

archTIS March 2024 Quarterly Report

Continued positive business execution driven by record revenues and focus on operating costs

archTIS Limited (ASX:AR9, OTCQB:ARHLF, archTIS or the Company), a global provider of data-centric software solutions for the secure collaboration of sensitive information, is pleased to provide an update on its Quarterly Activities Report and Appendix 4C Cash Flow Report for the quarter ended 31 March 2024 (**Reporting Period** or **Quarter**).

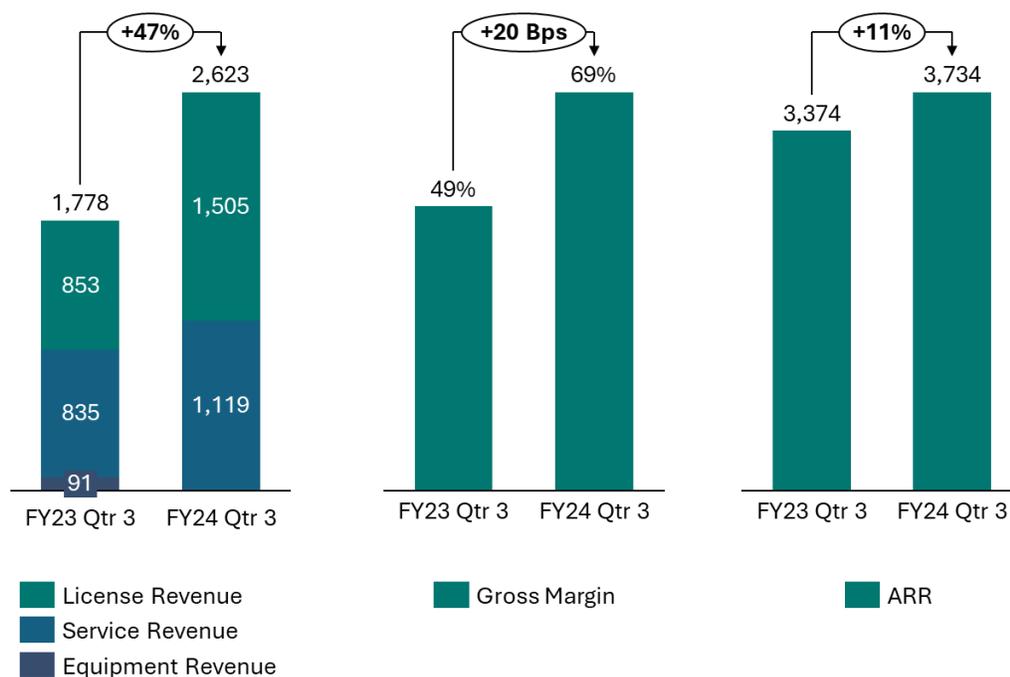
Q3 FY24 Highlights

- Strong revenue growth of 47%, led by 76% licensing revenue, drives improved margins and positive EBITDA from the prior comparative period (PCP).
- Continued growth in target markets, achieving wins with the Australia Department of Defence and the broader defence industry.
- Successfully expanded customer base across all geographical regions.
- Upheld a zero customer churn rate - underscoring commitment to excellence and customer satisfaction.
- NC Protect named a *Compliance & Privacy Trailblazer Award Finalist* in the 2024 Microsoft Security Excellence Awards for the second consecutive year.
- Industry veteran Andrew Burns has been appointed as Chief Financial Officer (CFO).
- Subsequent to the quarter's close, the Company announced a \$467K win in partnership with Penten for an Australian national security agency after a successful Proof of Concept (POC).

Daniel Lai, Managing Director and CEO, stated, “This is another positive quarter for archTIS. The lift in revenue growth, increasing gross margins driven by licencing, zero churn, and focus on operational costs evidence a strong performance. Whilst we navigate the outcomes of a number of POC’s, we are in a strong position to take advantage of emerging opportunities. Defence organisations around the world continue to increase budgets to address rising security threats and unstable geopolitical circumstances. Throughout the quarter, we continued to build strong alliances with strategic partners to expand our Kojensi and NC Protect footprint in key markets.”

Quarterly Key Metrics (unaudited)

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



During Q3, total revenue was \$2.6M, an increase of 47% from the PCP. Revenue was split across licencing of \$1.5M and services of \$1.1M. The jump in licencing and services revenue can mostly be attributed to the completion of the POC awarded by the Australian Department of Defence to modernise their workplace environment (ASX: 29 Jun 23). Annual recurring revenue (ARR) was \$3.7M, an increase of 11% from the PCP as the Australian Department of Defence and key global defence industrials continue to invest in the expansion and enhancement of Kojensi and NC Protect. There was no existing customer churn during the quarter.

Gross margin percentages improved to 69%; mainly associated with the release of revenue from the previously mentioned POC. This was a 20-basis point (bps) improvement from the PCP and 25 bps from the prior quarter. In whole dollars, the gross margin was up \$0.93M, an improvement of 107% PCP. Licencing margins remain strong at approximately 69%, slightly lower than normal given third-party software licencing costs associated with the POC.

Underlying operating costs for the quarter were \$1.6M, which was consistent with PCP \$1.7M, a slight increase of \$0.4M from Qtr2 FY24 driven by the increase in services activity.

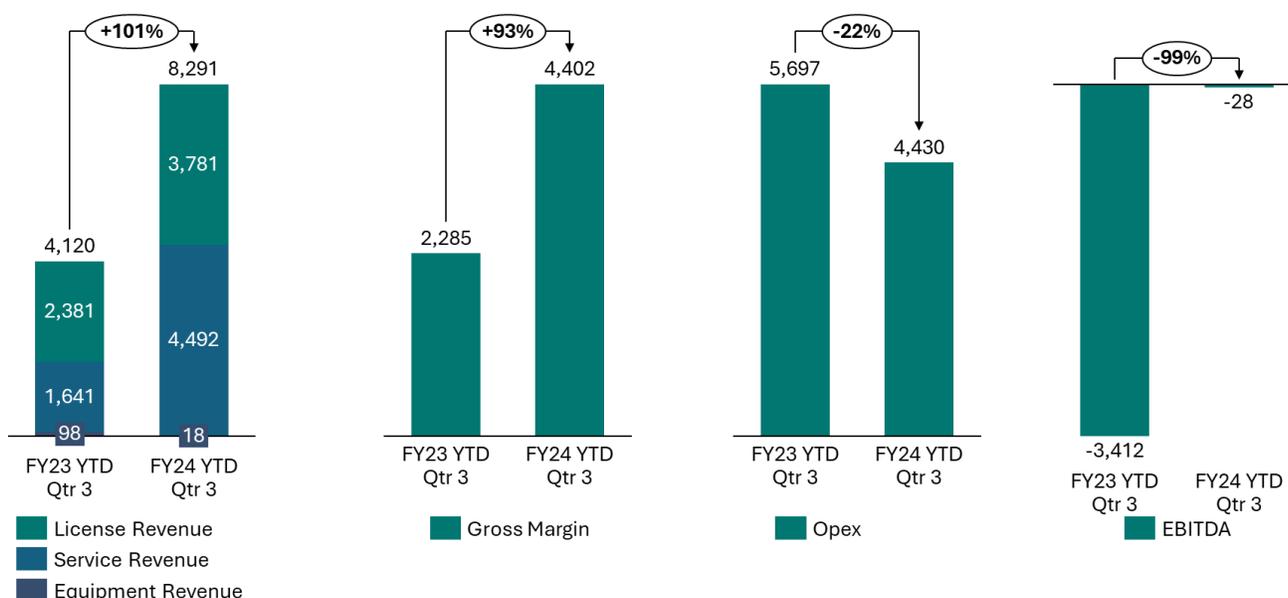
The Company ended the quarter with \$4.5M of total available funding. Net operating cash flows for the quarter were (\$1.25M), mainly comprised of product manufacturing and operating costs

(\$0.8M), advertising and marketing costs (\$0.1M), staff costs (\$1.8M), with receipts from customers \$1.4M.

The payments included in section 6.1 of the attached Appendix 4C relate to Director's fees and wages of \$0.12M.

Year to Date Financial Summary (unaudited)

FY24 YTD operating cash has been driven by strong YTD financial results (unaudited), as outlined below. YTD revenue is up 101%, and gross margin is up 93%, reflecting the slight increase in services revenue for the year. Management remains focused on managing the operating expenditure, which is down 22%, resulting in a YTD EBITDA of only (\$28K). Rolling 3-month operating cash burn for the period was (\$417K), an improvement of \$222K (35%) on PCP.



Continued Customer Wins and Expansions

archTIS delivered several new and expanded contracts across all geographical regions while experiencing zero customer churn during the quarter. A sampling of in-quarter deals includes:

- KPMG Australian Technologies Solutions (KTech) provided additional work orders of approximately \$0.6M for data-related architecture consulting services, including data taxonomy, modelling, and security for a Defence Data Program;
- A command and control department within the Australian Department of Defence expanded its use of NC Protect to communicate across the mission edge with additional license purchases;

- One of the largest law firms in the US purchased NC Protect to provide dynamic read-only access and watermarking requirements for the collaboration of sensitive court documents;
- A US defence manufacturer that provides space warfare capabilities expanded its use of NC Protect by purchasing NC Encrypt for data encryption and key management to bolster its security practices;
- New archTIS partner, Secure State, sold Kojensi SaaS to a French aerospace company for the secure collaboration of sensitive information across industry and government;
- A multinational manufacturing company renewed its six-figure subscription to NC Protect to protect intellectual property across its R&D teams.

The company remains actively engaged in a number of POCs across Australia and the US. Upon the successful completion of one POC, the Company recently announced a \$0.46M deal with Penten (ASX: 23 Apr 24), to implement Kojensi as part of a solution for an Australian national security agency.

Furthering Partnership Alliances

For the second year in a row, Microsoft announced archTIS NC Protect as a *Compliance & Privacy Trailblazer Award* Finalist in the 2024 Microsoft Security Excellence Awards. NC Protect was nominated for its unique capabilities and continued commitment as a Microsoft Partner to integrate an ABAC policy-based approach with Microsoft security products that safeguard highly sensitive data in Microsoft applications. NC Protect provides a specific solution to solve Defence requirements for the safe handling of and application of visual markings for sensitive, Controlled Unclassified Information (CUI) and classified data.

Secure State has joined the archTIS Channel Partner Program as a Silver Partner in Australia and closed its first sales in the recently concluded quarter. Secure State is an Australian sovereign Indigenous cybersecurity business specialising in information security and technology services. They will resell and provide services for both Kojensi and NC Protect to support their clients' data security and compliance needs in Australia. Secure State offers a combination of products and services to deliver secure and resilient systems that meet defence-grade standards and align with their client's business objectives.

Kurt Mueffelmann, COO and US President, said, "archTIS continues to show strong sales engagement within the Microsoft market through its partnership. This is demonstrated by recent wins as organisations move to Microsoft 365, joint proof of concepts in several high-profile defence agencies and NC Protect being named a finalist for the Microsoft Security Excellence Awards. The work we're doing now continues to lay the foundation for future growth and repeatability in a competitive market."

Corporate Announcements

Subsequent to the close of the quarter, archTIS announced the appointment of Andrew Burns as Chief Financial Officer (CFO) (ASX: 8APR). Leveraging 25 years' experience in executive, commercial and financial leadership, driving sustainable business transformation and profitable growth, Burns will oversee the company's financial planning and analysis, accounting and controllership, taxation, audit and compliance, corporate governance, and enterprise risk management functions. Burns was previously CFO and 2iC to MD/CEO of the then-listed Citadel Group Limited alongside current archTIS Chairman Dr. Miles Jakeman.

Burns has also been appointed as Company Co-Secretary for archTIS Limited.

Investor Updates

archTIS will host a quarterly results webinar on 26 April 2024 at 11:00am AEST (Sydney/Melbourne), 9:00am WST (Perth), 25 April 2024 at 9pm EDT (New York) to update the market on the quarterly results.

Register at: https://us02web.zoom.us/webinar/register/WN_p5LPw58HTfy8BbioWJIU9w

Authorised for issue by order of the Board of Directors.

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archTIS Interactive Investor Hub

<https://investors.archtis.com/>

The archTIS Investor Hub is an online portal for investors to read and interact with announcements and updates. Investors can ask questions and add comments, which our team will respond to where possible.

About archTIS Limited

archTIS Limited (ASX:AR9, OTCQB:ARHLF) is a global provider of data-centric software solutions for the secure collaboration of sensitive information. The company's award-winning 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) and data protection 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, SharePoint on-premises, NetApp ONTAP, Nutanix Files and Windows file shares. For more information visit archtis.com or follow @arch_tis on X.

Appendix 4C

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

Name of entity

archTIS Limited

ABN

79 1230 986 71

Quarter ended ("current quarter")

31 March 2024

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,415	9,323
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(755)	(3,606)
(c) advertising and marketing	(65)	(198)
(d) leased assets	(55)	(167)
(e) staff costs	(1,768)	(6,107)
(f) administration and corporate costs	(45)	(2,251)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	23	80
1.5 Interest and other costs of finance paid	-	(4)
1.6 Income taxes paid	-	(26)
1.7 Government grants and tax incentives	-	2,154
1.8 Other (GST)	-	-
1.9 Net cash from / (used in) operating activities	(1,250)	(802)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities:	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Payments to settle liabilities on settlement including transaction costs	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(2)	(2)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(2)	(2)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,695	3,245
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,250)	(802)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(2)	(2)
4.5	Effect of movement in exchange rates on cash held	(3)	(1)
4.6	Cash and cash equivalents at end of period	2,440	2,440

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	2,440	2,440
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)	2,440	2,440

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

	Current quarter \$A'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	121
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

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

7. Financing facilities

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

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

- 7.1 Loan facilities
- 7.2 Credit standby arrangements
- 7.3 Other (please specify)
- 7.4 **Total financing facilities**

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	2,000	-
7.2 Credit standby arrangements	100	25
7.3 Other (please specify)	-	-
7.4 Total financing facilities	2,100	25

7.5 Unused financing facilities available at quarter end

	2,075
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- 7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

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

8. Estimated cash available for future operating activities

	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,250)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,440
8.3 Unused finance facilities available at quarter end (Item 7.5)	2,175
8.4 Total available funding (Item 8.2 + Item 8.3)	4,515
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	3.61

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

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

Answer:

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

Answer:

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

Answer:

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: 26 April 2024

Authorised by: Board of Directors

(Name of body or officer authorising release – see note 4)

Notes

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