
Income tax expense / (income)	18 (342,989)	-
Loss before income tax	(3,334,391)	(3,725,369)
Tax at the statutory rate of 26% (27.5% prior year) - Australia	(509,822)	(1,024,476)
Tax at the statutory rate of 22.83% (NIL prior year) – USA	(315,180)	-
Total tax at the statutory rate	(825,002)	(1,024,476)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
State taxes – USA	(27,809)	
Entertainment expenses	2,220	1,281
Sundry Items	-	2,279
Share-based payments	1,999	21,309
Research & Development Expenditure	649,398	404,060
Amortisation of Assets	184,614	184,592
Income from Government Stimulus	-	(27,706)
Income from Research & Development Claim	(280,613)	(154,954)
Sub-total	529,809	430,862
Current year deferred tax not recognised	(47,795)	593,614
Deferred tax asset derecognised	-	-
	(47,795)	593,614
Income tax expense	(342,989)	-

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 5. Income Tax Expense (cont.)

A net deferred tax asset of \$2,408,000 (\$2,077,000 relating to tax losses) has not been recognised on the basis it is not probable that taxable profit will be available against which the temporary differences may be utilised while the company is claiming the refundable research and development tax offset.

Note 6. Current Assets – Cash and Cash Equivalents

	Consolidated	
	2021	2020
	\$	\$
Cash and cash equivalents		
Cash on hand		-
Cash at bank	12,739,159	2,428,648
	12,739,159	2,428,648

Reconciliation to cash and cash equivalents at the end of the financial year

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Balances as above	12,739,159	2,428,648
Balance as per statement of cash flows	12,739,159	2,428,648

Note 7. Current Assets – Trade and Other Receivables

	Consolidated	
	2021	2020
	\$	\$
Trade Receivables	573,614	41,422
Less : Bad debt provision	-	-
	573,614	41,422
Other Receivables	-	-
GST Receivable	-	17,474
Interest Receivable	-	-
	573,614	58,896

Allowance for expected credit losses

The Group has made no allowance for expected credit losses for the current financial year (2020 : nil).

The ageing of the receivables and allowance for expected credit losses provided for above are as follows :

	Carrying Amount 2021	Provision for Bad Debts 2021
	\$	\$
Not overdue	564,303	-
0 - 3 months overdue	9,311	-
3 - 6 months overdue	-	-
Over 6 months overdue	-	-
	573,614	-

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 8. Other Current Assets

	Consolidated	
	2021	2020
	\$	\$
Security Deposit	53,226	60,156
Prepayments	275,648	61,645
Accrued income	-	73,142
Other Debtors	1,495	-
	330,369	194,943

Note 9. Property, Plant & Equipment

	Consolidated	
	2021	2020
	\$	\$
Office equipment - at cost	124,492	117,383
Less : Accumulated Depreciation	(108,355)	(104,917)
	16,137	12,466
Computer equipment - at cost	359,223	262,557
Less : Accumulated Depreciation	(267,451)	(235,667)
	91,772	26,890
	107,909	39,356

Reconciliations

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

	Leasehold Improvements	Office equipment	Computer equipment	Total
	\$	\$	\$	\$
Balance at 30 June 2019	21,233	31,244	54,737	107,214
Additions	-	-	3,640	3,640
AASB 16 Adjustment	(21,233)	-	-	(21,233)
Disposals - written down value	-	-	-	-
Depreciation expense	-	(18,778)	(31,487)	(50,266)
Balance at 30 June 2020	-	12,466	26,890	39,356
Additions	-	7,109	96,666	103,775
Disposals - written down value	-	-	-	-
Depreciation expense	-	(3,438)	(31,784)	(35,222)
Balance at 30 June 2021	-	16,137	91,772	107,909

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 10. Non-current Assets – Intangibles

The proportion of product design and development expenses, less any tax incentive applicable, that create a benefit in future years, and meet certain requirements are capitalised as an intangible asset. These capitalised costs (intangibles) are then amortised to the Profit and Loss Statement over the estimated life of the asset created. The carrying value of intangibles is reviewed for impairment whenever events indicate that the carrying value may not be recoverable.

The main intangible assets recognised during the financial period were technology/ in-process development, internally generated computer software and intangibles acquired as part of the acquisition of Nucleus Cyber Inc on 23 December 2020.

Internally-generated software development

Internally-generated software development costs qualify for capitalisation when the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset;
- That the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset can be reliably measured during development.

Internally-generated software development costs have a finite useful life and are amortised on a straight-line basis over its estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The software development asset has a useful life of five years and is amortised on a straight-line basis commencing from the time the asset is held ready for use. The internally developed software asset, Kojensi.gov, was commercialised and launched in April 2019. Accordingly, this asset is amortised from this date. Costs which are incurred after the general release of internally-generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements.

Technology In-process Research and Development

Research and development expenditure during the research phase of a project is recognised as an expense when incurred.

Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. The Group assesses the eligibility of development costs for capitalisation on a project-by-project basis.

Development costs capitalised are assessed annually for impairment. Costs capitalised to a project that is unlikely to deliver future economic benefits are recognised as an expense at the date of impairment.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 10. Non-current Assets – Intangibles (cont.)

Intangibles Acquired as part of the acquisition of Nucleus Cyber Inc.

Customer Contracts

Customer contracts acquired as at 23 December 2020 were valued using the multi-period excess earnings method. The following assumptions were applied to arrive at the valuation:

- churn of 4%
- Assumed price attrition over time of 5% per annum
- Factored in costs of maintenance and support
- Discount rate of 12.5% used
- Contributory Asset Charge (CAC) for the software deducted from the Earnings after tax (on a post-tax basis)

Customer Contracts are amortised over 5 years.

Software

Software was valued using the relief from royalty method. The following input assumptions were adopted:

- Sales of NC Protect were taken from latest forecast model
- 5 years of data used
- Royalty rate of 18.8% sourced from peer companies using royalty range report from independent industry source
- Discount rate applied to post tax amounts of 17.5% using the Capital Asset Pricing Model
- software development maintenance costs included as in a hypothetical licence arrangement the licensor would incur these costs.

Software is amortised over the useful life of 5 years.

Goodwill on acquisition

Goodwill on acquisition is derived as the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. This amount is not amortised but rather is subject to an annual impairment test.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 10. Non-current Assets – Intangibles (cont.)

	Internally Generated Software \$	Development in progress \$	Customer Contracts \$	Software \$	Goodwill \$	Total \$
2021						
<i>Cost</i>						
Balance at 1 July 2020	3,550,261	1,498,251	-	-	-	5,048,512
Commercialisation of development to software	-	-	-	-	-	-
Additions	-	123,233	1,719,475	6,373,926	2,750,397	10,967,031
Written down	-	-	-	-	-	-
Balance at 30 June 2021	3,550,261	1,621,484	1,719,475	6,373,926	2,750,397	16,015,543
<i>Accumulated amortisation</i>						
Balance at 1 July 2020	(787,062)	-	-	-	-	(787,062)
Amortisation	(710,052)	-	(171,947)	(637,393)	-	(1,519,392)
Impairments	-	-	-	-	-	-
Balance at 30 June 2021	(1,497,114)	-	(171,947)	(637,393)	-	(2,306,454)
Net book value at 30 June 2021	2,053,147	1,621,484	1,547,527	5,736,534	2,750,397	13,709,089

	Internally Generated Software \$	Development in progress \$	Customer Contracts \$	Software \$	Goodwill \$	Total \$
2020						
<i>Cost</i>						
Balance at 1 July 2019	3,202,566	1,296,435	-	-	-	4,499,001
Commercialisation of development to software	347,695	(347,695)	-	-	-	-
Additions	-	549,511	-	-	-	549,511
Written down	-	-	-	-	-	-
Balance at 30 June 2020	3,550,261	1,498,251	-	-	-	5,048,512
<i>Accumulated amortisation</i>						
Balance at 1 July 2019	(115,819)	-	-	-	-	(115,819)
Amortisation	(671,243)	-	-	-	-	(671,243)
Impairments	-	-	-	-	-	-
Balance at 30 June 2020	(787,062)	-	-	-	-	(787,062)
Net book value at 30 June 2020	2,763,199	1,498,251	-	-	-	4,261,450

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 10. Non-current Assets – Intangibles (cont.)

The recoverable amount of the Group's Intangible Assets has been determined by a value-in-use calculation using a discounted cash flow model, based on a 5-year projection period approved by management. The key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the new products:

- 17% post-tax discount rate. This discount rate reflects management's estimate of the time value of money and the entity's weighted average cost of capital adjusted for the product, the risk-free rate and the volatility of the share price relative to market movements;
- Projected revenue growth rate based on current sales pipeline, projected sales through current reseller partners, sales through new partnerships with resellers and increased users with existing customers;

Management believes the projected revenue growth rate is prudent and justified, based on its market analyses and evaluation.

- 3-5% per annum increase in operating costs and overheads.

Based on the above, no impairment charge has been applied to the internally generated software and development in progress or the Nucleus Cyber Inc cash generating unit (CGU) as the discounted recoverable amount for the cash generating unit exceeds the carrying value of the intangibles.

Judgements and estimates in respect of the above impairment testing have been made. Should these judgements and estimates not occur the resulting intangibles carrying amount may decrease. The sensitivities are as follows:

CGU: Kojensi

- Revenue would need to decrease by more than 20% for the internally generated software and capitalised development projects before there would need to be impair either asset, with all other assumptions remaining constant;
- The discount rate would be required to increase to 25% for the internally generated software and capitalised development projects before there would need to be impair either asset, with all other assumptions remaining constant.

CGU: NC Protect

- Revenue would need to decrease by more than 27% before there would need to be an impairment of the acquired intangibles with all other assumptions remaining constant;
- The discount rate would be required to increase to 37% before there would need to be an impairment of the acquired intangibles with all other assumptions remaining constant;

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 11. Right of Use Asset

Right of Use Asset	Consolidated Land and Building \$
2021	
<i>Cost</i>	
Balance at 1 July 2020	1,901,927
Adjustment to lease arrangement	(762,427)
Balance at 30 June 2021	<u>1,139,500</u>
<i>Accumulated amortisation</i>	
Balance at 1 July 2020	(848,970)
Adjustment to lease arrangement	965,965
Amortisation	(164,474)
Balance at 30 June 2021	<u>(47,479)</u>
Net book value at 30 June 2021	1,092,021

During the year the lease for the Canberra head office was renegotiated, resulting in an adjustment to the right of use asset and lease liability. The lease term is 3 years with an option to extend after this period.

2020

<i>Cost</i>	
Balance at 1 July 2019	1,947,723
Adjustment to lease arrangement	(45,796)
Balance at 30 June 2020	<u>1,901,927</u>
<i>Accumulated amortisation</i>	
Balance at 1 July 2019	(689,819)
Amortisation	(159,151)
Balance at 30 June 2020	<u>(848,970)</u>
Net book value at 30 June 2020	1,052,957

Note 12. Current Liabilities – Trade and Other Payables

	Consolidated	
	2021	2020
	\$	\$
Trade Payables	633,716	117,520
Other Payables	370,786	23,188
	<u>1,004,502</u>	<u>140,708</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 13. Current Liabilities – Borrowings

	Consolidated	
	2021	2020
	\$	\$
Secured bank loan	-	-
	<u>-</u>	<u>-</u>

The Group has no bank overdraft or loan facilities as at 30 June 2021.

Note 14. Current Liabilities – Employee Benefits

	Consolidated	
	2021	2020
	\$	\$
Employee benefits	265,941	219,140
	<u>265,941</u>	<u>219,140</u>

Amounts not expected to be settled within the next 12 months

The current provision 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.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated	
	2021	2020
	\$	\$
Employee Benefits obligation expected to be settled after 12 months	64,638	85,783
	<u>64,638</u>	<u>85,783</u>

Note 15. Current Liabilities – Other

	Consolidated	
	2021	2020
	\$	\$
Accrued Expenses	335,823	112,831
Deferred Revenue	3,704,734	178,341
	<u>4,040,557</u>	<u>291,172</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 16. Non-Current Liabilities – Employee Benefits

	Consolidated	
	2021	2020
	\$	\$
Employee Benefits	57,697	28,346

Note 17. Non-Current Liabilities – Provisions

	Consolidated	
	2021	2020
	\$	\$
Lease Make Good	75,693	74,249
Provision for Contingent Consideration	2,069,673	-
Retention Bonus Accrual	350,000	-
	<u>2,495,366</u>	<u>74,249</u>

Lease Make good

The provision represents the value of the estimated costs to make good the premises leased by the Group at the end of the lease term.

Note 18. Deferred Tax and Other

	2021	2020
	\$	\$
A. Research and Development		
<i>Assets</i>		
<i>Current</i>		
Provision for research and development tax incentive	1,434,753	886,008
B. Deferred Tax		
<i>Assets</i>		
<i>Non - current</i>		
Deferred tax asset	263,781	-
<i>Liabilities</i>		
<i>Non-current</i>		
Deferred tax liability	1,662,952	-

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 18. Deferred Tax and Other (cont.)

Deferred tax asset and liability comprises temporary differences attributable to:

	Opening balance	Credited (charged) to profit or loss	Balance recognised on acquisition	Changes in tax rates	Closing balance
	\$	\$	\$	\$	\$
2021					
Deferred tax asset on:					
Accrued Income & prepayments	-	-	-	-	-
Property, plant & equip.	-	-	-	-	-
Provisions	-	-	-	-	-
Costs of raising equity	-	-	-	-	-
Accrued expenditure	-	-	-	-	-
Lease incentives	-	-	-	-	-
Tax losses	-	156,979	107,847	(1,045)	263,781
Deferred tax liability on:					
Intangible assets	-	186,010	(1,847,725)	(1,237)	(1,662,952)
Net amount	-	342,989	(1,739,878)	(2,282)	(1,399,171)

	Opening balance	Credited (charged) to profit or loss	Balance recognised on acquisition	Changes in tax rates	Closing balance
	\$	\$	\$	\$	\$
2020					
Deferred tax asset on:					
Accrued Income & prepayments	-	-	-	-	-
Property, plant & equip.	-	-	-	-	-
Provisions	-	-	-	-	-
Costs of raising equity	-	-	-	-	-
Accrued expenditure	-	-	-	-	-
Lease incentives	-	-	-	-	-
Tax losses	-	-	-	-	-
Deferred tax liability on:					
Intangible assets	-	-	-	-	-
Net amount	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 19. Equity - Issued Capital

	2021 Shares	Consolidated 2020 Shares	2021 \$	2020 \$
Ordinary shares - fully paid	226,845,057	161,312,898	34,014,997	17,568,891
Ordinary shares - paid to \$0.0000	-	-	-	-
Capital raise fees	-	-	(2,501,764)	(2,004,499)
	226,845,057	164,021,946	31,513,233	15,564,392

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	30-Jun-19	123,096,982		13,701,686
Issue of shares	19-May-20	27,111,333	\$0.055	1,491,123
Issue of shares	15-Jun-20	11,104,583	\$0.055	610,750
Share issue transaction costs, net of tax		-		(239,167)
Balance	30-Jun-20	161,312,898		15,564,392
Issue of shares	03-Sep-20	2,709,089	\$0.0550	149,000
Issue of shares	18-Nov-20	24,454,542	\$0.3300	8,399,999
Issue of shares	24-Dec-20	16,183,648	\$0.3146	5,091,450
Share Issue on Exercise of Options	Various	9,869,880	\$0.1000	986,988
Share Issue on Exercise of Options	Various	7,500,000	\$0.1200	900,000
Share Issue on Exercise of Options	Various	3,635,000	\$0.2400	872,400
Share Issue on Exercise of Options	18-Mar-21	180,000	\$0.2000	36,000
Share issue transaction costs, net of tax		-		(486,996)
Balance	30-Jun-21	226,845,057		31,513,233

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group's objectives are to prudently manage capital so as to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 20. Equity - Reserves

	Consolidated	
	2021	2020
	\$	\$
Foreign Currency Reserve	(11,724)	1,258
Share Based Payments Reserve	1,843,128	1,806,792
	<u>1,831,404</u>	<u>1,808,050</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share Based Payments Reserve

This reserve is used to recognise equity-settled share-based payments to certain suppliers, directors and employees. Under AASB 2, options granted are measured at fair value at the date of the grant, using a Binomial valuation. The valuation of each tranche of options granted is expensed on a straight line basis over the vesting period.

Movements in Reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	Share Based Payments	Consolidated Foreign Currency	Total
	\$	\$	\$
Balance at 1 July 2019	1,611,892	1,258	1,613,150
Foreign Currency Reserve			0
Share based payments	194,900	-	194,900
	<u>1,806,792</u>	<u>1,258</u>	<u>1,808,050</u>
Balance at 30 June 2020			
<i>Foreign Currency Reserve</i>			
Arising due to translation of financial statements for foreign subsidiaries		(12,982)	(12,982)
<i>Share based payments</i>			
Directors, Key Management Personnel and Secretary	36,336		36,336
Investor Relations Advisory			-
Cost of capital Raise			-
Balance at 30 June 2021	<u>1,843,128</u>	<u>(11,724)</u>	<u>1,831,404</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 21. Equity - Retained Profits

	2021	Consolidated 2020
	\$	\$
Retained losses at the beginning of the financial year	(10,710,261)	(6,726,078)
Adoption of AASB16	-	(258,814)
Loss after income tax expense for the year	(2,991,402)	(3,725,369)
Retained losses at the end of the financial year	<u>(13,701,663)</u>	<u>(10,710,261)</u>

Note 22. Equity – Dividends

Dividends

No dividends were paid or declared during the year.

Franking Credits

	Consolidated 2021	2020
	\$	\$
Franking credits available for subsequent financial years based on tax rate of 26%	<u>15,549</u>	<u>15,549</u>

Note 23. Financial Instruments

The Group's activities expose it to a variety of financial risks: market risk, and credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange and other price risks, and ageing analysis for credit risk.

Risk management is carried out under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits.

Market risk

Foreign exchange risk

The Group is not exposed to any significant foreign exchange risk.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group is not exposed to any interest risk.

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. The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available. There are no guarantees against any receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with customers to mitigate risk.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 23. Financial Instruments (cont.)

Credit risk (cont.)

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Credit risk refers to the risk that the Group maintains sufficient liquid assets to pay debts as and when they become due and payable. The Group manages liquidity risk by maintaining adequate cash reserves.

Note 24. Key Management Personnel Disclosures

	Consolidated	
	2021	2020
	\$	\$
Short-term employee benefits	850,625	1,600,202
Post-employment benefits	36,037	106,283
Long-term benefits	5,763	10,699
Share Based Payments	7,687	74,351
	<u>900,112</u>	<u>1,791,535</u>

Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the company, and its network firms:

	Consolidated	
	2021	2020
	\$	\$
<i>Audit services - RSM</i>		
Audit or review of the financial statements	<u>89,150</u>	<u>66,500</u>
<i>Other services - RSM</i>		
Review of deferred consideration on acquisition	6,000	-
Tax advice	2,625	-
Research and Development Tax Grant	<u>29,716</u>	<u>20,000</u>
	<u>38,341</u>	<u>20,000</u>
	<u>127,491</u>	<u>86,500</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 26. Commitments

	Consolidated 2021 \$	2020 \$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	3,064
One to five years	-	-
	<u>-</u>	<u>3,064</u>

Operating lease commitments includes contracted amounts for office and equipment under non-cancellable operating leases expiring within one to ten years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 27. Related Party Transactions

Parent Entity

archTIS Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 29.

Associates

There are no associates.

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2021 \$	2020 \$
<i>Payments for services from other related parties:</i>		
Payment for Corporate Advisor services from Jindalee Partners	-	10,500
Payment for Corporate Advisor services from Gemelli	-	36,000
Payment for Corporate Advisor services from Amicaa/MST	120,907	210,962
<i>Transactions with subsidiaries</i>		
Loan to Nucleus Cyber Ltd	1,724,406	-
Loan to Nucleus Cyber Pty Ltd	140,015	-
	<u>1,985,328</u>	<u>257,462</u>

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 28. Parent Entity Information

Set out below is the supplementary information about the parent entity.

	Parent	
	2021	2020
	\$	\$
<i>Statement of profit or loss and other comprehensive income</i>		
Loss after income tax	(1,960,855)	(3,725,369)
Total comprehensive income		
<i>Statement of financial position</i>		
Total current assets	1,826,598	3,559,088
Total assets	29,517,633	8,922,259
Total current liabilities	3,668,604	651,019
Total liabilities	8,828,688	2,111,077
Net assets	20,688,946	6,811,182
Equity		
Issued capital	31,513,233	15,713,392
Reserves	1,844,386	1,808,050
Retained profits (accumulated losses)	(12,688,673)	(10,710,260)
Total equity	20,688,946	6,811,182

The parent entity and its subsidiaries are not party to any deeds of cross guarantee under which each company guarantees the debts of the others.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 1, except for Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 29. Interest in Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

	Country of Incorporation	Ownership Interest	
		2021	2020
		%	%
archTIS Solutions Pty Limited	Australia	100%	100%
archTIS Services Pty Limited	Australia	100%	100%
archTIS EU s.r. o	Czech Republic	100%	100%
Nucleus Cyber Inc	US	100%	-
Nucleus Cyber Pty Ltd	Australia	100%	-

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 30. Reconciliation of profit after income tax expense to net cash from operating activities

	Consolidated 2021	2020
	\$	\$
Loss after income tax expense for the year	(2,991,402)	(3,725,369)
<i>Adjustments for:</i>		
Depreciation and amortisation	1,724,507	880,660
AASB 16 renegotiation of Canberra head office property lease	(478,850)	-
Share-based payments	36,336	90,052
Foreign exchange differences	-	-
<i>Change in operating assets and liabilities:</i>		
(Increase) / decrease in trade and other receivables	(501,121)	69,352
(Increase) / decrease in accrued revenue	73,142	(73,142)
(Increase) / decrease in prepayments	(97,030)	(7,010)
(Increase) decrease in research and development assets	(197,108)	(549,511)
(Increase) / decrease in other assets	(95,921)	32,231
(Increase) decrease in R&D tax incentive receivable	(313,416)	-
Increase / (decrease) in trade and other payables	(288,259)	(273,829)
Increase / (decrease) in income taxes payable	(342,989)	608,817
Increase / (decrease) in employee benefits	33,976	(68,379)
(Increase) / decrease in other provisions	-	-
Increase / (decrease) in deferred revenue	2,912,331	178,341
Net cash from operating activities	(525,804)	(2,837,787)

Note 31. Earnings per Share

	2021	2020
	\$	\$
Loss after income tax attributable to the owners	(2,991,402)	(3,725,369)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	201,343,715	126,672,995
	Cents	Cents
Basic earnings per share	(1.49)	(2.94)

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 32. Business Combinations

On 23 December 2020 archTIS Limited, acquired 100% of the ordinary shares of Nucleus Cyber Inc for the total consideration of \$7,517,522. Nucleus Cyber Inc provides advanced information protection solutions that prevent data loss and protect against insider threats across the Microsoft software suite. Nucleus Cyber's 'NC Protect' solution provides a simple fast and inexpensive solution to tailor information protection for file sharing, messaging and chat across collaboration tools. The acquired business contributed revenues of \$178,219 and a loss after tax of \$1,067,493 to the consolidated entity for the period from 24 December 2020 to 30 June 2021. If the acquisition occurred on 1 July 2020 the full-year contributions would have been revenues of \$271,563 and a loss after tax of \$1,129,879. The values identified in relation to the acquisition of Nucleus Cyber Inc are final as at 30 June 2021.

Details of the acquisition are as follows:

	\$
Cash and cash equivalents	331,060
Trade receivables	13,597
Prepayments	15,117
Other debtors	500
R&D refund receivable	235,329
Deferred tax asset	106,903
Intangible assets:	
-intellectual property	6,318,174
-customer relationships	1,704,435
Deferred tax liability	(1,831,562)
Trade payables and accruals	(648,089)
Deferred revenue	(792,402)
Other current liabilities	(173,773)
Employee benefits	(42,176)
Convertible Notes	(266,765)
Loans & finance	(203,223)
Net assets acquired	4,767,125
Goodwill	2,750,397
Acquisition-date fair value of the total consideration transferred	<u>7,517,522</u>
Representing:	
Issued share capital	5,097,849
Contingent consideration (included in the provision)	2,069,673
Bonus accrual	350,000
	<u>7,517,522</u>
Acquisition costs expensed to profit or loss	<u>51,604</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	-
Less: cash and cash equivalents acquired	(331,060)
Net cash used	<u>(331,060)</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2021

Note 33. Matters subsequent to the end of the financial year

Completion of Nucleus Cyber Acquisition

At the Company's Annual General Meeting in December 2020, the Company's Shareholders approved the acquisition of Nucleus Cyber Inc (**Merger**), which provided for the issue of Initial Consideration Shares, Second Tranche Shares and Third Tranche Shares (each as defined in the Notice of Meeting released on ASX on 23 November 2020 (**Notice of Meeting**)).

On 24 December 2020, the Company completed the issue of 15,171,879 Initial Consideration Shares and 1,011,769 Second Tranche Shares in accordance with the terms of the Merger.

Subsequent to the end of the Reporting Period, on 26 July 2021, the Company issued the final tranche of consideration shares, being 6,087,272 Third Tranche Shares, and issued 303,030 Shares (**Retention Bonus Shares**) to certain retained employees, in accordance with the terms of the Merger.

The above represents full and complete settlement of the consideration payable by the Company in respect of the Merger.

Expansion into Europe, Middle East and Africa

The company announced on 6 July 2021 its expansion into Europe, Middle East and Africa (EMEA) with the appointment of Pete Smith as the Vice President and General Manager of EMEA, based in London, United Kingdom and the creation of a new UK corporate subsidiary, archTIS UK Limited.

COVID-19

As the impact of the Coronavirus (COVID-19) pandemic is ongoing, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

DIRECTORS DECLARATION

30 JUNE 2021

In the directors' opinion:

- 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 30 June 2021 and of its performance for the financial year ended on that date; and
- 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 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*.

On behalf of the directors,



Miles Jakeman AM

Chairman

25 August 2021

Canberra

RSM Australia Partners

Equinox Building 4, Level 2, 70 Kent Street Deakin ACT 2600
GPO Box 200 Canberra ACT 2601

T +61 (0) 2 6217 0300
F +61 (0) 2 6217 0401

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of archTIS Limited and its controlled entities for the year ended 30 June 2021, 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 Australia Partners

RSM AUSTRALIA PARTNERS



RODNEY MILLER
Partner

Canberra, Australian Capital Territory
Dated: 25 August 2021

RSM Australia Partners

Equinox Building 4, Level 2, 70 Kent Street Deakin ACT 2600
GPO Box 200 Canberra ACT 2601

T +61(0) 2 6217 0300
F +61(0) 2 6217 0401

www.rsm.com.au

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
archTIS LIMITED**

Opinion

We have audited the financial report of archTIS Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow 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 30 June 2021 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.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

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. 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>Company Acquisition Refer to Note 32 in the financial statements</p>	
<p>During the year, archTIS completed a company acquisition. Management determined this acquisition to be a business combination under AASB 3 <i>Business Combinations</i>.</p> <p>The terms of the agreement involved the issue of equity consideration, and included contingent consideration. The purchase price must be allocated between the acquired assets and liabilities, at their respective fair values, with any difference recognised as goodwill on consolidation.</p> <p>We considered the transaction to be a key audit matter because of:</p> <ul style="list-style-type: none"> • the judgments involved in the valuation of the intangible assets acquired; • the complexity of the valuation of identified intangible assets as part of the acquisition; • the material nature of the arising goodwill; and • the treatment of inter-group trading operations in the consolidation process. 	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Obtaining the share purchase agreement and other associated documents, and understanding the nature of the transaction to confirm that it met the definition of Business Combinations under AASB 3 rather than being an asset acquisition; • Reviewing the values for the equity consideration (including contingent consideration) to the signed purchase agreements and supporting calculations; • Reviewing the reasonableness of the valuation of the contingent consideration (including assessing the forecasts used for determining the contingent consideration and comparing these against actual performance where available); • Assessing the accuracy and completeness of the fair values of the identified assets and liabilities acquired; • Reviewing the work performed by management on the valuation of the tangible and intangible assets identified in the acquisition; • Obtaining expert advice on the valuation methodology and various inputs used by management; • Assessing the accuracy and completeness of the elimination of inter-group transactions in the consolidation process; and • We evaluated the adequacy of the disclosure, included in Notes 1(y), 2 and 32.

Capitalisation of assets, including useful lives, amortisation and impairment

Refer to Note 10 in the financial statements

<p>There are a number of areas where judgments significantly impact the carrying value of intangible assets, and their respective amortisation profile. These areas are as follows:</p> <ul style="list-style-type: none"> • the decision to capitalise or expense costs, as per <i>AASB 138 Intangible Assets</i>; • the annual asset life and impairment review, as per <i>AASB 136 Impairment of Assets</i>; and • significant changes that have taken place during the period or are expected to take place in the near future, which will impact the extent to which, or manner in which, an asset is used or is expected to be used. <p>Changes in these judgments have a significant impact on the results of the Group. Accordingly, this was considered a key audit matter.</p> <p>Disclosures relating to the capitalisation and impairment of assets can be found at Notes 1(o), 1(p), 2 and 10.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Evaluated the appropriateness of capitalisation policies, as per AASB 138. • Tested a sample of costs capitalised to determine whether capitalisation was appropriate. • Evaluated the reasonableness of management's assessment of expected future economic benefits that are attributable to the intangible assets. <p>We assessed the application of the Group's annual asset life review. This included the judgments made by the Group on:</p> <ul style="list-style-type: none"> • the appropriateness of assets lives applied in the calculation of amortisation. <p>Our audit procedures in relation to management's assessment of impairment included:</p> <ul style="list-style-type: none"> • Evaluating the valuation methodology used. • Evaluating the reasonableness of key assumptions including the cashflow forecasts, revenue growth rates, discount rates and other inputs used in the model. <p>We evaluated the adequacy of disclosures included in Notes 1(o), 1(p), 2 and 10.</p>
--	--

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 30 June 2021, 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 18 to 24 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of archTIS Limited., for the year ended 30 June 2021, 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 Australia Partners
RSM AUSTRALIA PARTNERS

A handwritten signature in black ink, appearing to read 'Rodney Miller'.

RODNEY MILLER
Partner

Canberra, Australian Capital Territory
Dated: 25 August 2021

SHAREHOLDER INFORMATION

1 AUGUST 2021

The shareholder information set out below was applicable as at 1 August 2021.

Quotation

Listed securities in archTIS Limited are quoted on the Australian Securities Exchange under ASX code AR9 (Fully Paid Ordinary Shares).

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 Rights on issue.

Distribution of shareholders

i) Fully Paid Ordinary Shares

Shares Range	Holders	Units	%
1 to 1,000	165	101,353	0.04%
1,001 to 5,000	2,110	5,683,588	2.44%
5,001 to 10,000	834	6,561,636	2.81%
10,001 to 100,000	1,670	53,751,389	23.05%
100,001 and over	274	167,137,393	71.66%
	5,053	233,235,359	100.00%

On 1 August 2021, there were 491 holders of unmarketable parcels of less than 494,772 ordinary shares (based on the closing share price of \$0.35).

SHAREHOLDER INFORMATION

1 AUGUST 2021

ii) Fully Paid Ordinary Shares Escrowed for 12 months until 24 December 2021

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	2	11,866	0.15%
10,001 to 100,000	5	255,796	3.18%
100,001 and over	5	7,769,090 ¹	96.67%
	12	8,036,752	100.00%

¹ Holders who hold more than 20% of securities are:
Kurt Mueffelmann – 4,864,801 shares

iii) Fully Paid Ordinary Shares Escrowed for 18 months until 24 June 2022

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	-	-	-
100,001 and over	1	4,073,448 ¹	100.00%
	1	4,073,448	100.00%

¹ All the securities in this class are held by:
Kurt Mueffelmann – 4,073,448 shares

SHAREHOLDER INFORMATION

1 AUGUST 2021

iv) Fully Paid Ordinary Shares Escrowed for 24 months until 24 December 2022

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	-	-	-
100,001 and over	1	4,073,448 ¹	100%
	1	4,073,448	100%

¹ All the securities in this class are held by:

Kurt Mueffelman – 4,073,448 shares

v) Fully Paid Ordinary Shares Escrowed for 12 months until 26 July 2022

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	2	9,068	0.14%
5,001 to 10,000	-	-	-
10,001 to 100,000	5	147,962	2.32%
100,001 and over	5	6,233,272 ¹	97.54%
	12	6,390,302	100.00%

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

Kurt Mueffelman – 4,761,162 shares

SHAREHOLDER INFORMATION

1 AUGUST 2021

vi) AR901 Options exercisable at \$0.10 on or before 10 October 2022

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	-	-	-
100,001 and over	1	420,000 ¹	100%
	1	420,000	100%

¹ All the securities in this class are held by:

Goora & Co Pty Ltd – 420,000 options

vii) AR903 Options exercisable at \$0.20 on or before 1 July 2023

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	-	-	-
100,001 and over	2	1,200,000 ¹	100%
	2	1,200,000	100%

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

Goora & Co Pty Ltd – 800,000 options

Mulloway Pty Ltd – 400,000 options

SHAREHOLDER INFORMATION

1 AUGUST 2021

viii) AR905 Options exercisable at \$0.24 on or before 6 September 2022

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	1	60,000	4%
100,001 and over	3	1,305,000 ¹	96%
	4	1,365,000	100%

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

Goora & Co Pty Ltd – 700,000 options

David Wood – 500,000 options

ix) AR907 Options exercisable at \$0.20 on or before 1 July 2023

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	-	-	-
100,001 and over	1	250,000 ¹	100%
	1	250,000	100%

¹ All the securities in this class are held by:

Mr Christopher Jordan Shopov & Mr Christopher James Shopov - 250,000 options

SHAREHOLDER INFORMATION

1 AUGUST 2021

x) AR908 Options exercisable at \$0.20 on or before 13 February 2023

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	-	-	-
100,001 and over	1	360,000 ¹	100%
	1	360,000	100%

¹ All the securities in this class are held by:

Miles Gareth Jakeman – 360,000 options

xi) AR909 Options exercisable at \$0.10 on or before 1 July 2023

Shares Range	Holders	Units	%
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	-	-	-
100,001 and over	1	500,000 ¹	100%
	1	500,000	100%

¹ All the securities in this class are held by:

Mr Christopher Jordan Shopov & Mr Christopher James Shopov - 500,000 options

SHAREHOLDER INFORMATION

1 AUGUST 2021

Substantial Shareholders

The names of the substantial shareholders listed on the Company's register as at 1 August 2021 are:

Name: Kurt Mueffelman

- Holder of: 17,772,859 fully paid ordinary shares
- Notice Received: 26 July 2021

Name: HSBC Custody Nominees (Australia) Limited

- Holder of: 15,660,581 fully paid ordinary shares
- Notice Received: 20 September 2018

Restricted Securities

The following are restricted securities listed on the Company's register as at 1 August 2021:

- AR9E12 escrowed until 24 December 2021
- AR9E18 escrowed until 24 June 2022
- AR9824 escrowed until 24 December 2022
- AR9E12A escrowed until 26 July 2022

On market buy-back

There is currently no on market buy back in place.

SHAREHOLDER INFORMATION

1 AUGUST 2021

Equity security holders

The twenty largest shareholders of the Company's quoted securities as at 1 August 2021 are as follows:

	Number held	% of total shares issued
1 KURT MUEFFELMANN	17,772,859	7.62%
2 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,660,581	6.71%
3 MR DANIEL CHUN LEUNG LAI	9,574,252	4.10%
4 MR PETER ROBERT WOODLAND	7,601,000	3.26%
5 BRUCE TALBOT <TALBOT FAMILY A/C>	7,286,436	3.12%
6 POSSUM HILL PTY LTD	7,284,252	3.12%
7 ICESTORM PTY LTD <THE WATERMARK A/C>	4,380,000	1.88%
8 CITICORP NOMINEES PTY LIMITED	3,747,148	1.61%
9 MONEX BOOM SECURITIES (HK) LTD <CLIENTS ACCOUNT>	3,095,526	1.33%
10 MR DAVID WOOD	3,013,491	1.29%
11 MR OTTMAR WEISS	2,500,000	1.07%
12 J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	1,933,138	0.83%
13 LEIGH ROWLAND	1,906,476	0.82%
14 MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	1,558,608	0.67%
15 MR MILES GARETH JAKEMAN	1,454,545	0.62%
16 REDHILL HOLDINGS LTD	1,330,000	0.57%
17 POWER INVEST PTY LTD <POWER FAMILY S/F A/C>	1,268,750	0.54%
18 MR DAVID FREDERICK OAKLEY <DFO INVESTMENT A/C>	1,230,000	0.53%
19 MR BERTRAND LALANNE	1,200,000	0.51%
20 NATIONAL NOMINEES LTD	1,172,207	0.50%
Top 20 Holders of Ordinary Shares	94,969,269	40.72%
Total Remaining Holders Balance	138,266,090	59.28%

SHAREHOLDER INFORMATION

1 AUGUST 2021

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

For personal use only

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. Follow us on twitter [@arch_tis](https://twitter.com/arch_tis)



archtis.com | info@archtis.com

Australia | United States | United Kingdom

