

June 2020 Quarterly Report

Highlights

- Successful completion of \$2.26m capital raise, with new funds to help accelerate the growth of Kojensi to new markets
- Growing sales momentum as archTIS secured new contract wins in Defence, Education and Space sectors
- Core focus remains on building an extensive sales pipeline in the private and government sectors, in addition to continued sales and marketing of Kojensi Gov and Kojensi Enterprise

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

Details of Business Activities for the Quarter

Operational progress

During the quarter, the Company successfully completed a \$2.26 million capital raise to drive the growth of its Kojensi platform. The funds were raised through a share placement of \$1.65 million followed by a Share Purchase Plan which raised a further \$610,000. In total, approximately 41 million shares were issued at the issue price of \$0.055. All directors of the Company participated in the placement.

The company continued to focus its efforts on converting its strong pipeline of sales opportunities.

Key highlights of customer wins during the quarter were as follows:

- The Company won a contract with Northrop Grumman – a leading provider and integrator of autonomous, C4ISR, cyber logistics and strike systems and solutions. This represents archTIS' first defence industry sector contract win with a global Military System Integrator (MSI). Northrop Grumman will use the Kojensi Platform to prepare Government and Defence tenders between Northrop Grumman business development teams in Australia, the US and their partners.
- The Company was contracted by Australian educational institution, Curtin University, to apply differential access controls for an Australian data lake for Space Situational Awareness (SSA). The DataLake is a paid prototype that will implement Kojensi Enterprise and Axiomatics' attribute-based access control (ABAC) policy engine to provide individually customised access to data repositories. This was archTIS' first contract win in the growing Education and Space sectors and demonstrates the unmet demand for an intelligent, trusted collaboration solution for securely sharing information. It also extends the Kojensi platform's reach into the growing 'big data' analytics market.

For personal use only

Expansion of sales and marketing for commercialisation of Kojensi Gov and Kojensi Enterprise

The federal government's \$1.35 billion commitment to fund cyber security in Australia, announced in June, underlines the significant potential for archTIS' Kojensi suite in providing government agencies with an expertly placed solution that can meet their needs. The growing prevalence of high-profile cyber breaches and ongoing attacks on state-owned facilities during the quarter signifies there is a present market need for robust information sharing and collaboration where data privacy and security is paramount.

archTIS continues to be in a strong position to capitalise on this as it advances applications of its Kojensi suite across Defence, Education and Space industries. The Company's focus is on sales and marketing of its current products Kojensi Gov and Kojensi Enterprise, as well as continuing to build an extensive sales pipeline for FY2021.

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

Use of Funds at listing¹	Anticipated	Actual	Variance	%
Ongoing product development	\$2,350,000	\$2,449,000	\$(99,000)	4
Sales and marketing	\$1,650,000	\$1,146,000	\$504,000	(31)
Repayment of banking facility	\$300,000	\$300,000	\$ -	-
Expand customer support capability	\$1,000,000	\$512,000	\$488,000	(49)
Working capital and other expenses	\$3,000,000	\$2,942,000	\$58,000	(2)
Costs of the offer	<u>\$800,000</u>	<u>\$615,000</u>	<u>\$185,000</u>	(23)
TOTALS	<u>\$9,100,000</u>	<u>\$7,964,000</u>	<u>\$1,136,000</u>	

All actual cash costs to 30 June 2020 except product development costs are less than that anticipated at time of listing:

- Product development is 4% higher than anticipated due to work being performed to address specific customer requirements where the customer partly funds the enhancement. The enhancements and additional features will improve archTIS' products for all customers going forward.

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

- Sales and marketing expenditure to date is well below expectations due to delayed sales and marketing activity following the final release of the Kojensi product 12 months ago.
- Repayment of banking facility occurred as planned.
- Expenditure on the expansion of Kojensi's customer support capability is well below initial expectations due to a reconfiguration of timings and scheduled activity following the final release of the Kojensi product 12 months ago
- Working capital and other expenses broadly in line with expected levels given time period since listing.
- Cash costs of the offer were below anticipated levels however there was a non-cash cost component (being share-based payment) which took the total cost of the offer to just over \$1 million as reported in our FY19 annual report.

Payments to related parties

During the quarter the Company made payments to members of the Board of \$192,000.

Other matters post quarter end

Board Changes

On 22 July 2020, the Company announced that it is continuing its business optimisation process following the recent successful capital raising with the Board and management arrangements streamlined and a new advisory group formed.

This involves reducing the number of directors from six to three effective 1 August 2020 and establishing a strengthened strategic advisory capability through the formation of an advisory group led by former Board chair and non-executive director, Stephen Smith.

General Meeting

Further, as part of finalising the formalities relating to the recent successful capital raise, on 27 July 2020 the Company gave notice for a General Meeting to be held next month seeking shareholder approval to:

- ratify a number of prior issues of shares/share options; and,
- issue a number of shares and share options to advisors and directors.

The meeting will be held at 11am AEST on 27 August 2020 at 10 National Circuit BARTON ACT 2600 and with virtual facilities. Associated papers will be available shortly for shareholders.

For personal use only

ASX Announcement
27 July 2020



Daniel Lai, archTIS CEO commented: “archTIS is pleased to have concluded a productive quarter that has seen the Company expand the markets in which we sell our Kojensi product to the private sector underpinning our commercialisation strategy. This was marked by important wins in Defence Industry and the education and space sectors, including contracts secured with global military systems integrator Northrop Grumman and leading Australian educational institution Curtin University. I’m also delighted to have executed a successful capital raise which now provides archTIS a strong cash position moving forward and places the company in an excellent position to proceed with executing our strategy.”

ENDS

For further enquiries, please contact:

Investors

Daniel Lai
Managing Director
E: investors@archTIS.com

Media

Chris Shopov
E: investors@archTIS.com

archTIS Limited

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

Appendix 4C

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

Name of entity

archTIS Limited

ABN

79 123 098 671

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	190	823
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(32)	(68)
(c) advertising and marketing	(4)	(142)
(d) leased assets	-	(5)
(e) staff costs	(732)	(3,152)
(f) administration and corporate costs	(352)	(1,964)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	40
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	51	1,547
1.8 Other (GST)	22	49
1.9 Net cash from / (used in) operating activities	(857)	(2,872)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1)	(4)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(1)	(4)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	2,261	2,261
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(60)	(81)
3.7 Transaction costs related to loans and borrowings	(134)	(134)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	(10)	-
3.10 Net cash from / (used in) financing activities	2,057	2,046

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	1,267	3,296
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(857)	(2,872)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1)	(4)

For personal use only

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,057	2,046
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,466	2,466

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,466	1,267
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,466	1,267

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
192
-

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

For personal use only

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	50	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	50	-

7.5 **Unused financing facilities available at quarter end** 39

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

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

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(857)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,466
8.3 Unused finance facilities available at quarter end (Item 7.5)	39
8.4 Total available funding (Item 8.2 + Item 8.3)	2,505
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	2.92

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

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

Answer: Not applicable

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

Answer: Not applicable

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

Answer: Not applicable

For personal use only

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 27 July 2020

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.