

1. Company details

Name of entity: archTIS Limited
ABN: 79 123 098 671
Reporting period: for the half year ended 31 December 2021
Previous period: for the half year ended 31 December 2020

2. Results for announcement to the market

		\$
Revenues from ordinary activities	up 118% to	2,423,034
Loss from ordinary activities after tax attributable to the owners of archTIS Limited	up 315% to	(5,948,629)
Loss for the half year attributable to the owners of archTIS Limited	up 315% to	(5,948,629)

Dividends

No dividends were paid or payable during the half year ended 31 December 2021.

Comments

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' report and the consolidated financial statements for the half year ended 31 December 2021.

3. Net tangible assets

	Reporting period (Cents)	Previous period (Cents)
Net tangible assets per ordinary security	2.77	3.07

4. Control gained over entities

Name of entities (or group of entities)	archTIS UK Limited	archTIS EU GmbH
Jurisdiction in which incorporated	United Kingdom	Germany
Date control gained	19 July 2021	30 December 2021

	\$
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	-

5. Loss of control over entities

There were no entities over which the reporting entity lost control during the period.

6. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements for the half year ended 31 December 2021 were subject to a review by the auditors and the review report is attached.

7. Attachments

Details of attachments (if any):

The financial report of archTIS Limited for the half year ended 31 December 2021 is attached.

8. Signed

Signed in accordance with a resolution of the directors.

On behalf of the Directors:

A handwritten signature in black ink, appearing to read 'Miles Jakeman', written in a cursive style.


Dr Miles Jakeman AM
Chairman
23 February 2022
Canberra, ACT




TRUSTED TO SAFEGUARD THE WORLD'S
MOST SENSITIVE INFORMATION

FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2021

ARCHTIS LIMITED | AR9 | ACN 123 098 671



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.



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CORPORATE DIRECTORY

Directors

Miles Jakeman AM
Daniel Lai
Leanne Graham

Joint Company Secretaries

Erlyn Dawson
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

Automic
Level 5, 191 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) U.S. OTCQB Market (OTCQB:
ARHLF)

Website

www.archtis.com



AT A GLANCE: ASX:AR9 | OTCQB:ARHLF

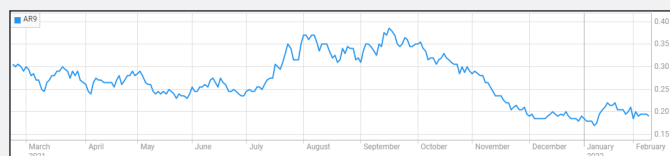
CAPITAL STRUCTURE (31 JAN 22)

ASX Share Price	\$0.21
12 Month Share Price Range	\$0.17-\$0.39
Shares on Issue	263,803,207
Market Capitalisation	\$55,398,673
Options and performance rights	18,502,427
Average daily volume (ASX 1-month)	696,310
Cash (31 Dec 21)	\$12.5M
Debt	\$0

SHARE REGISTER

Institutional	11.8%
Board & Management	19.4%
Top 40 Shareholders	49.5%

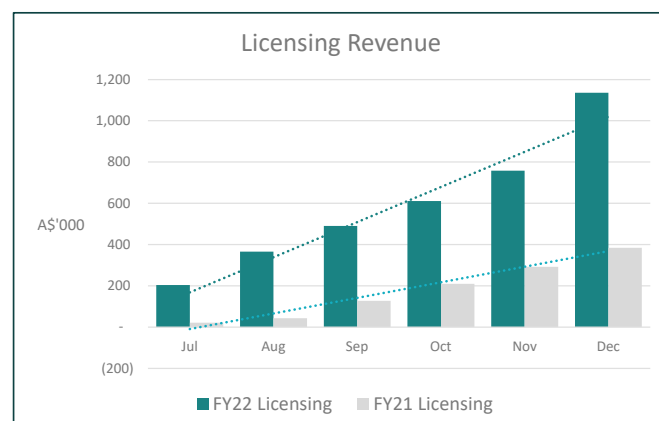
SHARE PRICE



FINANCIALS

A\$'000	FY22 1H	FY21 1H
Licensing Revenue	1,136	383
Services Revenue	1,287	729
Total Revenue	2,423	1,112
Total % Increase*	118%	
Annual Recurring Revenue (ARR)	2,018	990
% Increase*	104%	
Gross Margin	71%	73%
OPEX	5,263	1,772

*Figure relative to Prior Comparative Period (PCP)



COMPANY PUBLIC HISTORY





DIRECTOR'S REPORT

Dear Shareholders,

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 half year ended 31 December 2021 ('reporting period').

Directors

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

Miles Jakeman

Daniel Lai

Leanne Graham

Company Secretary

As at the date of this report, the role of company secretary is jointly held by Winton Willesee and Eryn Dawson.

Principal Activities

During the reporting period the principal continuing activities of the Group consisted of:

Sales of a secure information management and collaboration software: Kojensi either in-cloud or on-premise and NC Protect for users of the Microsoft software suite;

Integration of certain Cipherpoint Limited technologies into NC Protect and O365 solutions; 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 half year.

Review of Operations

The financial results for the half year ended 31 December 2021 show continuing metric-wide growth with total revenue, licensing, annual recurring revenue and cash all increasing.

Key results were as follows:

- Total revenue of \$2.4M, up 118% on the prior corresponding period (PCP)
- Licencing revenue of \$1.1M, up 195% on PCP
- Annual Recurring Revenue (ARR) \$2.0M, up 104% on PCP
- Operating expenses of \$5.3M, reflecting the Company's continued investment in sales and marketing resources as well as expansion costs into global markets
- R&D expenditure (before capitalisation) of \$2.2M
- Cash and cash equivalents of \$12.5M

We have delivered a strong result for the first half with the Company delivering key contract wins supported by strong customer renewals. The half year was highlighted by a contract win with an Australian National Intelligence and Law enforcement agency, the addition of a new Microsoft Co-sell customer and the extension of major customer contracts.

The Company renewed a number of customer contracts with a 0.1% customer churn against ARR, exhibiting continued product value and stability in a tight and competitive market.

Our significant R&D investment is extending the functionality and capabilities of our software solutions. In a significant milestone for the Company, archTIS released Kojensi Enterprise v2.0 in the Australian markets, enhancing secure document and collaboration and sharing of sensitive content between government, industry base (DIB), and higher education institutions. archTIS also announced the launch of the NC Protect

DIRECTOR'S REPORT CONT.

Data Connector for Azure Sentinel and its availability in the Azure Marketplace, an online store providing applications and services for use with Microsoft Azure, bolstering the Company's relationship and integration with the Microsoft suite.

archTIS successfully completed a \$6.9M placement and share purchase plan, which was well supported by existing shareholders, domestic and international institutions, sophisticated investors and members of the archTIS executive team and Board of Directors. The company is in a strong financial position to provide geographic expansion into new markets, and continue to execute the proven M&A strategy geared toward achieving greater ARR.

During the half year, archTIS furthered its global expansion strategy by acquiring the technology assets of the software division of Cipherpoint Limited as announced on 20 September 2021. The acquisition delivered new technology assets cp.Protect and cp.Discover, customers and expanded European sales capability to the Company. The acquisition purchase price consisted of \$1.4M cash consideration with \$0.2M held in escrow until the novation of certain customer and partner contracts. Further share-based consideration of up to \$1M is to be settled after 31 March 2022. The acquisition has delivered new and compelling customers to the Company, including DHL, Bank of Finland, and Arthur J. Gallagher, as well as important technology partners NTT Singapore and NTT DATA Deutschland.

The recent listing by the Company on the U.S. OTCQB Market (ASX 2 November 2021) under the stock symbol OTCQB:ARHLF, broadens archTIS' international profile and provides U.S. institutional and retail investors with the ability to trade the Company's stock. Being quoted on the OTCQB helps to establish archTIS' presence in the U.S. market with key corporate executives, along with federal agencies and defence contractors.

Significant changes in the state of affairs

As announced on 20 September 2021 archTIS Limited, acquired certain business assets, customers and employees connected with the software division of Cipherpoint Limited and its subsidiaries as disclosed in note 12 Business Combinations. The acquisition includes intellectual property of 'cp.Protect', an advanced SharePoint on-premises data encryption solution, as well as 'cp.Discover', a data discovery and classification platform.

There were no other significant changes in the state of affairs of the Group entity during the reporting period.

Matters subsequent to the end of the half year

There were no matters or circumstances that have arisen since 31 December 2021 that have 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.

Auditor's independence declaration

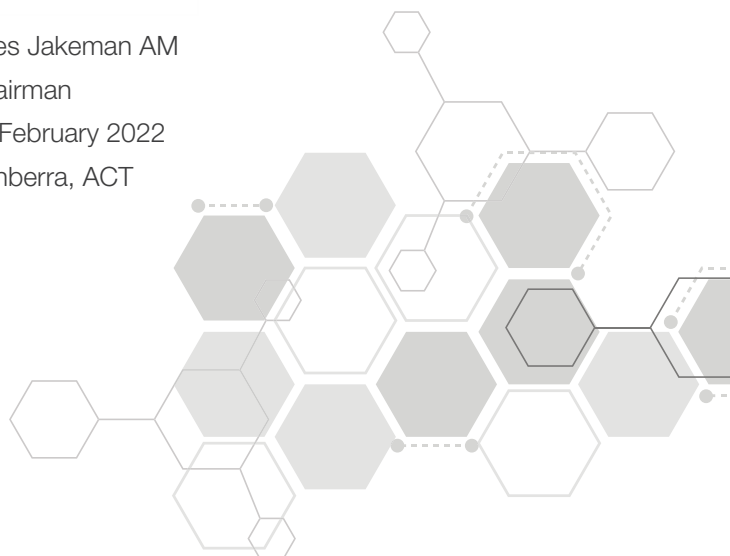
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this half year report.

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
23 February 2022
Canberra, ACT



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2021

	Note	Dec 2021 \$	Dec 2020 \$
Revenue	5(a)	2,423,034	1,111,763
Cost of Sales		(696,980)	(301,816)
Gross Profit		1,726,054	809,947
Other Income	5(b)	957,785	80,521
Sales and Marketing		(626,281)	(309,188)
General Administration		(7,044,829)	(2,013,500)
Loss before Income Tax		(4,987,271)	(1,432,220)
Income Tax (Expense) / Benefit		(961,358)	-
Other Comprehensive Income		-	-
Total comprehensive loss for the half year		(5,948,629)	(1,432,220)
Basic earnings per share	11	(2.49)	(0.81)
Diluted earnings per share	11	(2.49)	(0.81)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Note	Dec 2021 \$	Jun 2021 \$
ASSETS			
Current assets			
Cash and cash equivalents		12,531,172	12,739,159
Trade and other receivables		576,967	577,553
Other current assets		470,822	328,873
Deferred tax and other		978,506	1,434,753
Total current assets		14,557,467	15,080,338
Non-current assets			
Other non-current assets		155,417	-
Property, plant and equipment		109,339	107,909
Intangible assets	7	14,968,068	13,748,217
Right of use asset	8	997,062	1,092,021
Deferred tax and other		-	263,781
Total non-current assets		16,229,886	15,211,928
Total assets		30,787,353	30,292,266
LIABILITIES			
Current liabilities			
Trade and other payables		511,719	1,004,502
Employee benefits		586,544	265,941
Provisions		600,000	-
Other current liabilities		1,973,839	2,972,351
Lease liability		189,917	144,357
Total current liabilities		3,862,019	4,387,151
Non-current liabilities			
Employee benefits		92,339	57,697
Provisions		76,339	2,534,493
Other non-current liabilities		1,157,652	1,068,206
Deferred tax and other		2,508,499	1,662,952
Lease liability		804,583	936,349
Total non-current liabilities		4,639,412	6,259,697
Total liabilities		8,501,431	10,646,848
NET ASSETS		22,285,922	19,645,418
EQUITY			
Issued capital	9	39,985,054	31,513,233
Reserves		1,948,716	1,831,404
Retained profits (accumulated losses)		(19,647,848)	(13,699,219)
TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF ARCHTIS LIMITED		22,285,922	19,645,418

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2021

Consolidated	Issued capital	Reserves	Retained profits	Total equity
	\$	\$	\$	\$
Balance at 1 July 2021	31,513,233	1,831,404	(13,699,219)	19,645,418
Total comprehensive income for the half year	-	-	(5,948,629)	(5,948,629)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of share capital	9,127,755	-	-	9,127,755
Capital raise fees	(655,934)	-	-	(655,934)
Foreign exchange reserve	-	116,227	-	116,227
Share-based payments	-	1,085	-	1,085
Balance at 31 December 2021	39,985,054	1,948,716	(19,647,848)	22,285,922
Balance at 1 July 2020	15,713,392	1,808,050	(10,710,261)	6,811,181
Total comprehensive income for the half year	-	-	(1,432,220)	(1,432,220)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of share capital	15,708,730	-	-	15,708,730
Capital raise fees	(540,509)	-	-	(540,509)
Foreign exchange reserve	-	(51,372)	-	(51,372)
Share-based payments	-	32,493	-	32,493
Balance at 31 December 2020	30,881,613	1,789,171	(12,142,481)	20,528,303

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASHFLOW

FOR THE HALF YEAR ENDED 31 DECEMBER 2021

		Consolidated Dec 2021 \$	Dec 2020 \$
	Note		
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,660,387	2,698,083
Payments to suppliers and employees (inclusive of GST)		(7,963,056)	(4,105,149)
Receipts from R&D tax incentive		1,434,753	886,008
COVID-19 government cash incentive		96,124	54,940
Interest received		475	1,166
Interest paid		(34,135)	(42,195)
Income tax paid		(1,896)	-
Net cash provided by (used in) operating activities	10	(4,807,348)	(507,147)
Cash flows from investing activities			
Purchase of property, plant and equipment		(24,141)	(96,665)
Payment for purchase of business, net of cash acquired		(1,650,000)	331,061
Net cash provided by (used in) investing activities		(1,674,141)	234,396
Cash flows from financing activities			
Proceeds from issue of shares		7,018,955	10,610,881
Costs of capital raise		(655,934)	(540,509)
Repayments under leases		(86,206)	(72,916)
Net cash provided by (used in) financing activities		6,276,815	9,997,456
Net increase / (decrease) in cash held		(204,674)	9,724,705
Cash and cash equivalents at beginning of period		12,739,159	2,428,648
Effects of exchange rate changes on cash and cash equivalents		(3,313)	(48,822)
Cash and cash equivalents at end of period		12,531,172	12,104,531

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2021

1. Statement of compliance

The consolidated interim financial report for the half year reporting period ended 31 December 2021 has been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001. The consolidated interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the group as at and for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

2. Going concern

The group incurred a loss after tax of \$5,948,629 (31 December 2020: \$1,432,220) and had net operating cash outflows of \$4,807,348 (31 December 2020: \$507,147). A cash flow forecast has been prepared which indicates that the group 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 group 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 group is currently exploring sales opportunities with various potential customers across the Government and Private sectors;
- Following a successful capital raising in November 2021 and December 2021 of \$6.9 million the Group has cash at bank as at 31 December 2021 of \$12.5 million;
- if necessary, the Company will consider additional capital raising activities through the issue of new share capital.

3. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated annual report as at and for the year ended 30 June 2021.

4. Estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. The resulting accounting judgements and estimates may differ from the actual results. In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial report as at and for the year ended 30 June 2021.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 DECEMBER 2021

5. Revenue

	Consolidated	
	Dec 2021	Dec 2020
	\$	\$
(a) Revenue from contracts with customers		
Licensing	1,135,695	382,972
Services	1,287,339	728,791
	<u>2,423,034</u>	<u>1,111,763</u>
(b) Other Income		
Government Grants (i)	957,310	79,355
Interest Income	475	1,166
	<u>957,785</u>	<u>80,521</u>

(i) Government grants include cash incentives for research & development expenditure and amounts totalling \$96,124 (31 December 2020: \$54,940) received as a cash flow boost for employers as part of the Australian Government's response to the COVID-19 pandemic.

Licensing

Licensing revenue represents recurring revenue from archTIS solutions developed, customised and maintained for customers including Kojensi SaaS, NC Protect, cp.Protect and cp.Discover delivered to Australian and international customers.

Services

Services revenue includes archTIS services relating to systems integration and security consulting.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 DECEMBER 2021

6. Expenses

	Consolidated	
	Dec 2021	Dec 2020
	\$	\$
(a) Employee Benefits		
Salaries and wages	2,940,998	798,062
Superannuation	214,579	78,585
Other employee benefits	646,070	99,427
Share based payments	1,085	32,493
less : capitalised to software development	(262,501)	(84,150)
	3,540,231	924,417
(b) Depreciation and Amortisation Expense		
Depreciation - property, plant and equipment	117,670	90,796
Amortisation - intangibles	1,298,867	357,944
	1,416,537	448,740
(c) Finance costs		
Interest and finance charges paid/payable	34,135	42,195
	34,135	42,195
(d) Contractors		
Payments to contractors	1,341,638	513,512
	1,341,638	513,512
(e) Hosting Charges		
Hosting charges	90,837	70,689
	90,837	70,689

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 DECEMBER 2021

7. Intangible Assets

	Consolidated	
	Dec 2021	Jun 2021
	\$	\$
Internally generated software – at cost	3,550,262	3,550,262
less : accumulated amortisation	(1,855,058)	(1,497,114)
	1,695,204	2,053,148
Development in progress – at cost	1,773,865	1,621,484
Customer contracts – at cost	2,229,744	1,719,475
less : accumulated amortisation	(518,603)	(171,947)
	1,711,141	1,547,527
Software – at cost	8,184,598	6,373,926
less : accumulated amortisation	(1,273,589)	(637,393)
	6,911,009	5,736,534
Goodwill	2,876,849	2,789,524
	14,968,068	13,748,217

Reconciliations

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

	Internally generated software \$	Development in progress \$	Customer contracts \$	Software \$	Goodwill \$	Total \$
Dec 2021						
Cost						
Balance 1 July 2021	3,550,262	1,621,484	1,719,475	6,373,926	2,789,524	16,054,671
Additions	-	152,381	-	-	-	152,381
Commercialisation of development to software	-	-	-	-	-	-
Acquired in business combinations	-	-	446,634	1,574,783	87,325	2,108,742
Effect of foreign exchange translation	-	-	63,635	235,889	-	299,524
Balance 31 December 2021	3,550,262	1,773,865	2,229,744	8,184,598	2,876,849	18,615,318
Accumulated amortisation						
Balance 1 July 2021	(1,497,114)	-	(171,947)	(637,393)	-	(2,306,454)
Amortisation	(357,944)	-	(337,100)	(603,823)	-	(1,298,867)
Effect of foreign exchange translation	-	-	(9,556)	(32,373)	-	(41,929)
Balance at 31 December 2021	(1,855,058)	-	(518,603)	(1,273,589)	-	(3,647,250)
Net book value 31 December 2021	1,695,204	1,773,865	1,711,141	6,911,009	2,876,849	14,968,068

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 DECEMBER 2021

7. Intangible Assets (continued)

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 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

- Forecasted revenue would need to decrease by more than 20% for the internally generated software and capitalised development projects before there would be a need to 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 be a need to impair either asset, with all other assumptions remaining constant.

CGU: NC Protect

- Forecasted revenue would need to decrease by more than 27% before there would be a need to impair the acquired intangibles with all other assumptions remaining constant;
- The discount rate would be required to increase to 37% before there would be a need to impair the acquired intangibles with all other assumptions remaining constant.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 DECEMBER 2021

8. Right of Use Asset

	Consolidated	
	Dec 2021	Jun 2021
	\$	\$
Land and buildings – right of use	1,139,500	1,139,500
less : accumulated depreciation	(142,438)	(47,479)
	997,062	1,092,021

The right of use asset represents the lease of the Canberra head office which has a lease term of 3 years with an option to extend after this period.

9. Equity - Issued Capital

	Consolidated			
	31 Dec 2021	30 Jun 2021	31 Dec 2021	30 Jun 2021
	Shares	Shares	\$	\$
Ordinary shares - fully paid	263,803,207	226,845,057	39,985,054	31,513,233
<i>Movements in ordinary share capital</i>				
Details	Date	Shares	Issue price	\$
Balance	30-Jun-20	162,312,898		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
Issue of shares	26-Jul-21	6,390,302	\$0.3300	2,108,800
Share Issue on Exercise of Options	12-Aug-21	400,000	\$0.2000	80,000
Share Issue on Exercise of Options	12-Aug-21	35,000	\$0.2400	8,400
Issue of shares	18-Nov-21	28,260,870	\$0.2300	6,500,000
Share Issue on Exercise of Options	23-Dec-21	1,871,978	\$0.2300	430,555
Share issue transaction costs, net of tax		-		(655,934)
Balance	31-Dec-21	263,803,207		39,985,054

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 DECEMBER 2021

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

	Consolidated Dec 2021	Dec 2020
	\$	\$
Loss after income tax expense for the half year	(5,948,629)	(1,432,220)
<i>Adjustments for:</i>		
Depreciation and amortisation	1,416,537	448,787
Share-based payments	1,085	32,493
Foreign exchange differences	20,761	-
<i>Change in operating assets and liabilities:</i>		
(Increase) / decrease in trade and other receivables	126,682	(562,708)
(Increase) / decrease in accrued revenue	-	70,710
(Increase) / decrease in prepayments	(213,562)	(171,247)
(Increase) / decrease in research and development assets	(152,381)	(134,964)
(Increase) / decrease in other assets	(83,804)	-
(Increase) / decrease in R&D tax incentive receivable	456,247	861,594
(Increase) / decrease in deferred tax assets	273,544	-
Increase / (decrease) in trade and other payables	(599,821)	(1,369,337)
Increase / (decrease) in accrued expenses	53,828	-
Increase / (decrease) in income taxes payable	-	-
Increase / (decrease) in employee benefits	355,245	(28,352)
Increase / (decrease) in other provisions	646	-
Increase / (decrease) in deferred revenue	(1,186,071)	1,778,097
Increase / (decrease) in deferred tax liabilities	672,345	-
Net cash from operating activities	(4,807,348)	(507,147)

11. Earnings per Share

	Dec 2021 \$	Dec 2020 \$
Loss after income tax attributable to the owners	(5,948,629)	(1,432,220)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	239,351,557	177,841,801
	Cents	Cents
Basic earnings per share	(2.49)	(0.81)
	Number	Number
Weighted average number of ordinary shares used in calculating diluted earnings per share	239,351,557	177,841,801
	Cents	Cents
Diluted earnings per share	(2.49)	(0.81)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 DECEMBER 2021

12. Business Combinations

On 20 September 2021 archTIS Limited acquired certain business assets, customers and employees connected with the software division of Cipherpoint Limited and its subsidiaries for the total expected consideration of \$1,900,000. The software division includes the intellectual property to 'cp.Protect', an advanced SharePoint on-premises data encryption solution, as well as 'cp.Discover', a data discovery and classification platform.

The acquired software division of Cipherpoint Limited contributed revenues of \$106,938 and a breakeven position after tax for the period from 20 September 2021 to 31 December 2021. If the acquisition occurred on 1 July 2021 the half year contributions would have been revenues of \$187,773 and a breakeven position after tax.

The following purchase price allocation is provisional as at the date of this interim financial report. The purchase price allocation may be adjusted if new information is obtained about the facts and circumstances that existed at acquisition date.

Details of the acquisition are as follows:

	\$
Trade receivables	122,726
Other debtors	3,370
Intangible assets:	
- software	1,574,783
- customer relationships	446,634
Deferred revenue	(223,179)
Deferred tax liability	(111,659)
Net assets acquired	1,812,675
Goodwill	87,325
Acquisition-date fair value of the total consideration transferred	1,900,000
Representing:	
Cash paid	1,200,000
Cash held in escrow	200,000
Contingent consideration (included in Provisions)	500,000
	1,900,000
Acquisition costs expensed to profit or loss	-
Cash used to acquire the software division of Cipherpoint Limited, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred, including \$200,000 cash held in escrow	1,400,000
Net cash used	1,400,000

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 DECEMBER 2021

13. Matters subsequent to the end of the half year

COVID-19

The impact of the Coronavirus (COVID-19) pandemic is ongoing and whilst government grants to the value of \$76,364 have been received for the period to 31 December 2021, 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 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

DIRECTORS DECLARATION

31 DECEMBER 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 31 December 2021 and of its performance for the half 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

23 February 2022

Canberra

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of archTIS Limited for the half-year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

**RSM AUSTRALIA PARTNERS**

C J Hume
Partner

Canberra, Australian Capital Territory
Dated: 23 February 2022

INDEPENDENT AUDITOR'S REVIEW REPORT**TO THE MEMBERS OF****ARCHTIS LIMITED****Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of archTIS Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Group are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Group*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of archTIS Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of archTIS Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of archTIS Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

A handwritten signature in blue ink, appearing to read "RSM".

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to read "C J Hume".

C J Hume
Partner

Canberra, Australian Capital Territory
Dated: 23 February 2022

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)



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