

**ASX Announcement**  
30 August 2020

## **APPENDIX 4E : PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2020**

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

### **1. Reporting Period**

Report for the financial year ended	: 30 June 2020
Previous corresponding period is the financial year ended	: 30 June 2019

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

					\$
Revenues from ordinary activities	down	46%	to		548,747
Loss from ordinary activities after tax attributable to members	down	5%	to		(3,725,369)
Net Loss for the period attributable to members	down	5%	to		(3,725,369)
Dividends					na
Record date for determining entitlements to a dividend					na

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

Refer to the attached financial statements which are in the process of being audited.

### **3. Statement of Comprehensive Income (Item 3)**

Refer to page 4.

### **4. Statement of Financial Position (Item 4)**

Refer to page 5.

### **5. Statement of Cash Flows (Item 5)**

Refer to page 7.

### **6. Statement of Changes in Equity (Item 6)**

Refer to page 6.

### **7. Dividends (Item 7)**

No dividends were paid or declared during the year.

### **8. Dividend Reinvestment Plan (Item 8)**

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

## 9. Net Tangible Assets per Security (Item 9)

	2020	2019
Net tangible asset backing per ordinary security	\$0.042	\$0.068

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

<i>Name of entities for which AR9 gained control</i>	<i>Date of gain of control</i>
na	na
<i>Name of entities for which AR9 lost control</i>	<i>Date of loss of control</i>
na	na

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

Not applicable

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

Refer to the attached financial statements which are in the process of being audited.

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

Not applicable

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

Over the previous 12-month period, archTIS launched its Kojensi platform into its target Government market and focused on securing early adopter clients. Clients won included the Commonwealth Attorney Generals Department, Commonwealth Ombudsman and the Australian Criminal Intelligence Agency. This validated Kojensi's market demand. Other activities included business development and marketing which resulted in building a significant sales pipeline to be converted over the next 12 months. This is paying dividends and has resulted in just under a \$1m in contract renewals and new wins in the first quarter of this financial year.

In January 2020 the company pivoted to sell the Kojensi platform to industries servicing the Government that need to share sensitive and classified information including the Defence, University Research and Space industries. This culminated in wins with Curtin University and Northrop Grumman. The Curtin University opportunity has also has provided product development opportunities in securing Big Data analytics.

A particular focus over the last 12 months has been the development of a partner and channel business to further expose the Kojensi platform to the market and increase sales opportunities. A key partnership agreement was signed with DXC Technologies during the year. DXC will offer Kojensi as a managed service to their National Security Community clients opening significant growth opportunities for Kojensi sales and a pathway to access up to 7,000 users in the Australian National Intelligence Community. A reseller agreement was signed with TEAM Asparona to sell Kojensi in New Zealand.

The Group also signed three strategic reseller deals with: Nucleus Cyber, Appian and Axiomatics to enable archTIS to provide holistic trusted information sharing solutions across the Microsoft collaboration suite, ERP systems and Big Data Lakes respectively.

The Group also continued to refine and add features to its core product in order to offer its customers enhanced experience whether the solution is in the cloud or on-premise. In some cases, this additional research and development effort was funded in-part by customers. In May 2020, the Group successfully raised \$2.3 million through a share placement and a Share Purchase Plan. This vital funding will give the Company the cash runway it needs to convert its sales pipeline and continue the sales momentum into FY21.

The investment into these activities cumulated in a loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$3,725,369 (30 June 2019 \$3,931,517).

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

The accounts have not yet been audited.

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

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
Revenue	3(a)	548,747	1,022,210
Cost of Sales		(303,929)	(227,590)
<b>Gross Profit</b>		<b>244,818</b>	<b>794,620</b>
Other Income	3(b)	670,775	370,672
Sales and Marketing		(477,528)	(269,955)
General Administration	4	(4,163,433)	(4,734,103)
<b>Loss before Income Tax</b>		<b>(3,725,369)</b>	<b>(3,838,766)</b>
Income Tax (Expense) / Benefit		-	(92,751)
Other Comprehensive Income		-	-
<b>Total Comprehensive income for the year</b>		<b>(3,725,369)</b>	<b>(3,931,517)</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	29	(2.94)	(3.28)

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

		2020	2019
	Note	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	2,428,648	3,255,200
Short term investments	6	-	-
Trade and other receivables	7	58,896	161,835
Other assets	8	194,943	113,435
Tax assets	17	886,008	1,494,825
Total current assets		3,568,495	5,025,295
<b>Non-current assets</b>			
Property, plant and equipment	9	39,356	107,214
Intangible assets	10	4,261,450	4,383,182
Right of use asset	10	1,052,957	-
Deferred tax	17	-	-
Total non-current assets		5,353,763	4,490,396
<b>Total assets</b>		<b>8,922,259</b>	<b>9,515,691</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	140,708	256,590
Interest-bearing loans and borrowings	12	-	-
Employee benefits	13	219,140	296,816
Lease Liability		116,079	-
Other Current Liabilities	14	291,171	281,698
Total current liabilities		767,098	835,104
<b>Non-current liabilities</b>			
Employee benefits	15	28,346	19,049
Provisions	16	74,249	72,780
Lease Liability		1,241,383	-
Total non-current liabilities		1,343,978	91,829
<b>Total liabilities</b>		<b>2,111,077</b>	<b>926,933</b>
<b>NET ASSETS</b>		<b>6,811,182</b>	<b>8,588,758</b>
<b>EQUITY</b>			
Issued capital	18	15,713,392	13,701,686
Reserves	19	1,808,050	1,613,150
Retained profits (accumulated losses)	20	(10,710,260)	(6,726,078)
<b>TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF ARCHTIS LIMITED</b>		<b>6,811,182</b>	<b>8,588,758</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

Consolidated	Note	Issued capital \$	Reserves \$	Retained profits \$	Total equity \$
Balance at 1 July 2019		13,701,686	1,613,150	(6,726,078)	8,588,758
Adoption of AASB16		-	-	(258,814)	(258,814)
Total Comprehensive Income	20	-	-	(3,725,369)	(3,725,369)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	18	2,250,873	-	-	2,250,873
Option fees	18	-	-	-	-
Capital raise fees	18	(239,167)	-	-	(239,167)
Foreign exchange reserve	19	-	-	-	-
Share-based payments	19	-	194,900	-	194,900
<b>Balance at 30 June 2020</b>	<b>18, 19</b>	<b>15,713,392</b>	<b>1,808,050</b>	<b>(10,710,261)</b>	<b>6,811,181</b>

Balance at 1 July 2018		6,767,689	786,331	(2,794,561)	4,759,459
Total Comprehensive Income	20	-	-	(3,931,517)	(3,931,517)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	18	8,000,000	-	-	8,000,000
Option fees	18	500	-	-	500
Capital raise fees	18	(1,066,503)	-	-	(1,066,503)
Foreign exchange reserve	19	-	1,258	-	1,258
Share-based payments	19	-	825,561	-	825,561
<b>Balance at 30 June 2019</b>	<b>18, 19</b>	<b>13,701,686</b>	<b>1,613,150</b>	<b>(6,726,078)</b>	<b>8,588,758</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF CASHFLOW

FOR THE YEAR ENDED 30 JUNE 2020

		Consolidated	
		2020	2019
Note		\$	\$
<b>Cash flows from operating activities</b>			
		777,694	1,072,619
		(5,351,521)	(7,749,491)
		1,494,825	1,087,420
		100,750	-
		38,786	45,187
		-	(4,590)
	29	<b>(2,939,466)</b>	<b>(5,548,855)</b>
<b>Cash flows from investing activities</b>			
		(3640)	24,412
	9	<b>(3640)</b>	<b>24,412</b>
<b>Cash flows from financing activities</b>			
		2,250,873	7,383,497
		(134,319)	(300,000)
		<b>2,116,554</b>	<b>7,083,497</b>
		(826,522)	1,559,054
		3,255,200	1,696,146
	6	<b>2,428,648</b>	<b>3,255,200</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Note 1. Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Going concern

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

The consolidated group incurred a loss after tax of \$3,725,369 (2019 \$3,931,517) and had net operating cash outflows of \$2,939,466 (2019: \$5,548,855). 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:

- A strong sales pipeline with a large number of material and well-developed opportunities across the Government and Private sectors;
- Following a successful capital raising in May 2020 the Group has cash at bank as at 30 Jun '20 of \$2.5 million;
- Cash operating costs of the business have been reduced to the minimum level in order to maximise the cash runway to allow time for conversion of the sales opportunities; and,
- if necessary, the Company will consider additional capital raising activities through the issue of new share capital.

#### (b) New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations, that are not yet mandatory, have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group:

#### AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

#### Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	1 Jul 19
	\$
Operating lease commitments as at 1 July 2019 (AASB 117)	328,121
Finance lease commitments as at 1 July 2019 (AASB 117)	-
add: lease commitments on likely exercise of option to extend lease	1,599,346
less: future interest charges based on the weighted average incremental borrowing rate of 6.2%	(421,060)
Lease liabilities (AASB 16)	1,506,407
Lease liabilities - current (AASB 16)	227,789
Lease liabilities - non-current (AASB 16)	1,278,618
As above	1,506,407

	1 Jul 19
	\$
Right-of-use asset (AASB 16)	(1,947,723)
Accumulated amortisation as at 1 July 2019 (AASB 16)	689,819
Make good asset as at 1 July 2019 (AASB 117)	21,233
Lease incentive liability (AASB 117)	(10,922)
Reduction in opening retained earnings as at 1 July 2019	258,814

#### Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

#### 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 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



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Note 1. Significant Accounting Policies

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.

#### (b) Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

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

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

#### (c) Parent company information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 27.

#### (d) 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 2020 and the results of all subsidiaries for the year then ended. archTIS Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

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

#### (e) Foreign currency translation

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

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss at disposition of the foreign operation or net investment.

#### (f) Revenue recognition

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

#### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 1. Significant Accounting Policies

customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

### Rendering of services

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

### Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### Other revenue

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

### (f) 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 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.

### (h) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current

A liability is classified as current when:

- it is either expected to be settled in the Group's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

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

### (h) 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.

### (i) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Note 1. Significant Accounting Policies

to be uncollectable are written off by reducing the carrying amount directly provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

#### (j) Investments and other financial assets

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

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

#### *Impairment of financial assets*

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

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

#### (l) Property, plant and equipment

Each class of plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

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

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

#### (m) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of

leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

#### (n) Intangible assets

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.

#### *Research and development*

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

#### *Research and development tax incentive*

The Research and Development Tax Incentive (RDTI) is a 43.5% refundable tax

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 1. Significant Accounting Policies

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

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

### 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.

### (o) Impairment of non-financial assets

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

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

### (p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### (q) 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.

### (r) 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.

### (s) Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

### (t) Employee benefits

#### Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### Other long-term employee benefits

The liability for annual leave and long service leave that is not expected to be settled within 12 months of the reporting date, are measured at the present value of expected future payments to be made in respect of services provided by employees up to the

reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### Other long-term employee benefits

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

#### Defined contribution superannuation expense

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

#### Share-based payments

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

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

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Note 1. Significant Accounting Policies

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

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

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

award is treated as if they were a modification.

#### (u) 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.

#### (v) 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.

#### (w) Dividends

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

#### (x) 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.

#### (y) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2020

#### Note 1. Significant Accounting Policies

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

*New Accounting Standards and Interpretations not yet mandatory or early adopted*

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

*Conceptual Framework for Financial Reporting (Conceptual Framework)*

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Note 2: Critical Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

#### *Finite life intangible assets*

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

#### *Income tax*

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

#### *Recovery of deferred tax assets*

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

#### *Employee benefits provision*

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

#### *Lease make good provision*

A provision has been made for the anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of

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

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 3. Revenue

	Consolidated	
	2020	2019
	\$	\$
<i>(a) Revenue from contracts with customers</i>		
Product Licence and Implementation Revenue	231,781	606,613
Product Maintenance	20,483	4,440
Consulting	296,483	411,157
	<b>548,747</b>	<b>1,022,210</b>
<i>(b) Other Revenue</i>		
Government Grants	664,219	279,746
Interest Income	6,556	78,774
Other Income	-	12,152
	<b>670,775</b>	<b>370,672</b>

### Product Licence and Implementation Revenue

Product Licence and Implementation Revenue includes revenue from archTIS solutions developed, customised and maintained for customers. For the year ended 30 June 2019, this includes development versions of Kojensi, and Kojensi Field delivered to Australian and international government departments.

### Consulting

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

## Note 4. Expenses

	2020	2019
	\$	\$
<i>(a) Employee Benefits</i>		
Share Based Payments	77,489	375,561
Superannuation expenses	187,858	242,418
Other Employee Benefits	1,532,346	2,529,972
less : capitalised to software development	(872,050)	(1,353,827)
	<b>925,643</b>	<b>1,794,124</b>
<i>(b) Depreciation and Amortisation Expense</i>		
Depreciation - property, plant and equipment	50,266	67,525
Amortisation - intangibles	830,394	115,819
	<b>880,660</b>	<b>183,344</b>
<i>(c) Written down Intangible Expense</i>		
Intangible expense written down	-	783,905
	<b>-</b>	<b>783,905</b>
<i>(d) Operating Lease Expense</i>		
Rental expenses on operating leases	-	276,768
	<b>-</b>	<b>276,768</b>
<i>(d) Finance Costs</i>		
Interest and finance charges paid/payable	90,434	-
	<b>90,434</b>	<b>-</b>



# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 5. Income Tax Expense

		2020	2019
	Note	\$	\$
<b>Income tax expense</b>			
Deferred tax		151,352	(821,832)
Deferred tax not recognised		(151,352)	821,832
Deferred tax derecognised		-	92,751
Deferred tax on tax losses not recognised		-	-
<b>Income tax expense / (income)</b>	<b>17</b>	<b>-</b>	<b>92,751</b>
Profit before income tax		(3,725,369)	(3,838,766)
Tax at the statutory rate of 27.5%		1,024,476	(1,055,660)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:			
Entertainment expenses		1,281	2,035
Sundry Items		2,171	2,200
Share-based payments		21,309	103,279
Research & Development Expenditure		-	203,244
Amortisation of Assets		228,358	-
Income from Government Stimulus		(27,500)	-
Income from Research & Development Claim		(154,954)	(76,930)
<b>Sub-total</b>		<b>70,667</b>	<b>233,828</b>
Current year deferred tax not recognised		(1,095,143)	821,832
Deferred tax asset derecognised		-	92,751
		<b>(1,095,143)</b>	<b>914,583</b>
<b>Income tax expense</b>		<b>-</b>	<b>92,751</b>

## Note 6 Current Assets – Cash and Cash Equivalents

	Consolidated	
	2020	2019
	\$	\$
<b>Cash and cash equivalents</b>		
Cash on hand	-	250
Cash at bank	2,428,648	2,054,950
Cash on deposit	-	1,200,000
	<b>2,428,648</b>	<b>3,255,200</b>

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 6 Current Assets – Cash and Cash Equivalents (cont)

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

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

Balances as above	2,428,648	3,255,200
Balance as per statement of cash flows	<b>2,428,648</b>	<b>3,255,200</b>

## Note 7. Current Assets – Trade and Other Receivables

	Consolidated	
	2020	2019
	\$	\$
Trade Receivables	41,422	135,551
Less : Bad debt provision	-	(41,080)
	<b>41,422</b>	<b>94,471</b>
Other Receivables	-	4,097
GST Receivable	17,474	29,680
Interest Receivable	-	33,587
	<b>58,896</b>	<b>161,835</b>

### Allowance for expected credit losses

The Group has made no allowance for expected credit losses for the current financial year (2019 : nil).

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

	Carrying Amount 2020	Provision for Bad Debts 2020
	\$	\$
Not overdue	40,804	-
0 - 3 months overdue	-	-
3 - 6 months overdue	618	-
Over 6 months overdue	-	-
	<b>41,422</b>	<b>-</b>

## Note 8. Current Assets – other

	Consolidated	
	2020	2019
	\$	\$
Security Deposit	60,156	58,800
Prepayments	61,645	54,635
Accrued Income	73,142	-
	<b>194,943</b>	<b>113,435</b>

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 9. Non-current Assets – Property, Plant and Equipment

	Consolidated	
	2020	2019
	\$	\$
Leasehold improvements - at cost	-	72,779
Less : Accumulated Depreciation	-	(51,546)
	-	21,233
Office equipment - at cost	117,383	117,383
Less : Accumulated Depreciation	(104,917)	(86,139)
	12,466	31,244
Computer equipment - at cost	262,557	258,916
Less : Accumulated Depreciation	(235,667)	(204,179)
	26,890	54,737
	<b>39,356</b>	<b>107,214</b>

### Reconciliations

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

	Leasehold Improvements	Office equipment	Computer equipment	Total
	\$	\$	\$	\$
Balance at 30 June 2018	33,365	46,265	73,507	153,137
Additions	-	4,840	19,572	24,412
Disposals - written down value	-	-	(3,870)	(3,870)
Depreciation expense	(12,132)	(19,861)	(34,472)	(66,465)
Balance at 30 June 2019	21,233	31,244	54,737	107,214
Additions	-	-	3,640	3,640
AASB 16 Adjustment	(21,232)	-	-	(21,232)
Depreciation expense	-	(18,778)	(31,487)	(50,266)
<b>Balance at 30 June 2020</b>	<b>-</b>	<b>12,466</b>	<b>26,890</b>	<b>39,356</b>

## Note 10. Non-current Assets – Intangibles

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

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

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

### Internally-generated software development

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

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

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

The software development asset has a useful life of five years and is amortised on a straight-line basis commencing from the time the asset is held ready for use. The internally developed software asset, Kojensi.gov, was commercialised and launched in April 2019. Accordingly, this asset is amortised from this date.

Costs which are incurred after the general release of internally-generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements.

### Technology/ In-process Research and Development

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

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

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

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

**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2020

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

	Internally Generated Software	Consolidated Development In Progress	Total
	\$	\$	\$
<b>2019</b>			
<i>Cost</i>			
Balance at 1 July 2018	-	3,059,698	3,059,698
Commercialisation of development to software	3,202,566	(3,202,566)	-
Additions	-	2,223,208	2,223,208
Written down	-	(783,905)	(783,905)
Balance at 30 June 2019	<b>3,202,566</b>	<b>1,296,435</b>	<b>4,499,000</b>
<i>Accumulated amortisation</i>			
Balance at 1 July 2018	-	-	-
Amortisation	(115,819)	-	(115,819)
Impairments	-	-	-
Balance at 30 June 2019	<b>(115,819)</b>	<b>-</b>	<b>(115,819)</b>
<b>Net book value at 30 June 2019</b>	<b>3,086,747</b>	<b>1,296,435</b>	<b>4,383,182</b>

**Land and  
Building**

\$

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

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

	Land and Building	\$
<b>2019</b>		
<i>Cost</i>		
Balance at 1 July 2018		-
Adjustment to lease arrangement		-
Balance at 30 June 2019		-
<i>Accumulated amortisation</i>		
Balance at 1 July 2018		-
Amortisation		-
Balance at 30 June 2019		-
<b>Net book value at 30 June 2019</b>		-

**Note 11. Current Liabilities – Trade and Other Payables**

	Consolidated	
	2020	2019
	\$	\$
Trade Payables	117,520	192,744
Other Payables	23,188	63,846
	<b>140,708</b>	<b>256,590</b>

**Note 12. Current Liabilities - Borrowings**

	Consolidated	
	2020	2019
	\$	\$
Secured Bank Loan	-	-
	-	-

The Group has no bank overdraft or loan facilities as at 30 June 2019.

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 13. Current Liabilities – Employee Benefits

	Consolidated	
	2020	2019
	\$	\$
Employee Benefits	219,140	296,816

### *Amounts not expected to be settled within the next 12 months*

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

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

	Consolidated	
	2020	2019
	\$	\$
Employee Benefits obligation expected to be settled after 12 months	85,783	100,669

## Note 14. Current Liabilities - Other

	Consolidated	
	2020	2019
	\$	\$
Accrued Expenses	112,831	281,698
SaaS Fees In Advance - Kojensi GOV	114,318	-
Software Fees in Advance - Kojensi ENTERPRISE	29,644	-
Kojensi Gov Training paid in advance	1,309	-
Kojensi Enterprise Implementation Paid in advance	18,524	-
Kojensi Support Paid in advance	14,546	-
	291,172	281,698

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 15. Non-Current Liabilities – Employee Benefits

	Consolidated	
	2020	2019
	\$	\$
Employee Benefits	28,346	19,049

## Note 16. Non-Current Liabilities – Provisions

	Consolidated	
	2020	2019
	\$	\$
Lease Make Good	74,249	72,780

### *Lease Make good*

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

## Note 17. Deferred Tax

	Consolidated	
	2020	2019
	\$	\$
<i>Assets</i>		
Current		
Provision for research and development tax incentive	886,008	1,494,825
Non-current		
Deferred tax asset	-	-



**Note 17. Deferred Tax (cont)**

Deferred tax asset comprises temporary differences attributable to:

	Opening balance	Credited (charged) to profit or loss	Credited (charged) directly to equity	Changes in tax rates	Closing balance
	\$	\$	\$	\$	\$
<b>2020</b>					
Deferred tax asset on:					
Accrued Income & prepayments	-	-	-	-	-
Property, plant & equip.	-	-	-	-	-
Provisions	-	-	-	-	-
Costs of raising equity	-	-	-	-	-
Accrued expenditure	-	-	-	-	-
Lease incentives	-	-	-	-	-
<b>Net amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2019</b>					
Deferred tax asset on:					
Accrued Income & prepayments	(2,058)	2,058	-	-	-
Property, plant & equip.	(4,020)	4,020	-	-	-
Provisions	96,985	(96,985)	-	-	-
Costs of raising equity	(19,174)	19,174	-	-	-
Accrued expenditure	14,960	(14,960)	-	-	-
Lease incentives	6,058	(6,058)	-	-	-
<b>Net amount</b>	<b>92,751</b>	<b>(92,751)</b>	<b>-</b>	<b>-</b>	<b>-</b>

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 18. Equity – Issued Capital

	2020 Shares	Consolidated 2019 Shares	2020 \$	2019 \$
Ordinary shares - fully paid	164,021,946	123,096,982	17,717,891	15,467,018
Ordinary shares - paid to \$0.00	-	-	-	-
Capital raise fees	-	-	(2,004,499)	(1,765,322)
	<b>164,021,946</b>	<b>123,096,982</b>	<b>15,713,392</b>	<b>13,701,686</b>

  

<i>Movements in ordinary share capital</i> Details	Date	Shares	Issue price	\$
Balance	30-Jun-18	83,816,982		6,767,689
Issue of shares	Sep-18	40,000,000	\$0.20	8,000,000
Options called	Jul-18	-		500
Share forfeitures	Jul-18	(720,000)		-
Share issue transaction costs (net tax)	Sep-18	-		(1,066,503)
Balance	30-Jun-18	123,096,982		13,701,686
Issue of shares	18-May-20	29,820,418	\$0.055	1,640,123
Issue of shares	15-Jun-20	11,104,545	\$0.055	610,750
Share issue transaction costs (net tax)	Jun-20	-		(239,167)
<b>Balance</b>	<b>30-Jun-20</b>	<b>164,021,946</b>		<b>15,713,392</b>

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

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

### Share buy-back

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

### Capital risk management

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

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

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

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 19. Equity – Reserves

	2020	2019
	\$	\$
Foreign Currency Reserve	1,258	1,258
Share Based Payments Reserve	1,806,792	1,611,892
	<b>1,808,050</b>	<b>1,613,150</b>

### Foreign currency reserve

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

### Share Based Payments Reserve

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

### Movements in Reserves

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

	Consolidated		
	Share Based Payments \$	Foreign Currency \$	Total \$
Balance at 30 June 2018	786,331	-	786,331
Foreign Currency Reserve	-	1,258	1,258
Share based payments	825,561	-	825,561
<b>Balance at 30 June 2019</b>	<b>1,611,892</b>	<b>1,258</b>	<b>1,613,150</b>
Foreign Currency Reserve		-	-
<b>Share based payments</b>			
Directors, Key Management Personnel and Secretary	77,478	-	77,478
Investor Relations Advisory	12,563	-	12,563
Cost of capital Raise	104,848	-	104,848
Sundry Bal (Not material)	11	-	11
<b>Balance at 30 June 2020</b>	<b>1,806,792</b>	<b>-</b>	<b>1,808,050</b>

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 20. Equity – Retained Profits

	Consolidated 2020	2019
	\$	\$
Retained losses at the beginning of the financial year	(6,726,078)	(2,794,561)
Adoption of AASB16	(258,814)	-
Losses after income tax expense for the year	(3,725,369)	(3,931,517)
Retained losses at the end of the financial year	<b>(10,710,261)</b>	<b>(6,726,078)</b>

## Note 21. Equity – Dividends

### Dividends

No dividends were paid or declared during the year.

### Franking Credits

	Consolidated 2020	2019
	\$	\$
Franking credits available for subsequent financial years based on a tax rate of 27.5%	15,549	15,549

## Note 22. Financial Instruments

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

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

### Market risk

#### Foreign exchange risk

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

#### Price risk

The Group is not exposed to any significant price risk.

#### Interest rate risk

The Group is not exposed to any interest risk.

### Credit risk

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

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 22. Financial Instruments (cont.)

### Credit risk (cont.)

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

### Liquidity risk

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

## Note 23. Key Management Personnel Disclosures

	Consolidated 2020	2019
	\$	\$
Short-term employee benefits	1,600,202	1,853,767
Post-employment benefits	106,283	136,825
Long-term benefits	10,699	12,262
Share Based Payments	74,351	363,992
	<b>1,791,535</b>	<b>2,366,846</b>

## Note 24. 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 2020	2019
	\$	\$
<i>Audit services - RSM</i>		
Audit or review of the financial statements	66,500	67,442
<i>Other services - RSM</i>		
Independent Accountants Report	-	15,968
Research and Development Tax Grant	20,000	24,745
	20,000	40,713
	<b>86,500</b>	<b>108,555</b>

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Note 25. Commitments

	Consolidated	
	2020	2019
	\$	\$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	3,064	190,599
One to five years	-	137,522
	<b>3,064</b>	<b>328,121</b>

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

## Note 26. Related Party Transactions

### Parent Entity

archTIS Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in note 28.

### Associates

There are no associates.

### Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

### Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2020	2019
	\$	\$
<i>Payments for services from other related parties:</i>		
Payment for Corporate Advisor services from Jindalee Partners	10,500	71,347
Payment for Corporate Advisor services from CPS Global	-	962,500
Payment for Corporate Advisor services from Gemelli	36,000	-
Payment for Corporate Advisor services from Amicaa/MST	210,962	-
<i>Transactions with subsidiaries:</i>		
Purchase of 100% of share capital of archTIS Solutions Pty Ltd	-	-
Purchase of 100% of share capital of archTIS Services Pty Ltd	-	-
Loan to archTIS Solutions Pty Ltd	-	2,000
Purchase of 100% of share capital of archTIS EU s.r.o	-	7,345
	<b>257,462</b>	<b>1,043,192</b>

### Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

### Terms and conditions

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

## Note 27. Parent Entity Information

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

	2020	2019
	\$	\$
<i>Statement of profit or loss</i>		
<b>Loss after income tax</b>	<b>(3,725,369)</b>	<b>(3,928,217)</b>
<i>Statement of financial position</i>		
Total current assets	3,559,088	5,018,062
Total assets	8,922,259	9,515,692
Total current liabilities	651,019	835,105
Total liabilities	2,111,077	926,934
<b>Net assets</b>	<b>6,811,182</b>	<b>8,592,058</b>
Equity		
Issued capital	15,713,392	13,701,686
Reserves	1,808,050	1,613,150
Retained profits (accumulated losses)	(10,710,260)	(6,722,778)
<b>Total equity</b>	<b>6,811,182</b>	<b>8,592,058</b>

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

### Significant accounting policies

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

## Note 28. Interest in Subsidiaries

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

	Country of Incorporation	Ownership Interest	
		2020 %	2019 %
archTIS Solutions Pty Limited	Australia	100%	100%
archTIS Services Pty Limited	Australia	100%	100%
archTIS EU s.r.o	Czech Republic	100%	100%

# NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Note 29. Reconciliation of profit after income tax expense to net cash from operating activities

	2020	2019
	\$	\$
Loss after income tax expense for the year	(3,725,369)	(3,931,517)
<i>Adjustments for:</i>		
Depreciation and amortisation	880,660	183,344
Impairment of capitalised development	-	783,905
Share-based payments	90,052	375,560
Foreign exchange differences	-	1,258
AASB 16	(101,679)	-
<i>Change in operating assets and liabilities:</i>		
Increase in trade and other receivables	69,352	72,681
Decrease in accrued revenue	(73,142)	(7,078)
(Increase) decrease in prepayments	(7,010)	54,680
(Increase) decrease in other assets	32,231	(58,800)
(Increase) in development assets	(549,511)	(1,991,570)
Increase/(decrease) in trade and other payables	(273,829)	(24,279)
Increase (decrease) in income taxes payable	608,817	(520,733)
Increase / (decrease) in employee benefits	(68,379)	(36,807)
(Increase)/ decrease in other provisions	-	(449,500)
Increase)/ decrease in revenue in advance	178,341	-
<b>Net cash from operating activities</b>	<b>(2,939,466)</b>	<b>(5,548,855)</b>

### Note 30. Earnings per Share

	2020	2019
	\$	\$
Loss after income tax attributable to the owners	(3,725,369)	(3,931,517)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	126,672,995	119,993,339
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(2.94)	(3.28)



**Note 31. Matters subsequent to the end of the financial year**

*Board changes*

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

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

The revised board consists of Miles Jakeman AM as Chair with Leanne Graham and CEO, Daniel Lai.

*General Meeting*

Further, as part of finalising the formalities relating to the recent successful capital raise, on 27 August 2020 the Company held a General Meeting where shareholders approved to:

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

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**ENDS**

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**About archTIS Limited**

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