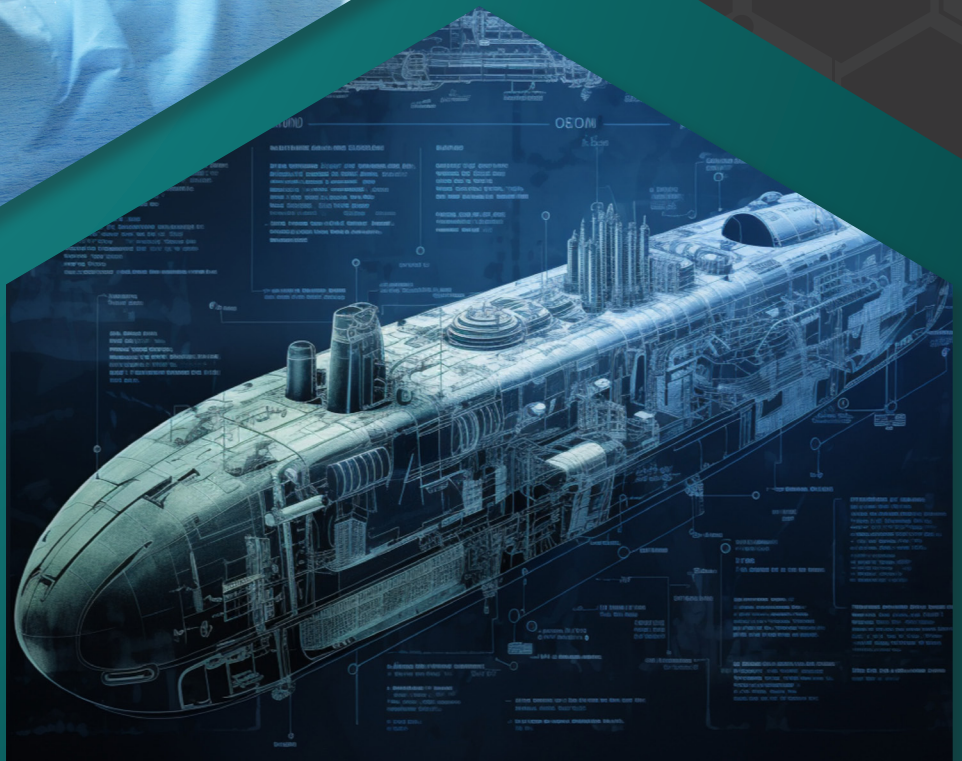




2024 | ANNUAL REPORT

ARCHTIS LIMITED | AR9 | ACN 123 098 671



TRUSTED TO SAFEGUARD THE WORLD'S MOST SENSITIVE INFORMATION

archTIS' products apply and enforce dynamic, policy-driven access, usage and sharing 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
Robert Andrew Burns

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
(02) 6162 2783

SHARE REGISTRIES

Automic
Level 5, 191 St Georges Terrace
Perth, WA 6000
(08) 9324 2099

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
OTCQB Venture Market: ARHLF

WEBSITE

www.archtis.com

INVESTOR PORTAL

investors.archtis.com

LETTER FROM THE CHAIRMAN & MANAGING DIRECTOR

DR. MILES JAKEMAN AM & DANIEL LAI

Dear Shareholders,

It is important to reflect on financial year 2024 (FY2024) and to share our achievements, challenges, and vision for the future of archTIS. This year has been marked by significant growth as we achieved our financial objectives, strategic advancements, and a reinforced commitment to our mission of providing innovative data-centric security solutions to protect the world's most sensitive information.

Performance Overview

The FY2024 has been a landmark year for archTIS. We have achieved:

- Strong annual revenue growth of 54%, with a 58% increase in overall licensing revenue.
- Annual recurring revenue (ARR) surpassing \$4M with 104% of net revenue growth from our existing customer base.
- Increased gross margin percentages to 60% with a 79% expansion in gross margin dollars.
- Decrease in annual operating expenses by 21%.
- Achieved positive annual operating cash of \$1.6M generated through record cash receipts of over \$12M, which was an improvement of 158% from the prior annual period. Overall cash outflows for operating and investing activities was (\$1.1M), an improvement of \$3.9M from the FY2023 cash outflow of (\$5.0M) and (\$12.3M) from FY2022.

Our expanded client base, including several high-profile governmental and enterprise clients, underscores the trust and confidence that the market has in our capabilities. Our pipeline and defined opportunities remain strong across the global defense and defense manufacturing targeted markets as we enter FY2025.

Strategic Developments

Throughout the year, strong market tailwinds have assisted us in making significant strides in enhancing our product offerings and expanding our market presence.

Key highlights include:

Product Innovation: We have introduced new features and enhancements to our Kojensi and NC Protect platforms, further solidifying their positions as leading automation solutions in the secure collaboration and data protection spaces.

Market Focus: We have continued to expand within our target markets and to build into equivalent overseas markets, via a mix of strategic partnerships, alliances and direct channel sales.

Client Acquisition: Our client portfolio has grown to include several new government agencies and enterprise clients, including within the Australian Department of Defence, NATO, US DoD, Penten, BAE, DHL, Bank of Finland, and KPMG. These successful deployments evidence the relevance, robustness and reliability of our solutions.

Research and Development: We continue to invest heavily in R&D to stay ahead of the competitive and evolving cybersecurity landscape. This investment ensures that our products remain at the forefront of innovation and being capable of addressing the most sophisticated security threats. We are aggressively looking at newer technologies that will assist in expanding our offerings for global data governance, policy orchestration, attribute-based encryption and overall data security for all types of information.

Financial Performance

Our financial results for FY2024 have been strong, with revenue growth exceeding most of our expectations. We delivered positive operating cash flow as we increased revenue by over 50% and maintained a disciplined approach to cost management, ensuring that we deliver value to our shareholders while continuing to invest in our future. Our balance sheet remains healthy for our size of business, providing us with the flexibility to pursue strategic opportunities as they arise.

LETTER FROM THE CHAIRMAN & MANAGING DIRECTOR (CONT)

DR. MILES JAKEMAN AM & DANIEL LAI

Looking Ahead

As we look to the future, we are confident in our strategic direction and our ability to capitalise on the growing demand for advanced data-centric cybersecurity solutions. Our focus will remain on:

Innovation: Continuing to innovate and enhance our product offerings to meet the evolving needs of our clients.

Expansion: Leveraging our market presence to enter new regions and sectors, further diversifying our revenue streams.

Customer Success: Ensuring that our clients achieve their security objectives through our solutions, thereby fostering long-term relationships and driving repeat business.

Sustainability: Committing to sustainable business practices that not only drive growth, but also contribute positively to our community and environment.

Yours sincerely,



Dr. Miles Jakeman, AM
Chairman of the Board



Conclusion

In closing, we would like to express our gratitude to our dedicated team, whose hard work and commitment have been instrumental in our success this year. We would also like to thank our shareholders for their continued support and confidence in our vision. Together, we are well-positioned to navigate the challenges and opportunities that lie ahead.

Thank you for being a part of archTIS' journey. We look forward to another year of growth, innovation, and success.



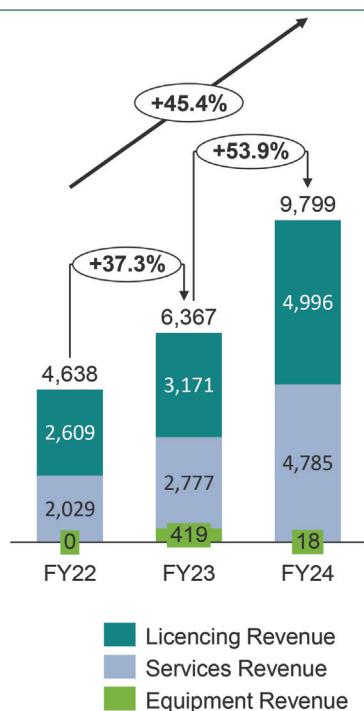
Daniel Lai
Managing Director & CEO



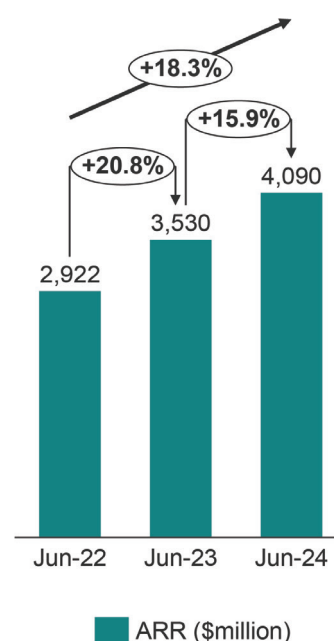
FY2024 HIGHLIGHTS

ROBUST FINANCIAL RESULTS (FY24 VS. FY23)

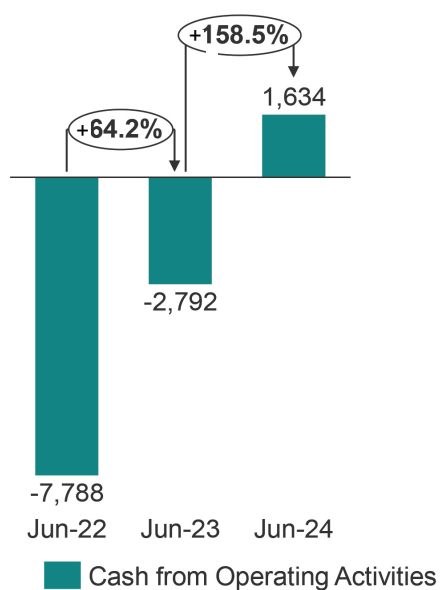
Total Revenue



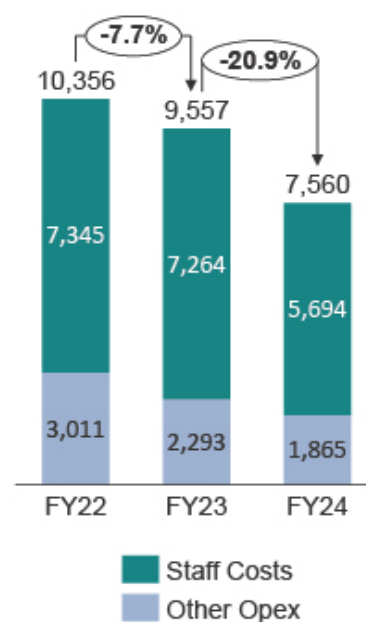
Annual Recurring Revenue (ARR)



Cash from Operating Activities



Operating Expenses



FY2024 HIGHLIGHTS

CUSTOMER HIGHLIGHTS

- A licensing agreement with Penten to provide Kojensi as part of a solution for an Australian national security agency to enable secure collaboration among internal parties regarding highly sensitive information. The contract will provide an annual recurring revenue licence fee of \$264K and implementation services of \$202K.
- A command and control department within the Australian Department of Defence purchased \$630K of services to adopt NC Protect for the war-fighter network, with additional licence purchases pending.
- A US-based defence contractor selected NC Protect to secure Microsoft 365 to secure GCC High and assist with CMMC and CUI compliance.
- 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.
- 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.
- Australian Naval Infrastructure (ANI) signed a total contract value of \$342,540 (including GST), of which \$112,200 is ARR to licence Kojensi SaaS. ANI now solves key collaboration challenge across the supply chain for navy ship building facilities.
- A global defence firm that manages and operates extensive testing and evaluation capabilities for air, land, sea and target systems selected Kojensi SaaS for collaboration associated with AUKUS.
- Two European reseller partners chose NC Protect and NC Encrypt for independent encryption key management for their Microsoft 365 and SharePoint on-premises customer environments to maintain digital sovereignty and add data-centric protection to combat insider threats.

BAE SYSTEMS

archTIS was engaged by BAE Systems Australia to rapidly develop a Concept Demonstrator for their Navy and Industry Collaboration Environment. This consisted of a data orchestration platform, with embedded data-centric security (DCS) and governance controls to demonstrate a variety integration use cases across the Maritime Shipbuilding and Sustainment capabilities within the Data Management System (DMS).

SAP

"Kojensi is very appealing because of its low start-up time. It is easy to use and functionally rich.

However, compliance is a living program and often requires changes. It easily accommodates any user access and process updates as our requirements change."

*Ilze Lamberton
Portfolio Operations Lead, Secrecy and Critical Infrastructure, Government Security & Secrecy (GS2), SAP Australia Pty Ltd*

FY2024 HIGHLIGHTS



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

NCPROTECT™



Discover, classify
and secure sensitive
information



Prevent data loss,
misuse and human
error



Audit and report
for compliance

SENSITIVE & CLASSIFIED
INFORMATION
SHARED SECURELY

kojensi



Share sensitive
and classified files
securely



Accredited
secure document
collaboration



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

EXECUTIVE LEADERSHIP



DANIEL LAI
CEO & Managing Director

Daniel is the 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 Daniel 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.

Daniel is a regular speaker at industry events and has been featured in the Financial Review and CIO magazine.



KURT MUEFFELMANN
Global COO & US President

As Global Chief Operating Officer (COO) and US President of archTIS, Kurt 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.

Kurt 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), Creatiform International (acquired by Bottomline Technologies), and RealWord (acquired by Microsoft Great Plains). Kurt 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.

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



ROBERT ANDREW BURNS
Chief Financial Officer

Robert Andrew (Andrew) has over 25 years of experience in senior leadership roles and has significant ASX experience.

He led the listing process as a consulting CFO for Racing and Sports Limited (ASX:RTH) and Openpay Ltd (ASX:OPY), in 2021, and 2019 respectively, including multiple subsequent capital raises. Andrew was employed the CFO for The Citadel Group Limited (ASX:CGL) for 11 years until 2018, prior to specializing as a Governance and risk Management consultant. Andrew has strong technical competencies in financial management, accounting, risk management and process improvement techniques with a focus in B2B technology and businesses.

Andrew holds an Executive MBA in Business from the Australian Graduate School of Management (AGSM) and a Bachelor of Commerce and Accounting from the University of Canberra. He is a member the Chartered Accountants Australia and New Zealand, and the Australian Institute of Company Directors. He is currently a director of Viva Leisure Limited (ASX:VVA).

EXECUTIVE LEADERSHIP



THOMAS MYERSCOUGH
Chief Technology Officer

As CTO, Thomas is responsible for managing archTIS' technical strategy, service management, and relationships with key technology partners. He brings more than 30 years of experience in the IT industry, with 20 years in Federal Government technology.

In this time, he successfully delivered projects from design to implementation and support for the Australian Department of Defence, Australian Taxation Office and the Department of Finance and Deregulation. His government and subsequent private industry experience gives Thomas a deep breadth of expertise from which to call upon to innovate archTIS technology platforms and ensure seamless client delivery.



TONY HOWELL
Global Chief Architect,
Defence & Intelligence

Tony brings extensive domain expertise in information management, security and architecture to the role of archTIS' Global Chief Architect, Defence and Intelligence. Howell specializes in data-centric capabilities and emergent technologies including ABAC, Cloud, AI, ML and analytics platforms.

In his career, he has delivered successful technology outcomes to Australian Government organisations in the Defence, Law Enforcement and Intelligence sectors. His previous roles include Director, Consulting Data Practice and Director, Consulting Data Modernisation Practice at Deloitte, Senior Information System Architect at Hewlett Packard Enterprise, Information Systems Architect at Hewlett Packard Australia, and independent consulting engagements with Australian government agencies.



IRENA MROZ
Chief Marketing Officer

Irena is 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, Irena leverages more than 20 years of B2B marketing expertise to direct the company's marketing strategy and communications programs.

She served as VP of Marketing at several cybersecurity start-ups including data-centric security company Nucleus Cyber (acquired by archTIS) and Infocyte, a malware and threat hunting solution. As the SVP of Marketing for Cryptzone's network and application security solutions and the VP of Marketing for HiSoftware, a provider of compliance and security solutions acquired by Cryptzone, she led the integration of the two global marketing organizations, while managing development of all strategic marketing programs and communications for the joint entity. Her previous roles include senior marketing positions at Bottomline Technologies and Create!form International.

Irena holds a Bachelor of Science in Mass Communications from Boston University's College of Communication.

OVERVIEW OF FY2024

FOR THE YEAR ENDED 30 JUNE 2024

INTRODUCTION

archTIS is trusted to safeguard the world's most sensitive information. Our performance in FY2024 reflected the Company's ability to execute against a well-defined strategic plan that allowed for robust financial results achieved through record revenue growth and the lowering of operating expenses, leading to positive operating cashflow. Strong customer adoption through direct and partnership distribution channels, including Microsoft, drove expanded global opportunities across key defence and defence industrial target markets. archTIS remains confident in our product and services offerings with continued investment in product innovation to support the growth tailwinds across the data-centric security market.

ROBUST AND GROWING FINANCIAL RESULTS

FY2024 cash from operating activities was \$1.6M driven by continued revenue growth, increased margins and lower operating expenses. archTIS had record-breaking customer receipts of over \$12M. YTD revenue was up 54%, driven by a \$1.8M increase in licence revenue and a \$2M increase in services. Gross margin for the year was 60% or \$5.85M up 79% on FY2023. The higher gross margins are derived from the increase in licence revenues and strong executional delivery on the services contracts. The strategic objective of positive operating cash flow is reflected in the continued focus on the management of operating expenditure (Opex), resulting in a reduction of 21% for the year. The Company finished the year with \$3.99M of available funding.

GROWING BUSINESS IN SPECIFIC MARKETS

archTIS continues to concentrate on the data-centric security market within the defence and defence industrial markets. The global defense cyber security market size was valued at USD 16.45 billion in 2023 and is projected to grow from USD 19.14 billion in 2024 to USD 63.38 billion by 2032, exhibiting a CAGR of 16.1% during the forecast period.¹

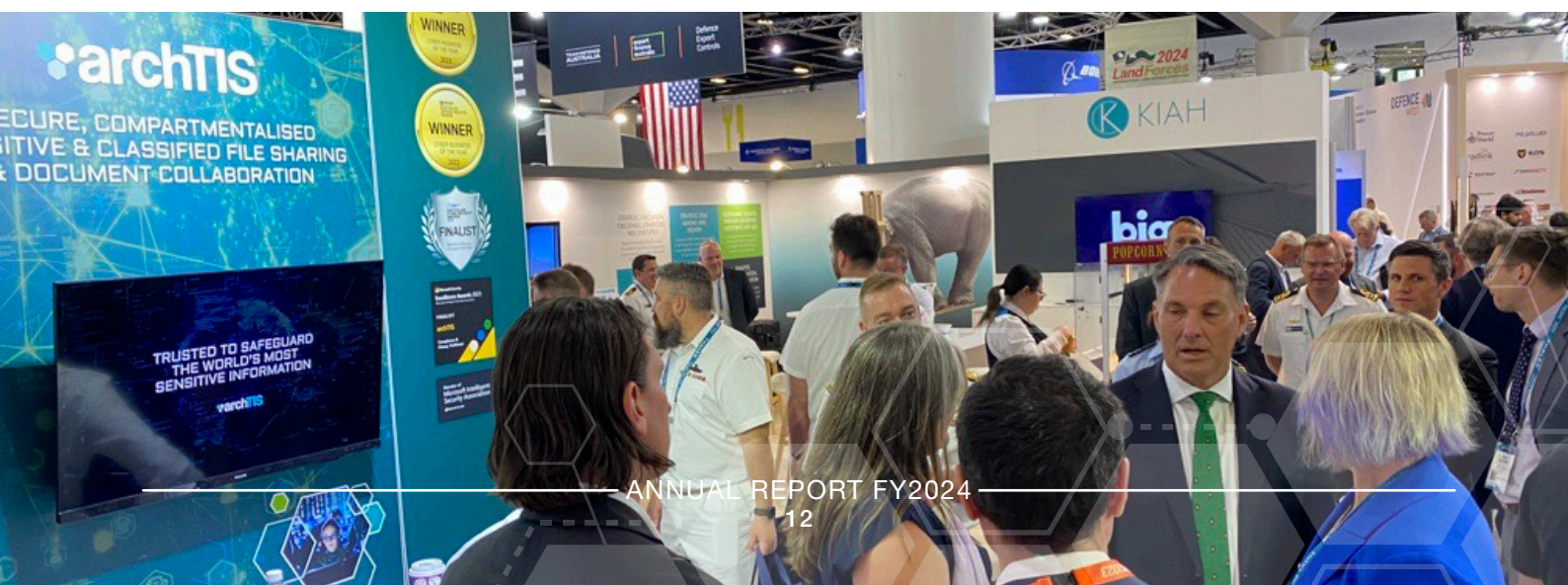
The data-centric security market is experiencing rapid growth due to the increasing importance of protecting sensitive data in various industries. In 2023, the market was valued at approximately USD 6.52 billion and is expected to grow to USD 22.03 billion by 2028, representing a compound annual growth rate (CAGR) of around 27.5%.² This growth is driven by the increasing frequency of data breaches, regulatory compliance requirements, and the proliferation of mobile devices and cloud services.

The market's expansion is also fueled by advancements in data protection technologies, such as automated data discovery, classification, encryption, and compliance monitoring. The adoption of cloud-based solutions is particularly notable, with cloud-based data-centric security expected to grow at a CAGR of 25.1% from 2023 to 2030.³ The need for secured collaborations and data sharing across organisations has further spurred demand.

PRODUCT INNOVATION

Over the past year, archTIS has made significant advancements in its product offerings, NC Protect and Kojensi. Kojensi has continued to serve as a secure, accredited SaaS platform for sensitive information sharing within the defense industry, government, multinational coalitions, and other critical sectors. It enables secure collaboration of sensitive and classified information, employing military-grade security measures, including ABAC policies, to control access based on users' needs and roles. The platform supports various use cases, including compliance with Australian and US regulations (e.g., DISP, ITAR), facilitating collaboration among international partners, and managing critical infrastructure data securely.

NC Protect has expanded its capabilities to include dynamic, real-time data loss prevention across various Microsoft platforms, including SharePoint Modern Experience, Office 365 Groups, and GCC High. This expansion enhances data security by providing attribute-based access control (ABAC) and protection policies that adjust dynamically based on user context and file content, ensuring compliance with regulations



and preventing unauthorized data access and data misuse. Notably, NC Protect has been integrated with other platforms, including Windows File Shares, NetApp ONTAP, and Nutanix Files, offering robust encryption and protection against data breaches and unauthorized file sharing.

Continued innovations have allowed archTIS to build a new technology product demonstrator for BAE to secure collaboration and data integration capability. archTIS was engaged to securely collaborate across multiple data sets with key stakeholders, suppliers and customers on a need-to-know basis.

CORPORATE

archTIS was named the “2023 Cyber Business of the Year” by the Australian Defence Industry Awards. The company was also recognised as a Microsoft Security Excellence Awards 2024 Finalist for Compliance & Privacy Trailblazer.

Robert Andrew Burns (Andrew) was appointed to the role of Chief Financial Officer and Joint Company Secretary. Andrew will oversee the company’s financial planning and analysis, accounting and controllership, taxation, audit and compliance, corporate governance, and enterprise risk management functions. He was previously CFO and 2iC to MD/CEO of the then-listed Citadel Group Limited alongside current archTIS Chairman Miles Jakeman.

archTIS extended its capital funding programs through the non-dilutive receipt of an R&D tax incentive payment of \$2.1M from the ATO and the increased extension of a market rate lending facility with the Commonwealth Bank of Australia (CBA) for \$2.0M.

OUTLOOK

Support our core strategic objectives to be:

- The preferred platform for sharing information across Government, Defence and Defence Industry;
- A premium provider of Policy Enforced Access Management products to the global defence market;
- A leader in the provision of Policy Enforced Encryption; and,
- A global thought leader in data-centric architecture.

Achieve financial objectives of:

- Maintaining positive operating cash flow;
- Continuing strong revenue growth with greater focus on licensing that drives higher margins and the predictability associated with annual recurring revenue (ARR); and,
- Maintaining operating expense levels that support growth while maintaining margins.

Deliver continuous product innovation to drive high customer and partner satisfaction by:

- Developing and releasing high-quality, mission-ready products for the defence and defence industrial markets that drive increased sales and market share;
- Creating and monetising leading technology alliances with technology leaders, including Microsoft and Oracle; and,
- Identifying and expanding global distribution channels that broaden geographical and vertical market opportunities.

¹ Fortune Business Insights, <https://www.fortunebusinessinsights.com/defense-cyber-security-market-105139>

² Research and Markets, <https://www.researchandmarkets.com/reports/5783071/data-centric-security-global-market-report>

³ Grand View Research, <https://www.grandviewresearch.com/press-release/global-data-centric-security-market>



OVERVIEW OF FY2024

FOR THE YEAR ENDED 30 JUNE 2024

GLOBALLY RECOGNIZED FOR DEVELOPING
SOLUTIONS TO SAFEGUARD THE WORLD'S MOST
SENSITIVE INFORMATION



MATERIAL BUSINESS RISKS

The Company's risk management approach involves the ongoing assessment, monitoring and reporting of risks that could impede the Company's progress in delivering the Company's strategic priorities. As the Company continues to grow and evolve, the material risk profile may change.

Below is a list material business risks that the Company considers may affect the success of its strategy and financial prospects for future years, including some which are not directly within the Company's control. The Company may face a range of other risks in conducting its business activities in addition to those set out below.

TECHNOLOGY AND COMPETITION RISKS

Technology markets, by their very nature, are a continually evolving marketplace. To succeed, the Company will need to research, develop, design, build and bring to market new enhancements to its existing products as well as to new markets that might not yet exist. The Company may not be able to engage in research or develop its existing (and new) products to meet the changing needs of its markets and the new and emerging technologies. At the same time, products and technologies developed by others may render the Company's products and systems obsolete or non-competitive. If any of these scenarios were to occur, it would adversely impact the operating results and potential of the Company.

ABILITY TO ATTRACT AND RETAIN APPROPRIATELY SKILLED EMPLOYEES

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and key personnel. Company performance also depends on its ability to attract and retain skilled resources with relevant industry and technical expertise. The loss of several key personnel or the inability to attract additional resources may have an adverse impact on the financial and operating performance of the Company.

CYBER AND SECURITY RISKS

A cyber-attack has the potential to disrupt the Company's information technology platform which is integral to the efficient operation of its business. The threat of cyber-attacks on security companies is real. A successful cyber-attack on the Company would cause significant damage to the Company's reputation and brand as well as have a material adverse impact on the financial position and performance of the Company.

REGULATORY RISK

archTIS has been eligible for the federal government R&D tax incentive. If the regulation regarding the R&D tax incentives changed and the Company was no longer eligible, this would impact on archTIS' anticipated costs for development and materially impact on the Company's financial and operating performance.

UNCERTAINTY OF FUTURE PROFITABILITY

The success of the Company's sales and operations relies on the ability to attract more commercial users of the relevant technology and its products. An inability to attract new clients and users in a timely manner will affect the Company's earning ability. While the Company has been successful in attracting clients in the government sector in Australia, this will not necessarily translate into successful utilisation in other verticals and countries. Furthermore, the Company's profitability will be impacted by its ability to successfully execute its commercialisation and growth strategies, economic conditions in the markets in which it operates, competitive factors and regulatory developments. Accordingly, the extent of any future profits is uncertain. Moreover, the level of profitability cannot be predicted.



DIRECTORS' REPORT

DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the consolidated entity 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 2024 ('Reporting Period' or 'FY2024').

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, AM
- Daniel Lai
- Leanne Graham

DIRECTORS AND MEETINGS OF DIRECTORS

The qualifications and experience of directors, including current and recent directorships, are detailed below:



DR. MILES JAKEMAN, AM
Chairman of the Board

Miles 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.

Miles 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 \$400M. The company was subsequently sold to Pacific Equity Partners for \$503M.

Miles holds 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 Australian Institute of Company Directors (AICD) and has successfully completed both the AICD Diploma of International Company Directors and the Mastering the Boardroom Advanced Diploma. Jakeman 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: 2,586,925 ordinary shares and 1,476,190 unlisted options

Other current public listed company directorships: GetBusy plc (AIM:GetB) (appointed 3 July 2017)

Former public listed company directorships (last 3 years): None

DIRECTORS' REPORT



LEANNE GRAHAM
Non-Executive Director

Leanne has over 30 years of experience in the software industry. As an entrepreneur and executive, she has been instrumental in the success of multiple startups and global tech companies. Leanne has provided guidance to businesses around the world, and in 2018, she was honoured with the New Zealand Order of Merit for her contributions to the software sector. She also serves as a director at Energy One Limited and continues to advise companies globally.

Interest in Shares and Options: 1,011,569 ordinary shares, and 869,047 unlisted options

Other current public listed company directorships: Non-Executive Director of Energy One Ltd (ASX:EOL) (appointed 10 December 2022)

Former public listed company directorships (last 3 years): Non-Executive Director of Douough Limited (ASX:DOU) (1 May 2021 to 29 July 2022) and Optima Technology Group Ltd (ASX:OPA) (formerly Bill Identity Limited) (28 July 2016 to 2 March 2023), Bridge SaaS Limited (ASX:BGE) (24 May 2022 to 10 January 2024).



DANIEL LAI
CEO & Managing Director

Daniel is the 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 AUS 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.

Interest in Shares and Options: 10,150,762 ordinary shares, 707,804 unlisted options and 1,893,364 performance rights

Other current public listed company directorships: None

Former public listed company directorships (last 3 years): None

DIRECTORS' REPORT

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2024, and the number of meetings attended by each director were:

| | Number of Meetings Held | Number Attended |
|---------------|-------------------------|-----------------|
| Miles Jakeman | 13 | 13 |
| Leanne Graham | 13 | 13 |
| Daniel Lai | 13 | 13 |

The Directors have determined that the consolidated entity'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.

COMPANY SECRETARY

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



ERLYN DAWSON
Joint-Company Secretary

Erlyn is an experienced corporate professional with a broad range of corporate governance and capital markets experience, having been involved with several public company listings, merger and acquisition transactions and capital raisings for ASX-listed companies across a diverse range of industries.

Erlyn holds a Bachelor of Commerce (Accounting and Finance) and a Graduate Diploma in Applied Corporate Governance. She is a member of the Governance Institute of Australia/Chartered Secretary.



WINTON WILLESEE
Joint-Company Secretary

Winton is an experienced company director and secretary with over 20 years' experience in various roles within the Australian and international capital markets. Winton has considerable experience with ASX listed and other companies over a broad range of industries having been involved with many successful ventures from early stage through to large capital development projects.

Winton holds a Master of Commerce, a Post-Graduate Diploma in Business (Economics and Finance), a Graduate Diploma in Applied Finance and Investment, a Graduate Diploma in Applied Corporate Governance, a Graduate Diploma in Education and a Bachelor of Business. He is a Fellow of the Financial Services Institute of Australasia, a Graduate of the Australian Institute of Company Directors, a Member of CPA Australia and a Fellow of the Governance Institute of Australia and the Institute of Chartered Secretaries and Administrators/Chartered Secretary.



ROBERT ANDREW BURNS
Joint-Company Secretary

Andrew has over 25 years of experience in senior leadership roles and has significant ASX experience. He led the listing process as a consulting CFO for Racing and Sports Limited (ASX:RTH) and Openpay Ltd (ASX:OPY), in 2021, and 2019 respectively, including multiple subsequent capital raises. Andrew was employed the CFO for The Citadel Group Limited (ASX:CGL) for 11 years until 2018, prior to specializing as a Governance and risk Management consultant. Andrew has strong technical competencies in financial management, accounting, risk management and process improvement techniques with a focus in B2B technology and businesses.

Andrew holds a Bachelor of Commerce, Executive Masters of Business Administration, and is a Member of Chartered Accountants Australia and New Zealand, and a Member of the Australian Institute of Company Directors.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the consolidated entity 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;
- Consulting and solutions services for secure information sharing and interorganisational collaboration related to the above software sales;
- Continued innovations in Data-Centric Security focus on protecting data at its source, enhancing privacy and compliance by securing data throughout its lifecycle; and,
- Evolving Attribute-Based Access Controls (ABAC) as the primary mechanism for innovation of dynamically managed access based on user and environment attributes, providing granular and adaptive data protection.

DIVIDENDS

No dividends were paid during the financial year.

REVIEW OF OPERATIONS

Refer to pages 12-14 of the annual report for an overview of the FY24 operations, which forms part of this Directors' report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2024 which has significantly affected, or may significantly affect:

- a) the Company's operations in future financial years, or
- b) the results of those operations in future financial years, or
- c) the Company's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Other than as set out in the Outlook section on page 13, information on likely developments in the operations of the consolidated entity 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 consolidated entity.

ENVIRONMENTAL REGULATION

The consolidated entity 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 insure 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.

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

DIRECTORS' REPORT

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 |
|-------------------------------|-------------|-------------|----------------|---------------------|
| AR9016 | 21 Dec 2023 | 21 Dec 2026 | \$0.0792 | 378,673 |
| AR9017 | 21 Dec 2023 | 21 Dec 2026 | \$0.0792 | 1,448,060 |
| AR9018 | 21 Dec 2023 | 21 Dec 2026 | \$0.0792 | 732,977 |
| AR9O12 | 24 Nov 2021 | 24 Nov 2025 | \$0.316 | 1,750,000 |
| AR9O13 | 23 Dec 2022 | 23 Dec 2025 | \$0.200 | 3,337,102 |
| AR9O14 | 13 Dec 2022 | 13 Dec 2025 | \$0.2000 | 8,642,851 |
| AR9O15 | 6 Mar 2023 | 6 Mar 2026 | \$0.1428 | 1,492,977 |
| Total options on issue | | | | 17,782,640 |

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 consolidated entity, in accordance with the requirements of section 300A 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

The performance of the consolidated entity 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 fixed annually. Incentives are structured to reward outstanding performance against agreed Key Performance Indicators (KPI's) including financial and non-financial metrics.

The consolidated entity 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 distinctly different.

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.

The ASX Listing Rules and the Company's Constitution provide that the aggregate annual non-executive directors' fees paid shall not exceed that determined by shareholders in a general meeting. On 24 November 2021, shareholders approved a maximum annual aggregate remuneration of \$500,000 per annum.

Executive remuneration

The consolidated entity 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; and,
- 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 consolidated entity 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 consolidated entity 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') being achieved.

The long-term incentives ('LTI') include long service leave and share-based payments. Securities are awarded to executives which vest over periods of approximately two to three years based on LTI measures.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of remuneration

Amounts of remuneration

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

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

2024

Directors

| | |
|------------------|---------------------------------------------|
| Miles Jakeman AM | Non-executive Chairman |
| Daniel Lai | Managing Director & Chief Executive Officer |
| Leanne Graham | Non-executive Director |

Key Management Personnel

| | |
|---------------------|--------------------------------------------------|
| Kurt Mueffelmann | Global Chief Operations Officer |
| Kylie Sheather | Chief Financial Officer (finished 12 April 2024) |
| Robert Andrew Burns | Chief Financial Officer (commenced 1 April 2024) |

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

2023

Directors

| | |
|------------------|---------------------------------------------|
| Miles Jakeman AM | Non-executive Chairman |
| Daniel Lai | Managing Director & Chief Executive Officer |
| Leanne Graham | Non-executive Director |

Key Management Personnel

| | |
|------------------|---------------------------------|
| Kurt Mueffelmann | Global Chief Operations Officer |
| Kylie Sheather | Chief Financial Officer |

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

| | Short-term benefits | | | Share-based payments | Post employment super | Long service leave | Termination Benefits | Total | % of salary assoc. with performance | Share-based payments as a % of total |
|--------------------------|---------------------|------------|--------|----------------------|-----------------------|--------------------|----------------------|---------|-------------------------------------|--------------------------------------|
| | Salary & Fees | Cash bonus | Other | | | | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | | \$ | % | % |
| 2024 | | | | | | | | | | |
| Non-Executive Directors | | | | | | | | | | |
| Miles Jakeman AM | 76,314 | - | - | 17,327 | 8,395 | - | - | 102,036 | - | 17% |
| Leanne Graham | 55,341 | - | - | 12,996 | - | - | - | 68,336 | - | 19% |
| Executive Directors | | | | | | | | | | |
| Daniel Lai | 300,000 | 21,953 | - | 34,533 | 30,140 | 5,000 | - | 391,626 | 7% | 9% |
| Key Management Personnel | | | | | | | | | | |
| Kurt Mueffelmann** | 380,373 | 20,464 | - | 41,577 | - | - | - | 442,414 | 5% | 9% |
| Kylie Sheather*** | 224,222 | - | 37,035 | 3,046 | 28,708 | (9,829) | 64,615 | 347,797 | 0% | 1% |
| Robert Andrew Burns | 132,300 | - | - | 25,000 | - | - | - | 157,300 | - | 16% |
| 2023 | | | | | | | | | | |
| Non-Executive Directors | | | | | | | | | | |
| Miles Jakeman AM | 75,000 | - | - | 40,056 | 7,875 | - | - | 122,931 | - | 33% |
| Leanne Graham | 54,756 | - | - | 30,042 | - | - | - | 84,798 | - | 35% |
| Executive Directors | | | | | | | | | | |
| Daniel Lai | 300,000 | 23,797 | 47,169 | 26,641 | 44,352 | 5,000 | - | 446,959 | 40% | 6% |
| Key Management Personnel | | | | | | | | | | |
| Kurt Mueffelmann* | 372,587 | 23,041 | 35,735 | 29,150 | - | - | - | 460,513 | 30% | 6% |
| Kylie Sheather | 280,000 | 35,535 | 21,975 | 23,027 | 36,308 | 5,219 | - | 402,064 | 30% | 6% |

*Estimated AUD remuneration based on USD to AUD 2023/24 average exchange rate of 1.5215

** Estimated AUD remuneration based on USD to AUD 2022/23 average exchange rate of 1.4903

*** Finished 12 April 2024

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Services Agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements with the company or its subsidiaries. Details of these agreements are as follows:

Name: Daniel Lai

Title: Chief Executive Officer

Agreement commenced: 29 June 2018

Term of agreement: No fixed term. Six-month termination period.

Details: The remuneration is \$351,225 per year including statutory superannuation, plus variable compensation of an additional 90% of base salary, comprising of an annual cash bonus and long-term equity incentives, based on financial KPIs set by the Board.

Name: Kurt Mueffelmann

Title: Senior Vice President of Sales, Chief Operating Officer of archTIS and President of US Operations

Agreement commenced: 23 December 2020

Term of agreement: Annual term, renewed automatically unless either party gives notice not to extend at least 30 days prior to the renewal date. In the event of termination without cause or resignation for good reason (unremedied cause), in addition to accrued amounts, Kurt will receive salary and bonus continuation equal to 12 months base salary plus bonus and performance-based securities, and up to 12 months continued insurance benefits.

Details: The remuneration is US\$262,500 per year, plus variable compensation of up to an additional 80% of base salary, comprising of an annual cash bonus and long-term equity incentives, subject to achievement of annual KPIs set by the Board.

Name: Andrew Burns

Title: Chief Financial Officer

Agreement commenced: 1 April 2024

Term of agreement: 15 Months 1 April 2024 to 30 June 2025

Details: Burns Executive Services Pty Ltd is contracted to provide outsourced corporate services to archTIS Ltd from 1 April 2024 to 30 June 2025. The contracted corporate services include the role of Chief Financial Officer of which Andrew Burns is the specified personnel. The contract remuneration covers the Chief Financial Officer (CFO) role, but it is important to note that this is just one of several positions included in the agreement. The total contract value compensates for a team of professionals delivering a range of shared services. These services encompass various essential functions, including: Financial controllership, Financial planning and analysis, Accounts payable, Payroll management, People and culture administration. The contract's remuneration package is comprehensive, covering the costs associated with providing these critical business functions.

- Base rate of \$525,000 excluding GST;
- Performance rights on contract commencement of \$125,000, 50% vesting 31 December 2024 and 50% 30 June 2025;
- STI of \$62,500 based on the same specific annual targets and KPIs being achieved as the Executive;
- LTI of \$187,500 based on the same terms for the FY25 LTI as the Executive; and,
- Three months' notice by either party is required for termination of the contract.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

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 Option | Number Under Option |
|--------------------------------|------------|--------------|-------------|----------------|------------------|---------------------|
| AR9012 Class | | | | | | |
| Non-Executive Directors | | | | | | |
| Miles Jakeman AM | 24 Nov 21 | 24 Nov 22 | 24 Nov 25 | \$0.316 | \$0.097 | 333,333 |
| | 24 Nov 21 | 24 Nov 23 | 24 Nov 25 | \$0.316 | \$0.097 | 333,333 |
| | 24 Nov 21 | 24 Nov 24 | 24 Nov 25 | \$0.316 | \$0.097 | 333,334 |
| Leanne Graham | 24 Nov 21 | 24 Nov 22 | 24 Nov 25 | \$0.316 | \$0.097 | 250,000 |
| | 24 Nov 21 | 24 Nov 23 | 24 Nov 25 | \$0.316 | \$0.097 | 250,000 |
| | 24 Nov 21 | 24 Nov 24 | 24 Nov 25 | \$0.316 | \$0.097 | 250,000 |

* Subject to continued engagement as a director of the Company on the date of vesting.

AR9012 options were granted to the non-executive directors as part of their remuneration packages. The options are exercisable by the holder from the vesting date. If the holder ceases to be a director of the Company, vested options will lapse six months after cessation of engagement. Unvested options will lapse immediately upon cessation of engagement.

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.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Share-based compensation (continued)

| | Grant Date | Vesting Date | Expiry Date | Exercise Price | Value Per Option | Number Under Option |
|---------------------------------|------------|--------------|-------------|----------------|------------------|---------------------|
| AR9O15, 16, 18 | | | | | | |
| Executive Directors | | | | | | |
| Daniel Lai | 6 Mar 23 | 30 Jun 23 | 6 Mar 26 | \$0.1428 | \$0.0385 | 70,028 |
| | 6 Mar 23 | 30 Jun 24 | 6 Mar 26 | \$0.1428 | \$0.0385 | 70,028 |
| | 6 Mar 23 | 30 Jun 25 | 6 Mar 26 | \$0.1428 | \$0.0385 | 70,028 |
| | 23 Nov 23 | 30 Jun 24 | 21 Dec 26 | \$0.0792 | \$0.0385 | 126,224 |
| | 23 Nov 23 | 30 Jun 25 | 21 Dec 26 | \$0.0792 | \$0.0385 | 126,224 |
| | 23 Nov 23 | 30 Jun 26 | 21 Dec 26 | \$0.0792 | \$0.0385 | 126,225 |
| Key Management Personnel | | | | | | |
| Kurt Mueffelmann | 21 Apr 23 | 30 Jun 23 | 6 Mar 26 | \$0.1428 | \$0.0385 | 83,011 |
| | 21 Apr 23 | 30 Jun 24 | 6 Mar 26 | \$0.1428 | \$0.0385 | 83,011 |
| | 21 Apr 23 | 30 Jun 25 | 6 Mar 26 | \$0.1428 | \$0.0385 | 83,011 |
| | 21 Dec 23 | 30 Jun 24 | 21 Dec 26 | \$0.0792 | \$0.0371 | 158,653 |
| | 21 Dec 23 | 30 Jun 25 | 21 Dec 26 | \$0.0792 | \$0.0371 | 158,653 |
| | 21 Dec 23 | 30 Jun 26 | 21 Dec 26 | \$0.0792 | \$0.0371 | 158,653 |

* Subject to continued employment with the Company on the date of vesting.

Options classes AR9O15, 16, 17, 18 are granted to the executive directors and key management personnel and staff as part of a retention strategy. The options are issued based on the discretion of Non-Executive Directors which is reviewed annually, and are not part of the executive directors and key management personnel remuneration packages. The options vest annually on the 30th of June based on continued engagement. The options are exercisable by the holder from the vesting date. If the holder ceases to be engaged by the Company, vested options will lapse six months after cessation of engagement. Unvested options will lapse immediately upon cessation of engagement.

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.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Share-based compensation (continued)

Share holding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, 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 | 2,586,925 | - | - | - | 2,586,925 |
| Leanne Graham | 1,011,569 | - | - | - | 1,011,569 |
| Executive Directors | | | | | |
| Daniel Lai | 9,834,086 | 316,676 | - | - | 10,150,762 |
| Key Management Personnel | | | | | |
| Kurt Mueffelmann | 18,262,456 | 249,032 | - | - | 18,511,488 |
| Robert Andrew Burns | 91,735 | - | - | - | 91,735 |

Option & performance rights holding

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

| | Opening Balance | Granted | Exercised/ Vested | Expired/ Forfeited | Closing Balance |
|---------------------------------|--------------------|--------------------------|----------------------|-----------------------|--------------------|
| Non-Executive Directors | | | | | |
| Miles Jakeman AM | 1,476,190 | - | - | - | 1,476,190 |
| Leanne Graham | 875,659 | - | - | - | 875,659 |
| Executive Directors | | | | | |
| Daniel Lai | 1,493,389 | 2,272,037 ^{1,2} | 210,084 | 954,174 | 2,601,168 |
| Key Management Personnel | | | | | |
| Kurt Mueffelmann | 1,656,722 | 2,855,753 ² | 249,032 | 996,132 | 3,297,311 |

¹ 1,893,364 Performance Rights and 378,673 Tenure Options were issued to Lai under the Company's Employee Incentive Plan (adopted at the Company's Annual General Meeting under listing rule 10.14 held on 23 November 2023).

² A summary of the vesting conditions attached to these securities is set out in Note 24.

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 29 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 29 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 issued by the Accounting Professional and Ethical Standards (APES) Board set out in APES 110 Code of Ethics for Professional Accountants, 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.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Corporate Governance

The Company's 2024 Corporate Governance Statement is contained in the 'Corporate Governance' section of the Company's website at <https://www.archtis.com/archtis-asx-ar9-investor-relations/>.

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 69.

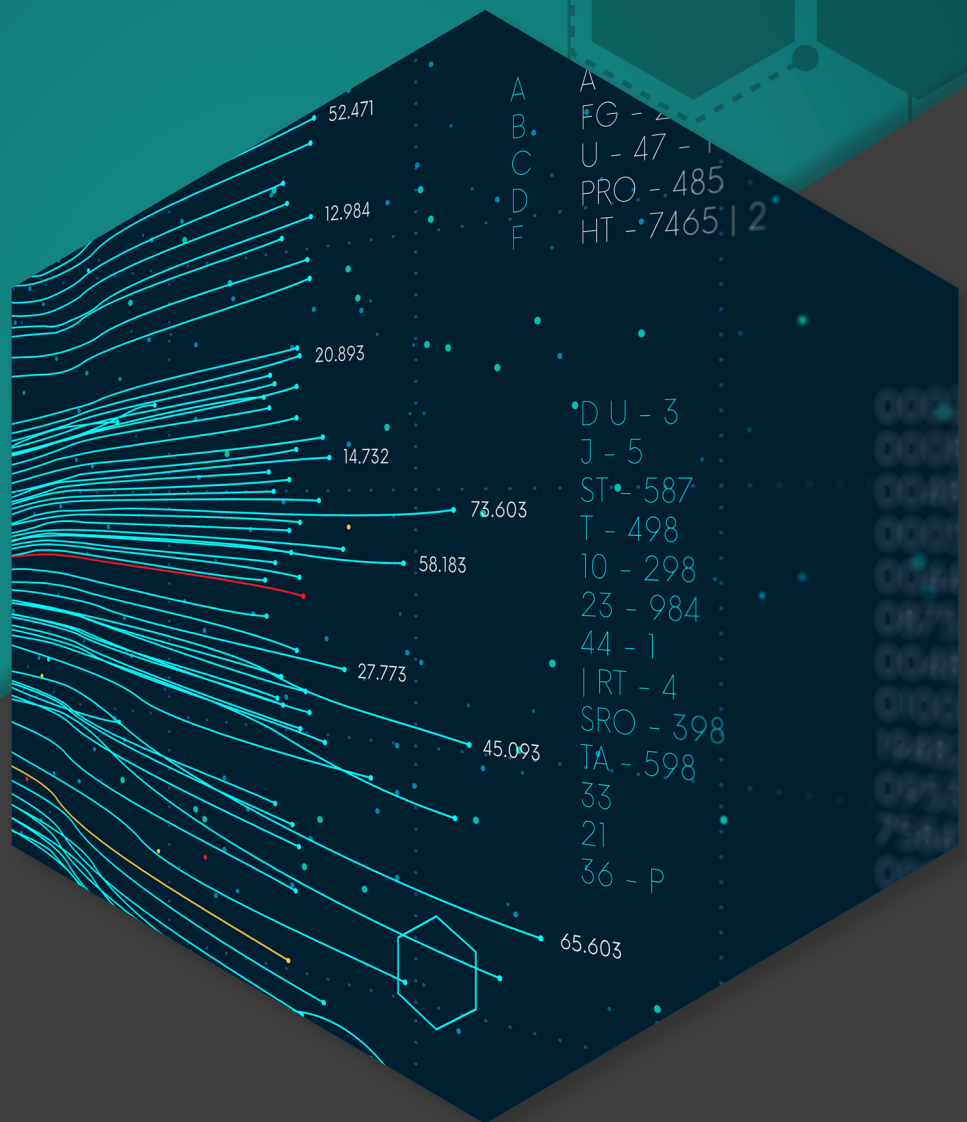
This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors,



Miles Jakeman AM
Chairman

29 August 2024
Canberra, ACT



archTIS

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2024

| | | 2024 | 2023 |
|------------------------------------------------|------|--------------------|--------------------|
| | Note | \$ | \$ |
| Revenue | 3(a) | 9,799,517 | 6,367,123 |
| Cost of sales | | (3,951,346) | (3,102,642) |
| Gross Profit | | 5,848,171 | 3,264,481 |
| Other income | 3(b) | 1,928,702 | 2,455,468 |
| Sales and marketing | 5 | (1,629,781) | (3,824,276) |
| General administration | 5 | (10,755,986) | (10,439,180) |
| Loss before income tax | | (4,608,894) | (8,543,507) |
| Income tax (expense) / benefit | 6 | 352,918 | 305,552 |
| Other Comprehensive Income | | - | - |
| Total Comprehensive Income for the Year | | (4,255,976) | (8,237,955) |
| Earnings per share | | Cents | Cents |
| Basic earnings per share | 35 | (1.49) | (2.99) |
| Diluted earnings per share | 35 | (1.49) | (2.99) |

The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2024

| | Note | 2024 \$ | 2023 \$ |
|------------------------------------------------|------|-------------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 2,916,097 | 3,245,108 |
| Trade and other receivables | 8 | 413,516 | 4,289,228 |
| Other current assets | 9 | 2,285,337 | 3,688,316 |
| Provision for income tax | | 16,174 | 16,145 |
| Total current assets | | 5,631,124 | 11,238,797 |
| Non-current assets | | | |
| Other non-current assets | 10 | 36,971 | 67,501 |
| Property, plant and equipment | 11 | 106,929 | 152,773 |
| Intangible assets | 12 | 10,732,837 | 12,701,443 |
| Right of use asset | 13 | 107,661 | 714,675 |
| Total non-current assets | | 10,984,398 | 13,636,392 |
| Total assets | | 16,615,522 | 24,875,189 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 802,305 | 2,264,880 |
| Employee benefits | 15 | 301,377 | 346,490 |
| Provisions | 16 | 680,651 | 339,314 |
| Other current liabilities | 17 | 461,984 | 642,900 |
| Contract liabilities | 17 | 2,517,719 | 5,142,015 |
| Lease liability | 18 | 166,588 | 181,616 |
| Borrowings | 19 | 1,000 | 1,000 |
| Total current liabilities | | 4,931,624 | 8,918,215 |
| Non-current liabilities | | | |
| Employee benefits | 15 | 133,331 | 176,231 |
| Provisions | 16 | - | 78,309 |
| Contract liabilities | 20 | 529,539 | 705,305 |
| Deferred tax and other | 21 | 578,700 | 963,627 |
| Lease liability | 18 | - | 597,742 |
| Borrowings | 19 | 1,000,000 | - |
| Total non-current liabilities | | 2,241,570 | 2,521,214 |
| Total liabilities | | 7,173,194 | 11,439,429 |
| NET ASSETS | | 9,442,328 | 13,435,760 |
| EQUITY | | | |
| Issued capital | 22 | 43,407,980 | 43,276,195 |
| Reserves | 23 | 1,672,786 | 1,542,027 |
| Retained profits (accumulated losses) | 25 | (35,638,438) | (31,382,462) |
| TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS | | 9,442,328 | 13,435,760 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2024

| Consolidated | Note | Issued capital | Reserves | Retained profits | Total equity |
|--------------------------------------------------------------|-----------------|-------------------|------------------|---------------------|-------------------|
| | | \$ | \$ | \$ | \$ |
| Balance at 1 July 2023 | | 43,276,195 | 1,542,027 | (31,382,462) | 13,435,760 |
| Total comprehensive income for the year | | - | - | (4,255,976) | (4,255,976) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Issue of share capital | 22 | - | - | - | - |
| Exercise of options | 22 | - | - | - | - |
| Vesting of performance rights | 22 | 134,009 | (134,009) | - | - |
| Capital raise and establishment costs | 22 | (2,224) | - | - | (2,224) |
| Foreign exchange reserve | 23 | - | 20,599 | - | 20,599 |
| Share-based payments | 23 | - | 244,169 | - | 244,169 |
| Balance at 30 June 2024 | 22,23,25 | 43,407,980 | 1,672,786 | (35,638,438) | 9,442,328 |
| Balance at 1 July 2022 | | 41,099,800 | 1,248,014 | (23,144,507) | 19,203,307 |
| Total comprehensive income for the year | | - | - | (8,237,955) | (8,237,955) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Issue of share capital | 22 | 2,300,802 | - | - | 2,300,802 |
| Exercise of options | 22 | 61,740 | (19,740) | - | 42,000 |
| Vesting of performance rights | 22 | 73,472 | (73,472) | - | - |
| Capital raise fees | 22 | (259,619) | - | - | (259,619) |
| Foreign exchange reserve | 23 | - | 174,832 | - | 174,832 |
| Share-based payments | 23 | - | 212,393 | - | 212,393 |
| Balance at 30 June 2023 | 22,23,25 | 43,276,195 | 1,542,027 | (31,382,462) | 13,435,760 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2024

| | Note | 2024 \$ | 2023 \$ |
|---------------------------------------------------------------|------|-------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 12,081,835 | 7,648,865 |
| Payments to suppliers and employees | | (12,619,575) | (12,265,304) |
| Receipts from R&D tax incentive | | 2,117,769 | 1,785,442 |
| Government grants & incentives | | 36,600 | 72,600 |
| Interest received | | 92,594 | 48,102 |
| Interest paid Lease | | (37,848) | (56,883) |
| Interest Paid Other | | (8,679) | (7,229) |
| Income tax paid | | (26,324) | (17,380) |
| Net cash provided by / (used in) operating activities | 34 | <u>1,636,372</u> | <u>(2,791,787)</u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | - | 72,426 |
| Purchase of property, plant and equipment | | - | (112,503) |
| Purchase of intangibles | 12 | (2,739,360) | (2,164,120) |
| Payment for purchase of business, net of cash acquired | | - | - |
| Net cash provided by / (used in) investing activities | | <u>(2,739,360)</u> | <u>(2,204,197)</u> |
| Cash flows from financing activities | | | |
| Proceeds / (repayment) of borrowings | | 1,000,000 | 1,000 |
| Proceeds from issue of shares | | - | 2,242,802 |
| Costs of capital raise | | (2,224) | (249,157) |
| Repayments under leases | | (224,416) | (263,289) |
| Net cash provided by / (used in) financing activities | | <u>773,360</u> | <u>1,731,356</u> |
| Net increase / (decrease) in cash held | | (329,628) | (3,264,628) |
| Cash and cash equivalents at beginning of period | | 3,245,108 | 6,520,536 |
| Effects of exchange rate changes on cash and cash equivalents | | 617 | (10,801) |
| Cash and cash equivalents at end of period | 7 | <u><u>2,916,097</u></u> | <u><u>3,245,107</u></u> |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2024

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 entity incurred a loss after tax of \$4,255,976, (2023: \$8,237,955) and had net movement in cash of (\$329,628), compared to (2023: \$3,264,628). 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 Company is currently exploring sales opportunities with various potential customers across the Government and Private sectors;
 - The Company has \$999,000 in unused bank loan facilities.
 - The Company has the ability to issue additional equity securities to raise further working capital by way of capital raising
- The Company has the ability to further curtail administrative, marketing and overhead cash outflows if required

(b) New or amended Accounting Standards and Interpretations adopted

The consolidated entity 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.

(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 financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, 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 consolidated entity'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 consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

(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 2024 and the results of all subsidiaries for the year then ended. archTIS Limited and its subsidiaries together are referred to in these financial statements the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity 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 consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. 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 consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity 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 consolidated entity 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2024

Note 1. Significant Accounting Policies

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 when the foreign operation or net investment is disposed of.

(g) Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: 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.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

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) Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(i) 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.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2024

Note 1. Significant Accounting Policies

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.

(j) 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 consolidated entity'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 consolidated entity'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.

(k) 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.

(l) 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 allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

(m) 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. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and

supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

(n) Property, plant and equipment

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 over their expected useful lives as follows:

| Leasehold improvements | Term of lease |
|------------------------------|---------------|
| Office furniture & equipment | 2-5 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 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 consolidated entity. 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.

(o) Right-of-use assets

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2024

Note 1. Significant Accounting Policies

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 remeasurement 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.

(p) 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 consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Research and development tax incentive

The Research and Development Tax Incentive (RDTI) is a refundable tax offset that is calculated as 43.5% of the eligible research and development expenditure that has been incurred by the consolidated entity. 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 consolidated entity 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 consolidated entity recognises 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.

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.

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 between 3 to 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 between 3 to 5 years.

(q) 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 (CGU) to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a CGU.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity 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.

(s) Lease liabilities

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2024

Note 1. Significant Accounting Policies

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.

(t) 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.

(u) 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.

(v) Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity 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.

(w) 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 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.

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 either the Binomial or Black-Scholes 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 consolidated entity 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.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2024

Note 1. Significant Accounting Policies

value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity 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.

(x) 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.

(y) 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.

(z) Dividends

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

(aa) 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.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

(bb) 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.

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

Revenues, expenses and assets are recognised net of the amount of associated

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2024

Note 1. Significant Accounting Policies

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.

(dd) 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 2024. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations

(ee) Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2024

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.

Revenue from contracts with customers involving sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Share-based payment transactions

The consolidated entity 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 either 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. Refer to note 24 for further information.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The consolidated entity 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 CGU 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. Refer to note 12 for further information.

Income tax

The consolidated entity 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 consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity'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 consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

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 present value of 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 3. Revenue

| | Consolidated | |
|-------------------------------------------|------------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| (a) Revenue from contracts with customers | | |
| Licensing | 4,996,167 | 3,171,060 |
| Services | 4,785,375 | 2,777,174 |
| Equipment | 17,975 | 418,889 |
| | 9,799,517 | 6,367,123 |
| (b) Other income | | |
| Government grants (i) | 1,822,271 | 2,336,272 |
| Interest income | 92,594 | 48,102 |
| Other income (ii) | 13,837 | 71,094 |
| | 1,928,702 | 2,455,468 |

(i) Government grants mainly comprise research & development tax incentives and also include an amount for export market development grant.

(ii) Other income relates to reimbursed travel expenses and insurance proceeds (year ending 30 June 2023) relating to a property damage claim at the Canberra head office net of the written down value of property, plant & equipment disposed.

Licensing

Licensing revenue represents recurring revenue from archTIS solutions developed, customised and maintained for customers including Kojensi and, NC Protect, delivered to Australian and international customers. Licensing revenue is recognised on straight-line basis over the licensing period.

Services

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

Note 4: Operating segments

Identification of reportable operating segments

The consolidated entity operates under a single operating segment selling software and services relating to information management, sharing and collaboration. The internal report for the segment is reviewed and used by the executive team (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Major customers

During the year ended 30 June 2024 approximately \$5,297,000 (2023: \$3,760,000) of the consolidated entity's external revenue was derived from sales to the Australian government.

Geographical information

Segment information by geographical regions is not available, and the cost to develop this information would be excessive.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 5. Expenses

| | Consolidated | |
|----------------------------------------------|------------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| (a) Employee benefits | | |
| Salaries and wages | 5,361,957 | 6,401,127 |
| Superannuation | 490,043 | 541,439 |
| Other employee benefits | 992,487 | 722,514 |
| Share-based payments | 244,169 | 212,393 |
| less: capitalised to software development | (2,107,656) | (2,164,120) |
| | 4,981,000 | 5,713,353 |
| (b) Depreciation and amortisation | | |
| Depreciation - property, plant and equipment | 45,845 | 45,873 |
| Depreciation – right of use asset | 180,812 | 237,054 |
| Amortisation - intangibles | 4,599,559 | 4,423,865 |
| | 4,826,216 | 4,706,792 |
| (c) Finance costs | | |
| Interest and finance charges paid | 46,527 | 64,112 |
| | 46,527 | 64,112 |
| (d) Contractors | | |
| Payments to contractors | 1,344,806 | 1,550,615 |
| less: capitalised to software development | (631,704) | - |
| | 713,102 | 1,550,615 |
| (e) Hosting charges | | |
| Hosting charges | 319,411 | 408,502 |
| | 319,411 | 408,502 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 6. Income tax expense

| | Note | Consolidated | |
|--------------------------------------------------------------------------------------|------|--------------------|--------------------|
| | | 2024 \$ | 2023 \$ |
| Income tax expense | | | |
| Deferred tax | | (384,927) | (313,859) |
| Foreign exchange movement | | 32,009 | 7,401 |
| Current tax | | - | 906 |
| Income tax expense / (income) | | (352,918) | (305,552) |
| | | | |
| Loss before income tax | | (4,608,894) | (8,543,507) |
| | | | |
| Tax at the statutory rate of 25% - Australia | | (830,324) | (1,669,712) |
| Tax at the statutory rate of 21% (22.83% prior year) – USA | | (265,131) | (317,019) |
| Tax at the statutory rate of 19% – UK | | (2,878) | (62,924) |
| Tax at the statutory rate of 15.8% – Germany | | (1,568) | 906 |
| Total tax at the statutory rate | | (1,099,901) | (2,048,748) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | | |
| Entertainment expenses | | 2,074 | 2,376 |
| Share-based payments | | 60,622 | 53,098 |
| Research & development expenditure | | 460,719 | 708,068 |
| Intangible amortisation - internally generated | | 543,244 | 514,584 |
| | | | |
| Income from research & development incentives | | (455,418) | (565,918) |
| Other | | 419 | 234 |
| Sub-total | | 611,661 | 712,441 |
| | | | |
| Current year deferred tax not recognised | | 135,322 | 1,030,755 |
| Deferred tax asset derecognised | | - | - |
| | | 135,322 | 1,030,755 |
| | | | |
| Income tax expense / (income) | | (352,918) | (305,552) |

A net deferred tax asset of \$5,395,356 (\$4,982,999 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 7. Cash and cash equivalents

| | Consolidated | |
|----------------------------------|------------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Cash and cash equivalents | | |
| Cash at bank | 1,718,536 | 2,927,378 |
| Cash on deposit | 1,197,562 | 317,730 |
| | 2,916,097 | 3,245,108 |

Note 8. Trade and other receivables

| | Consolidated | |
|--------------------------------------------|----------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Trade receivables | 406,569 | 4,249,660 |
| less: Allowance for expected credit losses | - | - |
| | 406,569 | 4,249,660 |
| Other receivables | 6,947 | 39,568 |
| | 413,516 | 4,289,228 |

Allowance for expected credit losses

The consolidated entity has no credit risk exposure as at 30 June 2024. The consolidated entity reviewed all outstanding receivables greater than 90 days as at 30 June 2024, determined that the balances were recoverable, and accordingly no expected credit loss provision was raised (2023: Nil).

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

| | 2024 | 2024 |
|----------------------|-----------------|-----------------|
| | Carrying amount | Allowance for |
| | \$ | expected credit |
| | | losses |
| | | \$ |
| Not yet due | 284,536 | - |
| 0 - 3 months overdue | 110,409 | - |
| 3 - 6 months overdue | - | - |
| 6+ months overdue | 11,624 | - |
| | 406,569 | - |

Note 9. Other current assets

| | Consolidated | |
|--------------------------------------|------------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Prepayments & deposits | 313,980 | 1,187,304 |
| Accrued income | - | 302,075 |
| Research & development tax incentive | 1,876,207 | 2,080,725 |
| Capitalised commissions | 95,150 | 118,212 |
| | 2,285,337 | 3,688,316 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 10. Other non-current assets

| | Consolidated | |
|-------------------------|---------------|---------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Capitalised commissions | 36,971 | 67,501 |
| | 36,971 | 67,501 |

Note 11. Property, plant & equipment

| | Consolidated | |
|----------------------------------|----------------|----------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Leasehold improvements - at cost | 85,512 | 85,512 |
| less: accumulated depreciation | (14,258) | (2,041) |
| | 71,255 | 83,471 |
| Computer equipment - at cost | 259,037 | 259,037 |
| less: accumulated depreciation | (240,797) | (212,035) |
| | 18,241 | 47,002 |
| Office equipment - at cost | 56,670 | 56,670 |
| less: accumulated depreciation | (39,237) | (34,370) |
| | 17,433 | 22,300 |
| | 106,929 | 152,773 |

Reconciliations

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

| | Leasehold improvements | Computer equipment | Office equipment | Total |
|--------------------------------|------------------------|--------------------|------------------|----------------|
| | \$ | \$ | \$ | \$ |
| Balance at 1 July 2022 | - | 68,723 | 22,312 | 91,035 |
| Additions | 85,512 | 20,708 | 6,283 | 112,503 |
| Disposals | - | (4,220) | (672) | (4,892) |
| Depreciation | (2,041) | (38,209) | (5,623) | (45,873) |
| Balance at 30 June 2023 | 83,471 | 47,002 | 22,300 | 152,773 |
| Balance at 1 July 2023 | 83,471 | 47,002 | 22,300 | 152,773 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| Depreciation | (12,216) | (28,762) | (4,867) | (45,843) |
| Balance at 30 June 2024 | 71,255 | 18,241 | 17,433 | 106,929 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 12. Intangible assets

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.

Intangible assets recognised

The main intangible assets recognised during the financial period were for internally generated computer software and technology/ in-progress development.

Internally-generated software

Internally-generated software development costs qualify for capitalisation when the consolidated entity 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 their 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 internally-generated software development assets have a useful life of five years and are amortised on a straight-line basis commencing from the time the assets are held ready for use. Costs are incurred after the general release of internally generated software or costs which are incurred 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.

Development in progress

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 consolidated entity 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 2024

Note 12. Intangible assets (continued)

Customer contracts

Customer contracts represent those acquired as part of the acquisition of Nucleus Cyber Inc and the software division of Cipherpoint Limited in prior periods. Customer contracts are amortised over 3-5 years.

Software

Software acquired represents those acquired as part of the acquisition of Nucleus Cyber Inc and the software division of Cipherpoint Limited. Software is amortised over the useful lives of 3-5 years.

Goodwill

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.

| | Internally generated software | Development in progress | Customer contracts | Software | Goodwill | Total |
|--------------------------------------------------------------|-------------------------------------|----------------------------|-----------------------|--------------------|------------------|---------------------|
| 2024 | | | | | | |
| Cost | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening balance at 1 July 2023 | 10,460,101 | 3,682,380 | 2,117,679 | 8,782,988 | 2,789,524 | 27,832,672 |
| Commercialisation of development to software | 1,381,601 | (1,381,601) | - | - | - | - |
| Additions | - | 2,739,360 | - | - | - | 2,739,360 |
| Impairment | - | - | - | - | - | - |
| Effect of foreign exchange translation | - | - | 1,766 | 6,547 | - | 8,313 |
| Closing balance at 30 June 2024 | 11,841,701 | 5,040,140 | 2,119,445 | 8,789,535 | 2,789,524 | 30,580,345 |
| Accumulated amortisation | | | | | | |
| Opening balance at 1 July 2023 | (6,003,302) | - | (1,072,832) | (4,521,107) | - | (11,597,240) |
| Amortisation | (2,172,978) | - | (449,467) | (1,977,115) | - | (4,599,559) |
| Impairment | - | - | - | - | - | - |
| Effect of foreign exchange translation | - | - | 2,307 | 8,553 | - | 10,860 |
| Closing balance at 30 June 2024 | (8,176,279) | - | (1,519,991) | (6,489,669) | - | (16,185,939) |
| Deferred research & development tax incentive | | | | | | |
| Opening balance at 1 July 2023 | (1,932,152) | (1,601,837) | - | - | - | (3,533,989) |
| Additions | - | (1,074,555) | - | - | - | (1,074,555) |
| Re-classification | (600,997) | 600,997 | - | - | - | - |
| Recognised in income | 946,975 | - | - | - | - | 946,975 |
| Closing balance at 30 June 2024 | (1,586,174) | (2,075,395) | - | - | - | (3,661,569) |
| Net book value | 2,079,248 | 2,964,745 | 599,454 | 2,299,866 | 2,789,524 | 10,732,837 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 12. Intangible assets (continued)

| | Internally generated software \$ | Development in progress \$ | Customer contracts \$ | Software \$ | Goodwill \$ | Total \$ |
|--------------------------------------------------------------|-------------------------------------------|----------------------------------|-----------------------------|--------------------|------------------|---------------------|
| 2023 | | | | | | |
| <i>Cost</i> | | | | | | |
| Balance at 1 July 2022 | 8,245,624 | 3,732,736 | 2,044,823 | 8,514,291 | 2,789,524 | 25,326,998 |
| Commercialisation of development to software | 2,214,477 | (2,214,477) | - | - | - | - |
| Additions | - | 2,164,121 | - | - | - | 2,164,121 |
| Effect of foreign exchange translation | - | - | 72,856 | 268,697 | - | 341,553 |
| Balance at 30 June 2023 | 10,460,101 | 3,682,380 | 2,117,679 | 8,782,988 | 2,789,524 | 27,832,672 |
| <i>Accumulated amortisation</i> | | | | | | |
| Balance at 1 July 2022 | (3,944,967) | - | (706,414) | (2,397,136) | - | (7,048,517) |
| Amortisation | (2,058,335) | - | (338,697) | (2,026,833) | - | (4,423,865) |
| Impairment | - | - | - | - | - | - |
| Effect of foreign exchange translation | - | - | (27,720) | (97,138) | - | (124,858) |
| Balance at 30 June 2023 | (6,003,302) | - | (1,072,831) | (4,521,107) | - | (11,597,240) |
| <i>Deferred research & development tax incentive</i> | | | | | | |
| Balance at 1 July 2022 | (1,959,318) | (1,623,740) | - | - | - | (3,583,058) |
| Additions | - | (941,394) | - | - | - | (941,394) |
| Re-classification | (963,297) | 963,297 | - | - | - | - |
| Recognised in income | 990,463 | - | - | - | - | 990,463 |
| Balance at 30 June 2023 | (1,932,152) | (1,601,837) | - | - | - | (3,533,989) |
| Net book value at 30 June 2023 | 2,524,647 | 2,080,543 | 1,044,848 | 4,261,881 | 2,789,524 | 12,701,443 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 12. Intangible assets (continued)

For impairment assessment purposes, assets are grouped at the lowest level at which independent cash inflows are generated, referred to as CGUs. Consistent with Note 4 Operating Segments It has been determined that archTIS LTD operates as a single CGU. This conclusion is based on the company's centralized management structure, and product development processes, the business operates a geographically dispersed sales model which is not consider an independent CGU.

The recoverable amount of the consolidated entity'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 CGU is most sensitive.

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

- 13.125% 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 has performed a thorough line-by-line review of the current sales pipeline to estimate of sales, projected sales through current and new reseller partners, and estimated increase in users with existing customers;
- Annual retention (renewals) rate of 100% for named strategic licence accounts over the 5 year term, 75% for all other licencing;
- Implementation services revenue is estimated based on 25% of enterprise licence revenue;
- Staffing costs are projected to increase by 15% of total revenue;
- 4-20% per annum increase in operating costs and overheads; and,
- Terminal EBITDA Multiple of 4X.

These assumptions were applied consistently to the consolidated group, which has been determined to be the lowest level of CGU.

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 13. Right-of-use asset

| | Consolidated | |
|-----------------------|----------------|----------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Balance as at 1 July | 714,675 | 951,729 |
| Additions | - | - |
| Lease modifications | (426,202) | - |
| Depreciation | (180,812) | (237,054) |
| Balance as at 30 June | 107,661 | 714,675 |

The right-of-use asset represents the lease of the Canberra head office which has a remaining lease term of 9 months with an option to extend after this period. The lease of a Melbourne regional office was terminated during the period.

Note 14. Trade and other payables

| | Consolidated | |
|----------------|----------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Trade payables | 677,148 | 1,852,816 |
| Other payables | 125,157 | 412,065 |
| | 802,305 | 2,264,881 |

Note 15. Employee benefits

| | Consolidated | |
|----------------------------------|----------------|----------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Current | | |
| Provision for annual leave | 258,347 | 312,662 |
| Provision for long service leave | 43,030 | 33,828 |
| | 301,377 | 346,490 |
| Non-current | | |
| Provision for long service leave | 133,331 | 176,231 |
| | 133,331 | 176,231 |
| | 434,708 | 522,721 |

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the consolidated entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long-term employee benefits

The consolidated entity's net obligation in relation to long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is calculated using expected future increases in salaries including related on-costs and expected settlement dates and is discounted to present value at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 16. Provisions

| | Consolidated | |
|------------------------------------|----------------|----------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Current | | |
| Lease make good | 79,651 | - |
| Provision for Short term incentive | 601,000 | 339,314 |
| | 601,000 | 339,314 |
| Non-current | | |
| Lease make good | - | 78,309 |
| | - | 78,309 |
| | 680,651 | 417,623 |

Recognition and measurement

A provision is recognised when the consolidated entity has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of resources will be required to settle the obligation. The provision is calculated by discounting the expected future cash flows.

Lease make good

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

Note 17. Other current liabilities

| | Consolidated | |
|------------------|------------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Accrued expenses | 461,984 | 642,900 |
| Deferred revenue | 2,517,719 | 5,142,015 |
| | 2,979,703 | 5,784,915 |

Note 18. Lease liabilities

| | Consolidated | |
|-----------------------|----------------|----------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Balance as at 1 July | 779,357 | 985,763 |
| Additions | - | - |
| Lease modifications | (426,202) | - |
| Interest | 37,848 | 56,883 |
| Payments made | (224,416) | (263,288) |
| Balance as at 30 June | 166,588 | 779,358 |
| Current | 166,588 | 181,616 |
| Non-current | - | 597,742 |
| | 166,588 | 779,358 |

The expected gross cash outflows for the lease over the next 12 months is \$198,230, noting the lease expires at the end of March 2025. The short-term lease expense for the year amounts to \$47,055 (FY23 nil).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 19. Borrowings

| | Consolidated | |
|-----------|------------------|--------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Bank loan | 1,001,000 | 1,000 |
| | 1,001,000 | 1,000 |

Total secured liabilities

The total secured liabilities are as follows:

| | Consolidated | |
|--------------------|------------------|--------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Current | | |
| Bank loan | 1,000 | 1,000 |
| Non-current | | |
| Bank loan | 1,000,000 | - |
| | 1,001,000 | 1,000 |

Assets pledged as security

The bank loan is secured by a term deposit of \$240,504 (2023: \$214,500) held with the bank.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | |
|---------------------------------|------------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Total facilities | | |
| Bank loan | 2,000,000 | 1,500,000 |
| | 2,000,000 | 1,500,000 |
| Used at reporting date | | |
| Bank loan | 1,001,000 | 1,000 |
| | 1,001,000 | 1,000 |
| Unused at reporting date | | |
| Bank loan | 999,000 | 1,499,000 |
| | 999,000 | 1,499,000 |

Note 20. Other non-current liabilities

| | Consolidated | |
|------------------|----------------|----------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Deferred revenue | 529,539 | 705,305 |
| | 529,539 | 705,305 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Opening balance | Credited / (charged) to profit or loss | Balance recognised on acquisition | Changes in tax rates | Closing balance |
|---------------------------------------------|--------------------|-------------------------------------------------|--------------------------------------------|----------------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ |
| 2024 | | | | | |
| <i>Deferred tax asset on:</i> | | | | | |
| Accrued income & prepayments | - | - | - | - | - |
| Property, plant & equipment | - | - | - | - | - |
| Provisions | - | - | - | - | - |
| Costs of raising equity | - | - | - | - | - |
| Accrued expenditure | - | - | - | - | - |
| Lease incentives | - | - | - | - | - |
| Tax losses | - | - | - | - | - |
| Deferred tax asset | - | - | - | - | - |
| <i>Deferred tax liability on:</i> | | | | | |
| Intangible assets | (963,627) | 384,927 | - | - | (578,700) |
| Deferred tax liability | (963,627) | 384,927 | - | - | (578,700) |
| Net deferred tax asset / (liability) | (963,627) | 384,927 | - | - | (578,700) |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 21. Deferred tax assets and liabilities (continued)

| | Opening balance | Credited / (charged) to profit or loss | Balance recognised on acquisition | Changes in tax rates | Closing balance |
|-------------------------------------------------|--------------------|----------------------------------------------|--------------------------------------------|-------------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ |
| 2023 | | | | | |
| <i>Deferred tax asset</i> | | | | | |
| <i>on:</i> | | | | | |
| Accrued income & prepayments | - | - | - | - | - |
| Property, plant & equipment | - | - | - | - | - |
| Provisions | - | - | - | - | - |
| Costs of raising equity | - | - | - | - | - |
| Accrued expenditure | - | - | - | - | - |
| Lease incentives | - | - | - | - | - |
| Tax losses | - | - | - | - | - |
| Deferred tax asset | - | - | - | - | - |
| <i>Deferred tax liability on:</i> | | | | | |
| Intangible assets | (1,224,722) | 261,095 | - | - | (963,627) |
| Deferred tax liability | (1,224,722) | 261,095 | - | - | (963,627) |
| Net deferred tax asset / (liability) | (1,224,722) | 261,095 | - | - | (963,627) |

NOTES TO THE FINANCIAL STATEMENTS

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Note 22. Issued capital

| | | 2024 Shares | Consolidated 2023 Shares | 2024 \$ | 2023 \$ |
|------------------------------------------------|------------------|--------------------|--------------------------------|-------------------|-------------------|
| Ordinary shares - fully paid | | <u>286,624,298</u> | <u>285,580,331</u> | <u>43,407,981</u> | <u>43,276,195</u> |
| <i>Movements in ordinary share capital</i> | | | | | |
| Details | Date | Shares | | Issue price | \$ |
| Balance | 30-Jun-22 | 263,803,207 | | | 41,099,800 |
| Shares released from escrow NC Inc acquisition | 26-Jul-22 | - | - | - | 100,000 |
| Exercise of options | 10-Oct-22 | 420,000 | | \$0.1000 | 61,740 |
| Issue of shares | 9-Dec-22 | 12,857,142 | | \$0.1050 | 1,350,000 |
| Vesting of performance rights | 15-Dec-22 | 201,483 | | - | 70,342 |
| Issue of shares | 23-Dec-22 | 6,674,268 | | \$0.1050 | 700,802 |
| Issue of shares | 23-Feb-23 | 1,428,570 | | \$0.1050 | 150,000 |
| Vesting of performance rights | 22-Jun-23 | 195,661 | | - | 3,130 |
| Share issue transaction costs, net of tax | | - | - | - | (259,619) |
| Balance | 30-Jun-23 | 285,580,331 | | | 43,276,195 |
| Vesting of performance rights | 21-Nov-23 | 106,592 | - | - | 22,917 |
| Vesting of performance rights | 21-Dec-23 | 570,693 | - | - | 56,142 |
| Vesting of performance rights | 15-Jun-24 | 366,682 | - | - | 54,951 |
| Establishment costs, net of tax | | - | - | - | (2,224) |
| Balance | 30-Jun-24 | 286,624,298 | | | 43,407,981 |

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 consolidated entity'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 consolidated entity 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 2024

Note 23. Reserves

| | Consolidated | |
|------------------------------|------------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Share-based payments reserve | 1,086,235 | 976,075 |
| Foreign currency reserve | 586,551 | 565,952 |
| | 1,672,786 | 1,542,027 |

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 and performance rights granted are measured at fair value at the date of the grant, using a Binomial valuation. The valuation of each tranche of options and performance rights granted is expensed on a straight-line basis over the vesting period, subject to performance conditions being met if applicable.

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.

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 2022 | 856,894 | 391,120 | 1,248,014 |
| Share-based payments | 119,181 | - | 119,181 |
| Arising due to translation of financial statements for foreign subsidiaries | - | 174,832 | 174,832 |
| Balance at 30 June 2023 | 976,075 | 565,952 | 1,542,027 |
| Balance at 1 July 2023 | 976,075 | 565,952 | 1,542,027 |
| Share-based payments | 110,160 | - | 110,160 |
| Arising due to translation of financial statements for foreign subsidiaries | - | 20,598 | 20,598 |
| Balance at 30 June 2024 | 1,086,235 | 586,551 | 1,672,785 |

NOTES TO THE FINANCIAL STATEMENTS

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Note 24. Share-based payments

Performance rights

Under the long-term incentive plan, performance rights are offered to participants which entitle the holder to ordinary shares in the company subject to meeting certain financial performance hurdles and the holder remaining in employment with the company until the nominated vesting date.

The performance hurdles in relation to performance rights granted in the 2024 financial year are subject to financial performance conditions which measure growth in revenue, annual recurring revenue, gross margin and cashflow. The performance hurdles are challenging but achievable and focus executives on sales growth consistent with shareholder wealth creation.

The long-term incentive plan runs over a two-year performance period and the rights will only vest if the performance hurdles are achieved. If the vesting conditions and performance hurdles are achieved, ordinary shares will be issued to the participants at no cost. If the performance hurdles are not met, then the rights lapse.

For performance rights granted to executives for the 2024 financial year, the vesting proportions based on the performance hurdles outlined in the Notice of Annual General Meeting announced 24 October 2023 (Resolution 4) are outlined in the table below.

FY2024

| Financial performance conditions for the financial period | Proportion of performance rights to vest if target is met or exceeded |
|-----------------------------------------------------------|-----------------------------------------------------------------------|
| Positive Cashflow | 30% |
| Annual recurring revenue | 30% |
| Consolidated Group Revenue | 20% |
| Gross Margin | 20% |

- * Subject to the holder remaining an 'Eligible Participant' under the Company's Employee Incentive Plan as at:
- 15 December 2025, at which point 50% of performance rights that have previously met the relevant performance milestone will vest; and
 - 15 June 2026, at which point the balance of the performance rights that have previously met the relevant performance milestone will vest.

FY2023

| Revenue for the financial period | Proportion of performance rights to vest if revenue hurdle is met* |
|---------------------------------------------------|-------------------------------------------------------------------------------------|
| Less than 75% of target | 0% |
| Between 75% - 100% of target | Straight line vesting between 0% and 40% |
| Greater than 100% of target | 40% |
| Annual recurring revenue for the financial period | Proportion of performance rights to vest if annual recurring revenue hurdle is met* |
| Less than 75% of target | 0% |
| Between 75% - 100% of target | Straight line vesting between 0% and 40% |
| Greater than 100% of target | 40% |
| Operating costs for the financial period | Proportion of performance rights to vest if operating costs hurdle is met* |
| Greater than 125% of target | 0% |
| Between 100% - 125% of target | Straight line vesting between 0% and 20% |
| Less than 100% of target | 20% |

- * Subject to the holder remaining an 'Eligible Participant' under the Company's Employee Incentive Plan as at:
- 15 December 2024, at which point 50% of performance rights that have previously met the relevant performance milestone will vest; and
 - 15 June 2025, at which point the balance of the performance rights that have previously met the relevant performance milestone will vest.

The Incentive Performance Rights expire two years after the grant date.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 24. Share-based payments (continued)

Tenure options

Under the long-term incentive plan, tenure options are offered to participants which entitle the holder to purchase ordinary shares in the company subject to remaining in employment with the company until the nominated vesting dates.

The long-term incentive plan runs over a three-year performance period. If the vesting conditions are achieved, the employee can exercise the vested options. Outstanding tenure options include:

AR9015 which expire on 6 March 2026 with and exercise price of \$0.1428 per option.

AR9016,17 and 18 which expire on 21 December 2026 with and exercise price of \$0.0792 per option.

Recognition and measurement

The grant date fair value of performance rights granted to employees is recognised as an employee benefits expense, with a corresponding increase in equity (share-based payment reserve), over the specified two-year period that the performance rights vest. The amount recognised as an expense is adjusted to reflect the actual number of performance rights for which the related service and performance hurdles are met, such that the amount ultimately recognised as an expense is based on the number of performance rights that meet the related service and performance conditions at the vesting date.

The grant date fair value of tenure options granted to employees is recognised as an employee benefits expense, with a corresponding increase in equity (share-based payment reserve), over the specified three-year period that the tenure options vest. The amount recognised as an expense is adjusted to reflect the actual number of tenure options for which the related employment service conditions are met, such that the amount ultimately recognised as an expense is based on the number of tenure options that meet the related service conditions at the vesting date.

Fair value

During the year 10,658,255 performance rights were granted to employees under the Company's Employee Incentive Plan (adopted at the Company's Annual General Meeting on 24 November 2021) (2023: 5,983,333) at a weighted average fair value of \$0.098 (2022: \$0.098). During the year 3,834,433 options were granted to employees under the Company's Employee Incentive Plan (adopted at the Company's Annual General Meeting on 24 November 2021) (2023: 2,089,402) at a weighted average fair value of \$0.038 (2022: \$0.038).

The amount recognised as employee benefits (Note 5(a)) in the current financial year for share-based payment transactions was 433,807 (2022: \$212,393).

Number of options / performance rights

| 2024 | Grant date | Expiry date | Exercise price | Balance at beginning of the year | Granted during the year | Vested/ exercised during the year | Forfeited during the year | Balance at end of the year |
|-------------------------|------------|-------------|----------------|----------------------------------|-------------------------|-----------------------------------|---------------------------|----------------------------|
| AR90 listed options | 23/12/2021 | 23/12/2023 | \$0.35 | 10,044,257 | - | - | (10,044,257) | - |
| AR903 | 22/05/2018 | 01/07/2023 | \$0.20 | 800,000 | - | - | (800,000) | - |
| AR907 | 20/11/2019 | 01/07/2023 | \$0.20 | 250,000 | - | - | (250,000) | - |
| AR909 | 30/06/2020 | 01/07/2023 | \$0.10 | 500,000 | - | - | (500,000) | - |
| AR9012 | 24/11/2021 | 24/11/2025 | \$0.316 | 1,750,000 | - | - | - | 1,750,000 |
| AR9013 | 23/12/2022 | 23/12/2025 | \$0.20 | 3,337,102 | - | - | - | 3,337,102 |
| AR9014 | 13/12/2022 | 13/12/2025 | \$0.20 | 8,642,851 | - | - | - | 8,642,851 |
| Performance rights FY22 | 24/11/2021 | 24/11/2023 | - | 106,592 | - | (106,592) | - | - |
| Performance rights FY23 | 6/03/2023 | 06/03/2025 | - | 5,983,333 | - | (937,375) | (5,045,958) | - |
| AR9015 | 6/03/2023 | 06/03/2026 | \$0.1428 | 2,089,402 | - | - | (596,425) | 1,492,977 |
| AR9PR7,8,9 | 21/12/2023 | 21/12/2026 | \$0.099 | - | 10,658,255 | - | (3,678,243) | 6,980,012 |
| AR9016,17,18 | 21/12/2023 | 21/12/2026 | \$0.079 | - | 3,834,433 | - | (1,274,723) | 2,559,710 |
| | | | | 33,503,537 | 14,492,688 | (1,043,967) | (22,133,626) | 24,762,652 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 24. Share-based payments (continued)

Number of options / performance rights (continued)

| 2023 | Grant date | Expiry date | Exercise price | Balance at beginning of the year | Granted during the year | Vested/ exercised during the year | Forfeited during the year | Balance at end of the year |
|-------------------------|------------|-------------|----------------|----------------------------------|-------------------------|-----------------------------------|---------------------------|----------------------------|
| AR90 listed options | 23/12/2021 | 23/12/2023 | \$0.35 | 10,044,257 | - | - | - | 10,044,257 |
| AR901 | 10/10/2017 | 10/10/2022 | \$0.10 | 420,000 | - | (420,000) | - | - |
| AR903 | 22/05/2018 | 01/07/2023 | \$0.20 | 800,000 | - | - | - | 800,000 |
| AR905 | 06/09/2018 | 06/09/2022 | \$0.24 | 1,330,000 | - | - | (1,330,000) | - |
| AR907 | 20/11/2019 | 01/07/2023 | \$0.20 | 250,000 | - | - | - | 250,000 |
| AR908 | 13/02/2020 | 13/02/2023 | \$0.20 | 360,000 | - | - | (360,000) | - |
| AR909 | 30/06/2020 | 01/07/2023 | \$0.10 | 500,000 | - | - | - | 500,000 |
| AR9012 | 24/11/2021 | 24/11/2025 | \$0.316 | 1,750,000 | - | - | - | 1,750,000 |
| AR9013 | 23/12/2022 | 23/12/2025 | \$0.20 | - | 3,337,102 | - | - | 3,337,102 |
| AR9014 | 13/12/2022 | 13/12/2025 | \$0.20 | - | 8,642,851 | - | - | 8,642,851 |
| Performance rights FY22 | 24/11/2021 | 24/11/2023 | - | 3,048,170 | - | (397,144) | (2,544,434) | 106,592 |
| Performance rights FY23 | 6/03/2023 | 06/03/2025 | - | - | 5,983,333 | - | - | 5,983,333 |
| AR9015 | 6/03/2023 | 06/03/2026 | \$0.1428 | - | 2,089,402 | - | - | 2,089,402 |
| | | | | 18,502,427 | 20,052,688 | (817,144) | (4,234,434) | 33,503,537 |

Note 25. Retained profits / (accumulated losses)

| | Consolidated 2024 | 2023 |
|--------------------------------------------------------|----------------------|---------------------|
| | \$ | \$ |
| Retained losses at the beginning of the financial year | (31,382,462) | (23,144,507) |
| Loss after income tax expense for the year | (4,255,976) | (8,237,955) |
| Retained losses at the end of the financial year | (35,638,438) | (31,382,462) |

Note 26. Dividends

Dividends

No dividends were paid or declared during the year.

Franking Credits

| | Consolidated 2024 | 2023 |
|------------------------------------------------------------------------------------|----------------------|---------------|
| | \$ | \$ |
| Franking credits available for subsequent financial years based on tax rate of 26% | 71,533 | 15,549 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 27. Financial instruments

The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity'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 consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange 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 consolidated entity and appropriate procedures, controls and risk limits.

Market risk

Foreign exchange risk

The consolidated entity is not exposed to any significant foreign exchange risk.

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the consolidated entity to interest rate risk. An official increase/decrease in interest rates of 100 basis points would have an adverse/favourable effect on profit before tax of \$10,000 per annum.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit. The consolidated entity 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 consolidated entity 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.

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.

The consolidated entity has no credit risk exposure as at 30 June 2024. The consolidated entity reviewed all outstanding receivables greater than 90 days as at 30 June 2024, determined that the balances were recoverable, and accordingly no expected credit loss provision was raised.

Liquidity risk

Liquidity risk refers to the risk that the consolidated entity maintains sufficient liquid assets to pay debts as and when they become due and payable. The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 27. Financial instruments (continued)

| | 2024 | 2023 |
|---------------------------------------------------------------|------------------|------------------|
| | \$ | \$ |
| Categories of financial instruments | | |
| Financial assets measure at amortised cost | | |
| Cash and cash equivalents | 2,916,097 | 3,245,108 |
| Trade and Receivables | 413,516 | 4,289,228 |
| Research & development tax incentive | 1,876,207 | 2,080,725 |
| Total financial assets at amortised cost | 5,205,820 | 9,615,061 |
| Total financial assets | 5,205,820 | 9,615,061 |
| Financial liabilities measured at amortised cost | | |
| Trade Creditors | 802,305 | 2,264,881 |
| Bank Loan | 1,001,000 | 1,000 |
| Total financial liabilities measured at amortised cost | 1,803,305 | 2,265,881 |
| Total financial liabilities | 1,803,305 | 2,265,881 |

Note 28. Key management personnel disclosures

| | Consolidated | |
|------------------------------|------------------|------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Short term employee benefits | 1,248,001 | 1,269,596 |
| Post-employment benefits | 67,242 | 88,536 |
| Long term benefits | (4,829) | 10,220 |
| Share-based payments | 134,478 | 148,915 |
| Termination Benefits | 64,615 | - |
| | 1,509,508 | 1,517,267 |

Note 29. 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 | |
|---------------------------------------------|----------------|----------------|
| | 2024 | 2023 |
| | \$ | \$ |
| <i>Audit services</i> | | |
| Audit or review of the financial statements | 116,585 | 129,148 |
| <i>Other services</i> | | |
| Research and development tax grant | 75,200 | 67,760 |
| | 75,200 | 67,760 |
| | 195,873 | 196,908 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 30. Commitments

| | Consolidated 2024 \$ | 2023 \$ |
|--------------------------------------------------------------------|----------------------------|---------------|
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities: | | |
| Within one year | 20,252 | 20,252 |
| One to five years | 10,954 | 31,206 |
| | <u>31,206</u> | <u>51,458</u> |

Operating lease commitments includes contracted amounts for office and computer equipment under non-cancellable operating leases expiring within one to five years.

Note 31. Related party transactions

Parent entity

archTIS Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Associates

There are no associates.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

| | 2024 \$ | Consolidated 2023 \$ |
|------------------------------------------------------------------|------------|----------------------------|
| <i>Payments for services from other related parties:</i> | | |
| Payment for Corporate Advisor services from Shop Capital Pty Ltd | - | 17,325 |

| <i>Transactions with subsidiaries</i> | Opening Balance | 2024 Movement | Balance at 30 June 2024 |
|---------------------------------------|------------------|------------------|----------------------------|
| Loan to archTIS US, Inc. | 1,521,871 | (544,823) | 977,048 |
| Loan from Nucleus Cyber Pty Ltd | (88,115) | 4,913 | (83,202) |
| Loan to archTIS UK Limited | 808,805 | 30,620 | 839,424 |
| Loan to archTIS EU GmbH | 57,686 | 873 | 58,560 |
| | <u>2,300,247</u> | <u>(508,417)</u> | <u>1,791,830</u> |
| | Opening Balance | 2023 Movement | Balance at 30 June 2023 |
| Loan to archTIS US, Inc. | 2,417,374 | (895,503) | 1,521,871 |
| Loan from Nucleus Cyber Pty Ltd | (148,328) | 60,213 | (88,115) |
| Loan to archTIS UK Limited | 422,483 | 386,322 | 808,805 |
| Loan to archTIS EU GmbH | 51,825 | 5,861 | 57,686 |
| | <u>2,743,354</u> | <u>(443,107)</u> | <u>2,300,247</u> |

Terms and conditions

All transactions were conducted under standard commercial terms and conditions at prevailing market rates, with related party short-term working facilities provided interest-free.

NOTES TO THE FINANCIAL STATEMENTS

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Note 32. Parent entity information

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

| | Parent | |
|-------------------------------------------------------------------|--------------------|--------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| Statement of profit or loss and other comprehensive income | | |
| Loss after income tax | (3,074,609) | (6,748,570) |
| Total comprehensive income | (3,074,609) | (6,748,570) |
| Statement of financial position | | |
| Total current assets | 5,322,065 | 10,870,050 |
| Total non-current assets | 14,785,412 | 16,115,062 |
| Total assets | 20,107,478 | 26,985,112 |
| Total current liabilities | 5,321,428 | 8,428,999 |
| Total non-current liabilities | 536,363 | 1,431,194 |
| Total liabilities | 5,857,791 | 9,860,193 |
| Net assets | 14,249,687 | 17,124,919 |
| Equity | | |
| Issued capital | 43,407,981 | 43,276,195 |
| Reserves | 1,360,243 | 1,292,652 |
| Retained profits / (accumulated losses) | (30,518,537) | (27,443,928) |
| Total equity | 14,249,687 | 17,124,919 |

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.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2024 and 30 June 2023.

Capital commitments

The parent entity had no capital commitments as at 30 June 2024 and 30 June 2023.

Significant accounting policies

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

Note 33. 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:

| | | Ownership interest | |
|-----------------------|--------------------------|--------------------|------|
| | Country of incorporation | 2024 | 2023 |
| | | % | % |
| archTIS EU s.r.o | Czech Republic | 100% | 100% |
| archTIS US, Inc. | US | 100% | 100% |
| Nucleus Cyber Pty Ltd | Australia | 100% | 100% |
| archTIS UK Limited | UK | 100% | 100% |
| archTIS EU GmbH | Germany | 100% | 100% |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 34. Reconciliation of profit after income tax expense to net cash from operating activities

| | 2024 | Consolidated 2023 |
|-------------------------------------------------------|------------------|----------------------|
| | \$ | \$ |
| Loss after income tax expense for the year | (4,255,976) | (8,237,955) |
| <i>Adjustments for:</i> | | |
| Depreciation and amortisation | 4,826,216 | 4,706,792 |
| Net gain on disposal of assets | - | (71,094) |
| Share-based payments | 244,169 | 212,393 |
| Interest on lease liabilities | 37,848 | 56,883 |
| Other non-cash items | 107,649 | (23,780) |
| Foreign exchange differences | 15,054 | 35,663 |
| <i>Change in operating assets and liabilities:</i> | | |
| (Increase) / decrease in trade and other receivables | 3,875,712 | (1,807,630) |
| (Increase) / decrease in accrued revenue | 302,075 | (158,297) |
| (Increase) / decrease in prepayments | 873,324 | (993,077) |
| (Increase) / decrease in other assets | 53,592 | (25,339) |
| (Increase) / decrease in R&D tax incentive receivable | 204,518 | (477,915) |
| (Increase) / decrease in deferred tax assets | - | - |
| Increase / (decrease) in trade and other payables | (1,462,576) | 1,520,953 |
| Increase / (decrease) in accrued expenses | (180,916) | 93,538 |
| Increase / (decrease) in income taxes payable | 6,529 | (13,994) |
| Increase / (decrease) in employee benefits | (88,013) | (115,562) |
| Increase / (decrease) in provisions | 263,027 | 162,788 |
| Increase / (decrease) in deferred revenue | (2,800,061) | 2,652,783 |
| Increase / (decrease) in deferred tax liabilities | (385,800) | (308,938) |
| Net cash from operating activities | 1,636,372 | (2,791,787) |

Note 35. Earnings per share

| | 2024 | 2023 |
|-------------------------------------------------------------------------------------------|---------------|---------------|
| | \$ | \$ |
| Loss after income tax attributable to the owners | (4,255,976) | (8,237,955) |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 285,959,393 | 275,322,611 |
| <i>Adjustments for calculation of diluted earnings per share:</i> | | |
| Options | 22,227,660 | 20,837,577 |
| Performance rights | 6,527,233 | 2,615,670 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 314,714,286 | 298,775,858 |
| | Cents | Cents |
| Basic earnings per share | (1.49) | (2.99) |
| Diluted earnings per share | (1.49)* | (2.99)* |

*Antidilutive Effect: If basic EPS is negative, adding more shares to the denominator would decrease the loss per share, making the EPS less negative. AASB 133(43) requires the disclosure of diluted EPS to be the same as basic EPS.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2024

Note 36. Matters subsequent to the end of the financial year

No matter or circumstance has arisen since reporting date 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.

Note 37. Consolidated Entity Disclosure Statement as at 30 June 2024

ArchTIS Limited is the Group's Ultimate Parent Company. ArchTIS Limited is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business Level 3, archTIS House, 10 National Circuit, BARTON ACT 2600.

| Entity Name | Entity Type | Country of Incorporation | Ownership Interest | Tax Residency |
|-----------------------|----------------|--------------------------|--------------------|----------------|
| archTIS EU s.r.o | Body Corporate | Czech Republic | 100% | Czech Republic |
| archTIS US, Inc. | Body Corporate | US | 100% | US |
| Nucleus Cyber Pty Ltd | Body Corporate | Australia | 100% | Australia |
| archTIS UK Limited | Body Corporate | UK | 100% | UK |
| archTIS EU GmbH | Body Corporate | Germany | 100% | Germany |

DIRECTORS DECLARATION

30 JUNE 2024

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 consolidated entity's financial position as at 30 June 2024 and of its performance for the financial year ended on that date;
- the consolidated entity disclosure statement required by subsection (3A) is true and correct; in accordance with s295 (4) (da) of the *Corporations Act 2001*; 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

29 August 2024

Canberra

**RSM Australia Partners**

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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 2024, 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

Canberra, Australian Capital Territory
Dated: 29 August 2024

C J HUME
Partner

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AUDIT | TAX | CONSULTING

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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 2024, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, the consolidated entity disclosure statement 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 2024 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 (including independence standards)* (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.

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.

| Capitalisation of assets, including useful lives, amortisation and impairment Refer to Note 12 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(p), 1(q), 2 and 12.</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(p), 1(q), 2 and 12.</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 2024, 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 (other than the consolidated entity disclosure statement) that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001; and
- the consolidated entity disclosure statement that is true and correct in accordance with the *Corporations Act 2001*, and

for such internal control as the directors determine is necessary to enable the preparation of:

- i. the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- ii. the consolidated entity disclosure statement that is true and correct and is free of 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 22 to 28 of the directors' report for the year ended 30 June 2024.

In our opinion, the Remuneration Report of archTIS Limited., for the year ended 30 June 2024, 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



C J HUME
Partner

Canberra, Australian Capital
Territory Dated: 29 August 2024

SHAREHOLDER INFORMATION

29 July 2024

The shareholder information set out below was applicable as at 29 July 2024.

Quotation

Listed securities in archTIS Limited are quoted on the Australian Securities Exchange under ASX code: AR9 (Fully Paid Ordinary Shares), and the OTCQB Venture Market under the symbol: ARHLF (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 shareholders or classes of shareholders each shareholder entitled to vote may vote in person or by proxy, attorney or representative, or, if a determination has been made by the Board, by direct vote; and
- (b) on a show of hands, every person present who is a shareholder (or their proxy, attorney or representative) has one vote (even though they may represent more than one member), and
- (c) on a poll, every person present who is a shareholder, or a proxy, attorney or representative of a shareholder (or where a direct vote has been lodged) shall have one vote for each fully paid ordinary share held.

There are no voting rights attached to any Options or Performance Rights on issue.

Restricted Securities

There are no restricted securities listed on the Company's register as at 29 July 2024.

On market buy-back

There is currently no on market buy back in place.

Distribution of shareholders

i) Fully Paid Ordinary Shares

| Holdings Range | Holders | Units | % |
|-------------------|--------------|--------------------|----------------|
| 1 to 1,000 | 139 | 64,020 | 0.02% |
| 1,001 to 5,000 | 1,329 | 3,578,327 | 1.25% |
| 5,001 to 10,000 | 628 | 4,900,013 | 1.71% |
| 10,001 to 100,000 | 1,343 | 47,351,321 | 16.52% |
| 100,001 and over | 344 | 230,730,617 | 80.50% |
| | 3,783 | 286,624,298 | 100.00% |

On 29 July 2024, there were 1,631 holders of unmarketable parcels of less than 6,173 Shares (based on a share price of \$0.081).

SHAREHOLDER INFORMATION

29 July 2024

ii) AR9012 Unlisted Options exercisable at \$0.316 on or before 24 November 2025

| Holdings 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 | 1,750,000 | 100% |
| | 2 | 1,750,000 | 100% |

Holders who hold more than 20% of the securities in this class are:

- Miles Jakeman – 1,000,000 options
- Cloud Rainmakers Limited – 750,000 options

iii) AR9013 Unlisted Options exercisable at \$0.20 on or before 23 December 2025

| Holdings Range | Holders | Units | % |
|-------------------|-----------|------------------|-------------|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | 27 | 128,785 | 3.86% |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | 48 | 1,541,652 | 46.20% |
| 100,001 and over | 11 | 1,666,665 | 49.94% |
| | 86 | 3,337,102 | 100% |

There are no holders who hold more than 20% of the securities in this class.

iv) AR9014 Unlisted Options exercisable at \$0.20 on or before 13 December 2025

| Holdings Range | Holders | Units | % |
|-------------------|-----------|------------------|-------------|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | 11 | 601,181 | 6.96% |
| 100,001 and over | 14 | 8,041,670 | 93.04% |
| | 25 | 8,642,851 | 100% |

Holders who hold more than 20% of the securities in this class are:

- Brio Capital Master Fund Ltd – 3,571,428 options

SHAREHOLDER INFORMATION

29 July 2024

v) *AR9015 Unlisted Employee Options exercisable at \$0.1428 on or before 6 March 2026*

| Holdings 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 | 1,492,977 | 100% |
| | 28 | 1,492,977 | 100% |

All securities in this class were issued under an employee incentive scheme.

i) *AR9016 Unlisted Employee Options exercisable at \$0.0792 on or before 21 December 2026*

| Holdings 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 | 378,673 | 100.00% |
| | 1 | 378,673 | 100.00% |

All securities in this class were issued under an employee incentive scheme.

ii) *AR9017 Unlisted Employee Options exercisable at \$0.0792 on or before 21 December 2026*

| Holdings 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 | 1,448,060 | 100.00% |
| | 1 | 1,448,060 | 100.00% |

All securities in this class were issued under an employee incentive scheme.

iii) *AR9018 Unlisted Employee Options exercisable at \$0.0792 on or before 21 December 2026*

| Holdings 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 | 732,977 | 100.00% |
| | 1 | 732,977 | 100.00% |

All securities in this class were issued under an employee incentive scheme.

SHAREHOLDER INFORMATION

29 July 2024

iv) Performance Rights – AR9PR07

| Holdings 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 | 1,893,364 | 100.00% |
| | 1 | 1,893,364 | 100.00% |

All securities in this class were issued under an employee incentive scheme.

v) Performance Rights – AR9PR08

| Holdings 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 | 1,678,782 | 100.00% |
| | 1 | 1,678,782 | 100.00% |

All securities in this class were issued under an employee incentive scheme.

i) Performance Rights – AR9PR09

| Holdings 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 | 3,407,865 | 100.00% |
| | 1 | 3,407,865 | 100.00% |

All securities in this class were issued under an employee incentive scheme.

Substantial Shareholders

The names of the substantial shareholders as notified to the Company as at 29 July 2024 are:

1. Kurt Mueffmann

- Holder of: 18,511,488 fully paid ordinary shares
- Notice Received: 14 December 2022
- Interest Held at Date of Notice: 6.55%

Kurt Mueffmann has acquired 370,099 Shares (pursuant to the conversion of securities issued under the Company's Employee Incentive Scheme) since lodgement of the abovementioned Substantial Holder Notice. This increase in interest

SHAREHOLDER INFORMATION

29 July 2024

is not reportable under section 671B of the Corporations Act, and as such, an updated Substantial Holder Notice has not been lodged.

2. SG Hiscock & Company Limited

- Holder of: 13,709,182 fully paid ordinary shares
- Notice Received: 3 December 2020
- Interest Held at Date of Notice: 6.67%

Top Security Holders

The twenty largest shareholders of the Company's quoted Shares as at 29 July 2024 are as follows:

| | | Number held | % of total shares issued |
|------------------------------------------|--------------------------------------------------------------------|--------------------|-----------------------------|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 18,221,607 | 6.36% |
| 2 | KURT MUEFFELMANN* | 13,146,153 | 4.59% |
| 3 | BRIO CAPITAL MASTER FUND LTD | 11,690,683 | 4.08% |
| 4 | CITICORP NOMINEES PTY LIMITED | 9,828,767 | 3.43% |
| 5 | MR PETER ROBERT WOODLAND | 7,919,410 | 2.76% |
| 6 | DANIEL CHUN LEUNG LAI | 7,637,292 | 2.66% |
| 7 | MR BRUCE ALEXANDER TALBOT & MRS SUZANNE TALBOT <TALBOT FAMILY A/C> | 6,866,436 | 2.40% |
| 8 | MR RHYS DAVID FORD | 4,438,904 | 1.55% |
| 9 | POSSUM HILL PTY LTD | 4,429,469 | 1.55% |
| 10 | MR OTTMAR WEISS | 3,895,527 | 1.36% |
| 11 | MICHAEL DE FELICE PTY LTD | 3,313,847 | 1.16% |
| 12 | MR DAVID WOOD | 3,213,491 | 1.12% |
| 13 | PHILLIP JONATHAN DEAN & ROBYN CLAIRE DEAN <DEAN TEAM SUPER FUND> | 3,000,000 | 1.05% |
| 14 | BNW GROUP PTY LTD | 3,000,000 | 1.05% |
| 15 | MR ANTHONY MANUEL WHITFIELD | 2,730,000 | 0.95% |
| 16 | MR MICHAEL JAMES WARE | 2,200,000 | 0.77% |
| 17 | RED STRIPE PTY LTD <RIPPON INVESTMENT A/C> | 2,170,000 | 0.76% |
| 18 | MR DANIEL CHUN LEUNG LAI | 2,163,636 | 0.75% |
| 19 | SYRAX INVESTMENTS PTY LTD | 2,050,000 | 0.72% |
| 19 | MISS SOPHIE RHIAN RICHARDS | 2,032,855 | 0.71% |
| 20 | LEIGH ROWLAND | 2,001,714 | 0.70% |
| Top 20 Holders of Ordinary Shares | | 115,949,791 | 40.45% |
| Total Remaining Holders Balance | | 170,674,507 | 59.55% |

*Citicorp Nominees Pty Limited hold 4,995,236 shares as a custodian for Kurt Mueffelman



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ARCHTIS LIMITED | AR9 | ACN 123 098 671