



# Annual Report

ArchTIS Limited

AR9

**2019/2020**

# Corporate Directory

Directors	Miles Jakeman AM Daniel Lai Leanne Graham
Company Secretary	James Palmer
Registered Office	Level 3, archTIS House 10 National Circuit Barton ACT 2600
Principal Place of Business	Level 3, archTIS House 10 National Circuit Barton ACT 2600
Share Register	Automic Level 2, 267 St Georges Terrace Perth, WA 6000
Auditor	RSM Australia Partners Equinox Building 4, Level 2 70 Kent Street Deakin, ACT 2600
Stock Exchange Listing	archTIS Limited shares are listed on the Australian Securities Exchange (ASX: AR9)
Website	<a href="http://www.archtis.com">www.archtis.com</a>
Corporate Governance Statement	<a href="http://www.archtis.com/company/investor-relations/">www.archtis.com/company/investor-relations/</a>

# Table of Contents

Letter from the Chairman	4
Letter from the CEO and Directors Report	6
Statement of Profit or Loss and Other Comprehensive income	19
Statement of Financial Position	20
Statement of Changes in Equity	21
Statement of Cash Flows	22
Notes to the Financial Statements	23
Directors' Declaration	49
Independent Auditor's Declaration	50
Independent Auditor's Report to the Members of archTIS Limited	51
Shareholder Information	55

# Letter from the Chairman

## A DEFINING YEAR FOCUSED ON ESTABLISHING PRODUCT-MARKET FIT & ASSOCIATED SALES OPPORTUNITIES

I am pleased to present a pivotal report regarding archTIS operations and its priorities during the year ended 30 June 2020.

### KEY HIGHLIGHTS

The past 12 months have been an extremely busy and productive period for the Company. Key milestones included:

- Launching the Kojensi software platform, which provides a highly secure and trusted platform for sharing sensitive and classified files and document collaboration, into its target Government market and 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. As part of this validation, the Group continued to refine and add features to the core product in order to offer its customers an enhanced experience in the cloud and on-premise. In some cases, this additional research and development effort was part-funded customers.
- Establishing a solid sales pipeline, to be further executed over the next 12 months. This is paying dividends and has resulted in just under a \$5.2m in contract renewals and new wins in the first quarter of this financial year, which is more than double the entire prior year.
- Commencing a measured pivot to sell the Kojensi platform into industries servicing the Government, which that also need to share sensitive and classified information. This culminated in wins with Curtin University and Northrop Grumman. The Curtin University opportunity also provided product development opportunities in securing Big Data analytics.
- Developing a partner and channel business to further expose the Kojensi platform to the market and increase sales opportunities. In this regard, 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 also signed with TEAM Asparona to sell Kojensi in New Zealand.
- Signing three strategic reseller deals with: Nucleus Cyber, Apsian and Axiomatics to enable archTIS to provide holistic trusted information sharing solutions across the Microsoft collaboration suite, ERP systems and Big Data Lakes respectively.

### FUNDING

In May 2020, the Group successfully raised \$2.3 million through a share placement and a Share Purchase Plan. This vital funding provides the Company with the cash runway that it needs to convert its sales pipeline and continue the sales momentum into FY21.

### BOARD AND MANAGEMENT

It has been a pleasure to work with my colleagues on the archTIS Board and I appreciate all their efforts during the year. I would also like to thank Daniel, his executive team, and all the staff for their efforts in what has been a very busy year.

Shareholders will have noted that, shortly after the end of FY20, archTIS announced it was continuing its business optimisation process. 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. We are particularly thankful for his efforts, as well as those of former directors Bruce Talbot and Wayne Zekulich, both of whom have agreed to help the company continue with its growth aspirations supported by retired Brigadier Alison Creagh AM CSC and Mr Jeremy Waine, a former Corporate finance and M&A specialist. The revised board consists of myself as Independent Chair, Leanne Graham as Independent Non-Executive Director, and Daniel Lai as Executive Director/CEO.

## OUTLOOK

With product-market fit now being established and the veracity of the underlying technology proven, there are many opportunities to continue growing the archTIS business in both public and private markets. We expect growth to be organic and from selected merger and acquisition opportunities should they arise.

Finally, thanks to our shareholders for their support during the year.

Yours sincerely,



Miles Jakeman AM

21 September 2020

# Letter from the CEO

Dear Shareholders,

Thank you for your support for what was a transformational year for archTIS, as we laid the foundations to achieve our vision of becoming a leading global security company.

In April 2019 archTIS completed the build and accreditation of Kojensi, archTIS' secure information sharing platform for sensitive and classified information. During FY2020 our focus was to successfully launch Kojensi, build market awareness, create sales opportunities and secure early clients. The Company has achieved all of this with pleasing results exemplified by the recent landmark \$4.2m Australian Department of Defence contract win.

Over the past 12 months archTIS successfully won a number of high-profile Government clients, including: The Aged Care Royal Commission, The Commonwealth Attorney General's Department, The Australian Criminal Intelligence Agency and The Commonwealth Ombudsmen; validating our target government market for Kojensi. In January 2020 we diversified to commercial industries that work with Government, with our first wins in the Education and Space sector with Curtin University, and the Defence Industry sector, with Northrup Grumman, a global military system integrator.

This success has demonstrated the broad appeal of Kojensi. Most importantly these sales have secured annual recurring revenue which we expect to grow as clients continue to use Kojensi to share their trusted information with external parties.

archTIS has also invested in development of its channel and partnership strategy, with DXC (one of the world's largest system integrators) signing a deal to demonstrate and sell Kojensi to Intelligence agencies. Other partnership developments include Thales, KPMG, Oracle, Microsoft and Nucleus Cyber. We are already seeing positive results from these investments in FY2021.

Business development activities across the year resulted in over 350 demonstrations of Kojensi, both locally and internationally. These activities have generated a sales pipeline of over \$15m of opportunities to be executed against in FY2021. This has come at a time when the Australian Prime Minister has announced a significant increase in targeted cyber-attacks across the country against government institutions, industry and businesses. This was followed by the announcement of a \$1.67bn investment into Cyber Security by the Morrison government and a further \$15bn investment to deal with the information and cyber security needs within the Australian Department of Defence across the next 10 years. archTIS is in a strong position to capitalise on this large market opportunity.

The archTIS leadership team has taken a number of steps in FY2020 to strengthen the Company's cash position and build a strong sales pipeline for execution. In June 2020, archTIS successfully completed a placement and a share issuance to raise a combined \$2.24m in additional capital for sales growth. archTIS has also reduced its monthly operational expenditure by 32% since March 2020 as expenses shifted from software development to sales and marketing.

Finally, archTIS recently announced a streamlined Board of Directors, and the creation of an Advisory Board. This has seen our inaugural Chairman Stephen Smith and Non-Executive Director Wayne Zekulich move from the Board of Directors to the Advisory Board where they will focus on driving new sales opportunities. Founder and Executive Director Bruce Talbot has also stepped down from his role as a Director to concentrate on growth opportunities. I would like to personally thank them for their dedication and service to archTIS, without which archTIS would not be in such a strong position to drive the company and shareholder value forward in FY2021.

I welcome and look forward to working with Dr Miles Jakeman, who accepted the role as new Chairman, and Ms Leanne Graham on the Board. I also would like to welcome Mr Jeremy Waine and Brigadier Alison Creagh as additional members of the Advisory Board. Together with the dedicated team at archTIS we look forward to establishing archTIS as a global leading Information Security company in 2021.

Yours sincerely,

A handwritten signature in blue ink that reads "Daniel Lai". The signature is written in a cursive, flowing style.

Daniel Lai  
CEO  
21 September 2020

# DIRECTORS' REPORT

30 JUNE 2020

The directors present their report, together with the financial statements, on the Group (referred to hereafter as the 'Group') consisting of archTIS Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

## 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 (appointed to the Board 13 February 2020. Appointed Chair 31 July 2020)
- Daniel Lai
- Leanne Graham
- Bruce Talbot (resigned 31 July 2020)
- Stephen Smith (resigned 31 July 2020)
- Wayne Zekulich (resigned 31 July 2020)

## Company Secretary

Baden Bowen has held the role of Company Secretary from February 2018 until his resignation on 31 July 2020. James Palmer, CFO for the Group was appointed in his stead on 31 July 2020.

## 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 co-founded and was the CEO of Australian software and technology success story, The Citadel Group Limited ("Citadel"). During his time as CEO of Citadel, he grew Citadel from a start-up to a company with over 300 employees and a market capitalisation of \$400 million.

**Interest in Shares and Options:** 540,000 options

**Other current directorships:** GetBusy plc (AIM:GetB), Fifth Domain Pty Ltd, The Shepherd Centre Charity, Manteena Security Australia Pty Ltd

**Former directorships (last 3 years):** Executive Director and Deputy Chairman of Citadel Group.

### Daniel Lai CEO

Daniel is a founding member of the Company and has successfully developed the business with its partners to be recognised by the Australian and United States Departments of Defence as a thought leader in information sharing strategies. Most importantly Daniel has direct experience in implementing organisational change to address the real challenges businesses confront today in a rapidly evolving environment.

**Interest in Shares and Options:** 7,410,616 ordinary shares and 1,800,000 options

**Other current directorships:** None

**Former directorships (last 3 years):** None



# DIRECTORS' REPORT

30 JUNE 2020

## Leanne Graham

### Non-Executive Director

With over 30 years in the software sector, Leanne has assisted technology companies with her broad experience and SaaS expertise. In 2018, Ms. Graham was awarded the New Zealand Order of Merit for her services to the software industry. Her current ASX listed boards are Bid Energy, AppsVillage, ArchTIS and VPCL.

**Interest in Shares and Options:** 50,000 ordinary shares and 540,000 options

**Other current directorships:** Executive Chairman of VPCL Limited and Non-Executive Director of BidEnergy Limited.

**Former directorships (last 3 years):** Non- Executive Director of AppsVillage (resigned 10 June 2020)

## Stephen Smith

### Chairman of the Board (1 July 2019 – 31 July 2020)

Stephen Smith was a member of the House of Representatives from 1993 to 2013. He served as a minister in the Rudd and Gillard Governments, including as Minister for Foreign Affairs (2007-2010), Minister for Trade (2010), and Minister for Defence (2010-2013). Stephen has also served as a board member for two not-for-profit organisations including Perth USAsia Centre and LNG Marine Fuel Institute.

**Interest in Shares and Options:** 1,080,000 options

**Other current directorships:** Chairman of Sapien Cyber Board from 16 Sept 2019.

**Former directorships (last 3 years):** None

## Wayne Zekulich

### Non-Executive Director (1 July 2019 – 31 July 2020)

Wayne is a consultant with extensive banking and investment banking experience covering mergers and acquisitions, arranging and underwriting financings and debt and equity capital markets. Wayne is a member of the Curtin Business School of Accounting Advisory Board and the John Curtin Gallery Board, a member of the University of Western Australia Audit Committee and a Board member of ARTrinsic Inc.

**Interest in Shares and Options:** 100,000 ordinary shares and 540,000 options

**Other current directorships:** None

**Former directorships (last 3 years):** None

## Bruce Talbot

### Executive Director (1 July 2019 – 31 July 2020)

Bruce has been involved in the creation, implementation and management of advanced computer security systems and capabilities. He has over 20 years' experience in the Australian

Defence Force and a further 20 years in the commercial sector working for CA Technologies, Hitachi Data Systems, Airservices Australia and the Australian Federal Police.

**Interest in Shares and Options:** 7,486,436 ordinary shares and 1,080,000 options

**Other current directorships:** None

**Former directorships (last 3 years):** None

# DIRECTORS' REPORT

30 JUNE 2020

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Number of Meetings Held*	Number Attended
Miles Jakeman (appointed 13 Feb 20)	7	6
Stephen Smith	15	15
Daniel Lai	15	15
Bruce Talbot	15	15
Leanne Graham	15	15
Wayne Zekulich	15	14

\* Held represents the number of meetings held during the time the director held office.

The Directors have determined that the Group'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

## Principal Activities

During the financial year the principal continuing activities of the Group consisted of:

- Sales of a secure information management and collaboration software: Kojensi either in-cloud or on-premise
- Consulting and solutions services for secure information sharing and inter-organisational collaboration related to the above software sales.

## Dividends

No dividends were paid during the financial year.

## Review of Operations

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.

# DIRECTORS' REPORT

30 JUNE 2020

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, Appsiian 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 \$2.1 million (net of transaction costs) 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).

## *Effects of Coronavirus (COVID-19) pandemic on the Company*

The Company took early and positive steps to protect its employees, clients and the public by initiating work from home practices. archTIS staff worked remotely using Kojensi as our remote access platform. The initial effect of the pandemic was to slow the conversion of sales pipeline as potential customers delayed IT projects to focus on the immediate impacts to their business. However cyber security and trusted information shared quickly emerged as a growing issue with most companies as they sent their workforce to work remotely from their homes. This has highlighted the need for our product more than ever and created a greater market need and increased our sales pipeline in the medium to long term.

## **Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Group during the year.

## **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.

# DIRECTORS' REPORT

30 JUNE 2020

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.

## Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

## Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

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

## Shares under option

Unissued ordinary shares of archTIS Limited under option at the date of this report are as follows:

Grant Date	Expiry Date	Exercise Price	Number under Option
10 Oct 2017	10 Oct 2022	\$ 0.10	4,289,880
01 Feb 2018	1 Feb 2021	\$ 0.12	7,200,000 *
22 May 2018	1 Jul 2023	\$ 0.20	1,200,000
05 Sep 2018	5 Sept 2022	\$ 0.24	5,000,000
01 Feb 2018	1 Feb 2021	\$ 0.12	300,000 *
06 Jul 2018	5 July 2021	\$ 0.20	1,600,000
20 Nov 2019	1 Jul 2023	\$0.20	250,000
13 Feb 2020	13 Feb 2023	\$0.20	540,000
30 Jun 2020	1 Jul 2023	\$0.10	500,000
<b>Total options on issue</b>			<b>20,879,880</b>

\* Vest in three equal tranches at 1 Feb 2018, 1 Feb 2019 and 1 Feb 2020

# DIRECTORS' REPORT

30 JUNE 2020

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.

## REMUNERATION REPORT (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements 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

From time to time, the Board of Directors ('the Board') reviews the remuneration arrangements for its Directors and Executive Officers, to ensure reward for performance is competitive and appropriate for the results delivered. The performance of the Group 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 not directly linked to the Group's performance.

The remuneration of Directors and other key management personnel is fixed annually. Bonuses are structured to reward outstanding performance against agreed Key Performance Indicators (KPI's) including financial and non-financial metrics.

The Group 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 separate.

### 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.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The company's Constitution provides that the maximum annual aggregate remuneration for non-executive directors will be not more than a fixed sum determined by a general meeting. Post admission to the Official list of the ASX, this was determined to be \$275,000 per annum.

### Executive remuneration

The Group 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
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

# DIRECTORS' REPORT

30 JUNE 2020

## REMUNERATION REPORT (audited) (cont.)

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 Group 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 Group 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's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders' value relative to the entire market and the increase compared to the Group's direct competitors.

## Details of remuneration

### *Amounts of remuneration*

Details of the remuneration of key management personnel of the Group are set out in the following tables. The key management personnel of the Group consisted of the following personnel of archTIS Limited:

#### Directors

Stephen Smith	Chairman
Daniel Lai	Managing Director & Chief Executive Officer
Bruce Talbot	Executive Director & Chief Architect
Leanne Graham	Non-executive Director
Wayne Zekulich	Non-executive Director
Miles Jakeman AM	Non-executive Director

#### Key Management Personnel

Matthew Kluken	Head of Business Development & Sales
Nick Main	Chief Technology Officer
Marcelle Newbound	Head of People & Customer Experience
Phillip Dean	Principal Consultant
James Palmer	Chief Financial Officer (from 16 December 2019 onwards)
Sarah Young	Chief Financial Officer (16 July 2019 – 29 October 2019)

# DIRECTORS' REPORT

30 JUNE 2020

## Details of remuneration (cont.)

	Short-term			Share Based Payments	Post employment Super	Long Term Benefits Long Service Leave	Total	% of salary assoc. with performance	Options as a % of total
	Salary	Cash Bonus	Fees						
	\$	\$	\$	\$	\$	\$	\$	%	%
<b>2020</b>									
<b>Non-Executive Directors</b>									
Stephen Smith	75,000	-	-	11,254	7,125	-	<b>93,379</b>	-	12%
Leanne Graham	-	-	54,756	5,627	-	-	<b>60,383</b>	-	9%
Wayne Zekulich	50,000	-	-	5,627	4,750	-	<b>60,377</b>	-	9%
Miles Jakeman AM*	16,667	-	-	10,577	1,583	-	<b>28,827</b>	-	37%
<b>Executive Directors</b>									
Daniel Lai	230,054	-	-	18,757	18,567	3842	<b>271,220</b>	-	7%
Bruce Talbot	230,054	-	-	11,254	18,567	3842	<b>263,717</b>	-	4%
<b>Key Management Personnel</b>									
Philip Dean	177,457	-	-	11,254	16,858	3,015	<b>208,585</b>	-	5%
Matthew Klukuken	161,872	50,805	-	-	20,194	-	<b>232,871</b>	22%	-
Nick Main	-	-	273,600	-	-	-	<b>273,600</b>	-	-
Marcelle Newbound	125,832	-	-	-	11,913	-	<b>137,744</b>	-	-
Sarah Young	70,806	-	-	-	6,727	-	<b>77,533</b>	-	-
James Palmer**	-	-	83,300	-	-	-	<b>83,300</b>	-	-
<b>2019</b>									
<b>Non-Executive Directors</b>									
Stephen Smith	75,000	-	-	41,646	7,125	-	<b>123,771</b>	-	34%
Wayne Zekulich	50,000	-	-	20,823	4,750	-	<b>75,573</b>	-	28%
Leanne Graham	-	-	54,750	20,823	-	-	<b>75,573</b>	-	28%
<b>Executive Directors</b>									
Daniel Lai	230,054	-	-	69,410	20,531	3,015	<b>323,010</b>	-	21%
Bruce Talbot	230,054	-	-	41,646	20,531	3,015	<b>295,246</b>	-	14%
<b>Key Management Personnel</b>									
Philip Dean	180,054	-	-	41,646	17,106	3,015	<b>241,850</b>	-	17%
Martin Tucek	241,634	-	-	64,000	17,856	-	<b>296,490</b>	-	29%
Debra Tucek	176,128	-	-	64,000	14,323	-	<b>254,451</b>	-	34%
Gregory Ginnivan	125,337	-	-	-	11,777	-	<b>137,114</b>	-	-
Matthew Klukuken	175,436	23,526	-	-	17,473	2,931	<b>219,366</b>	11%	-
Nick Main	-	-	262,400	-	-	-	<b>262,400</b>	-	-
Marcelle Newbound	56,353	-	-	-	5,333	285	<b>61,971</b>	-	-

# DIRECTORS' REPORT

30 JUNE 2020

## REMUNERATION REPORT (audited) (cont.)

### 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 Opt	Number under Option
<b>AR902 Class</b>						
<b>Non-Executive Directors</b>						
Stephen Smith	1 Feb 18	1 Feb 19	1 Feb 21	\$ 0.12	\$ 0.106	360,000
	1 Feb 18	1 Feb 20	1 Feb 21	\$ 0.12	\$ 0.106	360,000
Leanne Graham	1 Feb 18	1 Feb 19	1 Feb 21	\$ 0.12	\$ 0.106	180,000
	1 Feb 18	1 Feb 20	1 Feb 21	\$ 0.12	\$ 0.106	180,000
Wayne Zekulich	1 Feb 18	1 Feb 19	1 Feb 21	\$ 0.12	\$ 0.106	180,000
	1 Feb 18	1 Feb 20	1 Feb 21	\$ 0.12	\$ 0.106	180,000
<b>Executive Directors</b>						
Daniel Lai	1 Feb 18	1 Feb 19	1 Feb 21	\$ 0.12	\$ 0.106	600,000
	1 Feb 18	1 Feb 20	1 Feb 21	\$ 0.12	\$ 0.106	600,000
Bruce Talbot	1 Feb 18	1 Feb 19	1 Feb 21	\$ 0.12	\$ 0.106	360,000
	1 Feb 18	1 Feb 20	1 Feb 21	\$ 0.12	\$ 0.106	360,000
<b>Key Management Personnel</b>						
Phillip Dean	1 Feb 18	1 Feb 19	1 Feb 21	\$ 0.12	\$ 0.106	360,000
	1 Feb 18	1 Feb 20	1 Feb 21	\$ 0.12	\$ 0.106	360,000
<b>AR906 Class – Granted under the Performance and Rights Plan</b>						
Martin Tucek	26 Jul 18	26 Jul 18	26 Jul 21	\$ 0.20	\$ 0.12	800,000
	26 Jul 18	na	na	\$ 0.20	NA	800,000
Debra Tucek	26 Jul 18	26 Jul 18	26 Jul 21	\$ 0.20	\$ 0.12	800,000
	26 Jul 18	na	na	\$ 0.20	NA	400,000
	26 Jul 18	na	na	\$ 0.20	NA	400,000
<b>AR908 Class</b>						
<b>Non-Executive Directors</b>						
Miles Jakeman	13 Feb 20	13 Feb 20	13 Feb 23	\$ 0.20	\$ 0.041	180,000
	13 Feb 20	13 Feb 21	13 Feb 23	\$ 0.20	\$ 0.041	180,000
	13 Feb 20	13 Feb 22	13 Feb 23	\$ 0.20	\$ 0.041	180,000

During the year AR908 options were granted to a newly appointed director over unissued fully paid ordinary shares in the company. The options are exercisable by the holder from the vesting date. Options vested are to lapse within one month of the Eligible Participant to the Plan ceasing to be an employee.

There has not been any alteration to the terms or conditions of either grant of ACTU02 or ACTU06 options, since the grant date.

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

30 JUNE 2020

## REMUNERATION REPORT (audited) (cont.)

### Share-based compensation (cont.)

#### Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Opening Balance	Received as part of remuneration	Additions	Disposals	Closing Balance
<b>Non-Executive Directors</b>					
Stephen Smith	-	-	-	-	-
Leanne Graham	50,000	-	-	-	50,000
Wayne Zekulich	100,000	-	-	-	100,000
Miles Jakeman	-	-	-	-	-
<b>Executive Directors</b>					
Daniel Lai	7,347,252*	-	36,364	-	7,410,616
Bruce Talbot	7,486,436*	-	-	-	7,486,436
<b>Key Management Personnel</b>					
Matthew Klucken	160,000	-	181,819	-	341,819
Nick Main	-	-	-	-	-
Marcelle Newbound	-	-	-	-	-
Phillip Dean	7,284,252*	-	-	-	7,284,252

\* 7,284,252 each are held in escrow until 21 September 2020

#### Option holding

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

	Opening Balance	Granted	Exercised	Expired/ Forfeited /Other	Closing Balance
<b>Non-Executive Directors</b>					
Stephen Smith	1,080,000	-	-	-	1,080,000
Leanne Graham	540,000	-	-	-	540,000
Wayne Zekulich	540,000	-	-	-	540,000
Miles Jakeman	-	540,000	-	-	540,000
<b>Executive Directors</b>					
Daniel Lai	1,800,000	-	-	-	1,800,000
Bruce Talbot	1,080,000	-	-	-	1,080,000
<b>Key Management Personnel</b>					
Martin Tucek	-	800,000	-	-	800,000
Debra Tucek	-	800,000	-	-	800,000
Matthew Klucken	-	-	-	-	-
Nick Main	-	-	-	-	-
Marcelle Newbound	-	-	-	-	-
Phillip Dean	1,080,000	-	-	-	1,080,000

**This concludes the remuneration report, which has been audited.**

# DIRECTORS' REPORT

30 JUNE 2020

## 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 24 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 24 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 set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, 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.

## 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 58.

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

Chair

21 September 2020

Canberra, ACT

# 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	5	-	(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	31	(2.94)	(3.28)

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	2020 \$	2019 \$
<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	18	886,008	1,494,825
Total current assets		<u>3,568,495</u>	<u>5,025,295</u>
<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	11	1,052,957	-
Deferred tax	18	-	-
Total non-current assets		<u>5,353,763</u>	<u>4,490,396</u>
<b>Total assets</b>		<u><b>8,922,259</b></u>	<u><b>9,515,691</b></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	140,708	256,590
Interest-bearing loans and borrowings	13	-	-
Employee benefits	14	219,140	296,816
Lease Liability		116,079	-
Other Current Liabilities	15	291,171	281,698
Total current liabilities		<u>767,098</u>	<u>835,104</u>
<b>Non-current liabilities</b>			
Employee benefits	16	28,346	19,049
Provisions	17	74,249	72,780
Lease Liability		1,241,383	-
Total non-current liabilities		<u>1,343,978</u>	<u>91,829</u>
<b>Total liabilities</b>		<u><b>2,111,077</b></u>	<u><b>926,933</b></u>
<b>NET ASSETS</b>		<u><b>6,811,182</b></u>	<u><b>8,588,758</b></u>
<b>EQUITY</b>			
Issued capital	19	15,713,392	13,701,686
Reserves	20	1,808,050	1,613,150
Retained profits (accumulated losses)	21	(10,710,260)	(6,726,078)
<b>TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF ARCHTIS LIMITED</b>		<u><b>6,811,182</b></u>	<u><b>8,588,758</b></u>

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	21	-	-	(3,725,369)	(3,725,369)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	19	2,250,873	-	-	2,250,873
Option fees	19	-	-	-	-
Capital raise fees	19	(239,167)	-	-	(239,167)
Foreign exchange reserve	20	-	-	-	-
Share-based payments	20	-	194,900	-	194,900
<b>Balance at 30 June 2020</b>	<b>19,20</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	21	-	-	(3,931,517)	(3,931,517)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	19	8,000,000	-	-	8,000,000
Option fees	19	500	-	-	500
Capital raise fees	19	(1,066,503)	-	-	(1,066,503)
Foreign exchange reserve	20	-	1,258	-	1,258
Share-based payments	20	-	825,561	-	825,561
<b>Balance at 30 June 2019</b>	<b>19,20</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	
	Note	2020 \$	2019 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		777,694	1,072,619
Payments to suppliers and employees (inclusive of GST)		(5,109,408)	(7,749,491)
Receipts from R&D Tax Incentive		1,494,825	1,087,420
COVID-19 Government cash boost		50,750	-
Interest received		38,786	45,187
Interest paid		(90,434)	(4,590)
<b>Net cash provided by (used in) operating activities</b>	30	<b><u>(2,837,787)</u></b>	<b><u>(5,548,855)</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(3,640)	24,412
<b>Net cash provided by (used in) investing activities</b>	9	<b><u>(3,640)</u></b>	<b><u>24,412</u></b>
<b>Cash flows from financing activities</b>			
Net proceeds from issue of shares		2,116,554	7,383,497
Settlements of secured bank loans		-	(300,000)
Repayments under leases		(101,679)	-
<b>Net cash provided by (used in) financing activities</b>		<b><u>2,014,875</u></b>	<b><u>7,083,497</u></b>
Net increase (decrease) in cash held		(826,552)	1,559,054
Cash and cash equivalents at beginning of period		3,255,200	1,696,146
<b>Cash and cash equivalents at end of period</b>	6	<b><u><u>2,428,648</u></u></b>	<b><u><u>3,255,200</u></u></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 \$2,837,787 (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:

- The consolidated entity is currently exploring sales opportunities with various potential customers 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:

Lease liabilities - current (AASB 16)	227,789
Lease liabilities - non-current (AASB 16)	1,278,618
As above	1,506,407
	<hr/>
	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
	<hr/>

#### 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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Note 1. Significant Accounting Policies

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.

#### (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



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

## Note 1. Significant Accounting Policies

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.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Note 1. Significant Accounting Policies

Trade receivables are generally due for settlement within 30 days.

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

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

## Note 1. Significant Accounting Policies

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 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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Note 1. Significant Accounting Policies

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 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

#### *Conceptual Framework for Financial Reporting (Conceptual Framework)*

#### **(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.

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.

### *Coronavirus (COVID-19) pandemic*

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

# NOTES TO THE FINANCIAL STATEMENTS

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 (i)	664,219	279,746
Interest Income	6,556	78,774
Other Income	-	12,152
	<b>670,775</b>	<b>370,672</b>

- (i) Government grants include an amount of \$100,000 received as a cash flow boost for employers as part of the Australian Government's response to the COVID-19 pandemic. The Company was not eligible for Jobkeeper payments.

### 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 2020, 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>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

## Note 4. Expenses (cont'd)

### (e) Finance Costs

Interest and finance charges paid/payable	90,434	-
	<b>90,434</b>	<b>-</b>

### (f) Contractors

Payments to contractors	785,477	2,236,075
	<b>785,477</b>	<b>2,236,075</b>

### (g) Hosting Charges

Hosting charges	254,663	252,410
	<b>254,663</b>	<b>252,410</b>

## Note 5. Income Tax Expense

	2020	2019
Note	\$	\$
<b>Income tax expense</b>		
Deferred tax	(593,614)	(821,832)
Deferred tax not recognised	593,614	821,832
Deferred tax derecognised	-	92,751
Deferred tax on tax losses not recognised	-	-
<b>Income tax expense / (income)</b>	<b>17</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	2,279	2,200
Share-based payments	21,309	103,279
Research & Development Expenditure	404,060	203,244
Amortisation of Assets	184,592	-
Income from Government Stimulus	(27,706)	-
Income from Research & Development Claim	(154,954)	(76,930)
Sub-total	430,862	233,828
Current year deferred tax not recognised	593,614	821,832
Deferred tax asset derecognised	-	92,751
	<b>593,614</b>	<b>914,583</b>
<b>Income tax expense</b>	<b>-</b>	<b>92,751</b>

A net deferred tax asset of \$2,429,907 (\$2,087,977 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 2020

## 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>

### *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)
	41,422	94,471
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).

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2020

### Note 7. Current Assets – Trade and Other Receivables (cont'd)

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	-	-
	<u>41,422</u>	<u>-</u>

### Note 8. Current Assets – other

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

## 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	3640
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.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

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

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.

	Internally Generated Software	Consolidated 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	<u>3,550,261</u>	<u>1,498,251</u>	<u>5,048,512</u>

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

### *Accumulated amortisation*

Balance at 1 July 2019	(115,819)	-	(115,819)
Amortisation	(671,243)	-	(671,243)
Impairments	-	-	-
Balance at 30 June 2020	<u>(787,062)</u>	<u>-</u>	<u>(787,062)</u>

<b>Net book value at 30 June 2020</b>	<b>2,763,199</b>	<b>1,498,251</b>	<b>4,261,450</b>
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	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	<u>3,202,566</u>	<u>1,296,435</u>	<u>4,499,000</u>
<i>Accumulated amortisation</i>			
Balance at 1 July 2018	-	-	-
Amortisation	(115,819)	-	(115,819)
Impairments	-	-	-
Balance at 30 June 2019	<u>(115,819)</u>	<u>-</u>	<u>(115,819)</u>
<b>Net book value at 30 June 2019</b>	<b>3,086,747</b>	<b>1,296,435</b>	<b>4,383,182</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

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

The recoverable amount of the Group's Intangible Assets has been determined by a value-in-use calculation using a discounted cash flow model, based on a 4.5-year projection period approved by management. The key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

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

- 17% post-tax discount rate. This discount rate reflects management's estimate of the time value of money and the entity's weighted average cost of capital adjusted for the product, the risk-free rate and the volatility of the share price relative to market movements;
- Projected revenue growth rate based on current sales pipeline, projected sales through current reseller partners, sales through new partnerships with resellers and increased users with existing customers;

Management believes the projected revenue growth rate is prudent and justified, based on its market analyses and evaluation.

- 3-5% per annum increase in operating costs and overheads.

Based on the above, no impairment charge has been applied as the discounted recoverable amount for the product exceeds the capitalised development.

Judgements and estimates in respect of the above impairment testing have been made. Should these judgements and estimates not occur the resulting capitalised development cost carrying amount may decrease. The sensitivities are as follows:

- Revenue would need to decrease by more than 56% for the internally generated software and capitalised development projects before there would need to be impair either asset, with all other assumptions remaining constant;
- The discount rate would be required to increase to 99% for the internally generated software and capitalised development projects before there would need to be impair either asset, with all other assumptions remaining constant.

## Note 11. Right of Use Asset

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

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

## Note 12. Current Liabilities – Trade and Other Payables

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

## Note 13. Current Liabilities - Borrowings

	Consolidated	
	2020	2019
	\$	\$
Secured Bank Loan	-	-
	<u>-</u>	<u>-</u>

The Group has no bank overdraft or loan facilities as at 30 June 2020.

## Note 14. Current Liabilities – Employee Benefits

	Consolidated	
	2020	2019
	\$	\$
Employee Benefits	219,140	296,816
	<u>219,140</u>	<u>296,816</u>

### *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
	<u>85,783</u>	<u>100,669</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

## Note 15. Current Liabilities - Other

	Consolidated	
	2020	2019
	\$	\$
Accrued Expenses	112,831	281,698
Deferred Revenue	178,341	-
	<u>291,172</u>	<u>281,698</u>

## Note 16. Non-Current Liabilities – Employee Benefits

	Consolidated	
	2020	2019
	\$	\$
Employee Benefits	<u>28,346</u>	<u>19,049</u>

## Note 17. Non-Current Liabilities – Provisions

	Consolidated	
	2020	2019
	\$	\$
Lease Make Good	<u>74,249</u>	<u>72,780</u>

### *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 18. Deferred Tax

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

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2020

### Note 18. Deferred Tax (cont'd)

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	-	-	-	-	-
Tax Losses	-	-	-	-	-
<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)	-	-	-
Tax Losses	-	-	-	-	-
<b>Net amount</b>	<b>92,751</b>	<b>(92,751)</b>	<b>-</b>	<b>-</b>	<b>-</b>



# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

## Note 19. Equity – Issued Capital

	2020	Consolidated		2019
	Shares	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>

### Movements in ordinary share capital

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 FINANCIAL STATEMENTS

30 JUNE 2020

## Note 20. Equity – Reserves

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

### 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:

	Share Based Payments \$	Consolidated 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>	<u>1,611,892</u>	<u>1,258</u>	<u>1,613,150</u>
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>	<u>1,806,792</u>	<u>-</u>	<u>1,808,050</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

## Note 21. 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	<u>(10,710,261)</u>	<u>(6,726,078)</u>

## Note 22. 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%	<u>15,549</u>	<u>15,549</u>

## Note 23. 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 FINANCIAL STATEMENTS

30 JUNE 2020

## Note 23. 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 24. 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
	<u>1,791,535</u>	<u>2,366,846</u>

## Note 25. 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	<u>66,500</u>	<u>67,442</u>
<i>Other services - RSM</i>		
Independent Accountants Report	-	15,968
Research and Development Tax Grant	<u>20,000</u>	<u>24,745</u>
	<u>20,000</u>	<u>40,713</u>
	<u>86,500</u>	<u>108,155</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2020

### Note 26. 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 27. 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 Amiccaa/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>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

## Note 27. Related Party Transactions (cont.)

### *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 28. 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

## Note 29. 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%

## Note 30. 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
<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>(2,837,787)</b>	<b>(5,548,855)</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

## Note 31. Earnings per Share

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

## Note 32. 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.

### *COVID-19*

As the impact of the Coronavirus (COVID-19) pandemic is ongoing, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 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.



# DIRECTORS DECLARATION

30 JUNE 2020

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Miles Jakeman AM

Chairman

21 September 2020

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 for the year ended 30 June 2020, 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*

**RSM AUSTRALIA PARTNERS**

A handwritten signature in black ink, appearing to read 'Rodney Miller', with a horizontal line extending to the right.

**RODNEY MILLER**  
Partner

Canberra, Australian Capital Territory  
Dated: 21 September 2020

**RSM Australia Partners**

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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 2020, 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 a summary of significant accounting policies, 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 2020 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* (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. We have determined the matters described below to be the key audit matters to be communicated in our report.

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

Key Audit Matter	How our audit addressed this matter
<p><b>Going concern</b> Refer to Note 1(a) in the financial statements</p>	
<p>For the year ended 30 June 2020, the Group had incurred a net loss of \$3,725,371, net cash outflows from operating activities of \$2,837,787 and net cash outflows from investing activities of \$3,640.</p> <p>The directors have prepared the financial report on the going concern basis. The directors' assessment of the Group's ability to continue as a going concern is based on a cashflow forecast.</p> <p>We determined this assessment of going concern to be a key audit matter due to the significant judgments involved in preparing the cashflow forecast, and the potential impact of the results of management's assessment.</p> <p>Disclosures relating to going concern can be found at Notes 1(a).</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• Critically assessing the directors' reasons as to why they believe it is appropriate to prepare the financial report on a going concern basis.</li> <li>• Reviewing the current financial position of the Group</li> <li>• Assessing the appropriateness and mathematical accuracy of the cash flow forecasts and budgets prepared by management.</li> <li>• Challenging the reasonableness of key assumptions used.</li> <li>• Performing sensitivity testing on these assumptions.</li> <li>• Assessing the adequacy of the going concern disclosures in the financial report (Note 1(a)).</li> </ul>
<p><b>Capitalisation of assets, including useful lives, amortisation and impairment</b> Refer to Note 10 in the financial statements</p>	
<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"> <li>• the decision to capitalise or expense costs, as per <i>AASB 138 Intangible Assets</i>;</li> <li>• the annual asset life and impairment review, as per <i>AASB 136 Impairment of Assets</i>; and</li> <li>• 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(n), 1(o), 2 and 10.</p> </li></ul>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• Evaluated the appropriateness of capitalisation policies, as per AASB 138.</li> <li>• Tested a sample of costs capitalised to determine whether capitalisation was appropriate.</li> <li>• Evaluated the reasonableness of management's assessment of expected future economic benefits that are attributable to the intangible assets.</li> </ul> <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"> <li>• the appropriateness of assets lives applied in the calculation of amortisation.</li> </ul> <p>Our audit procedures in relation to management's assessment of impairment included:</p> <ul style="list-style-type: none"> <li>• Evaluating the valuation methodology used.</li> <li>• Evaluating the reasonableness of key assumptions including the cashflow forecasts, revenue growth rates, discount rates and other inputs used in the model.</li> </ul> <p>We evaluated the adequacy of disclosures included in Notes 1(n), 1(o), 2 and 10.</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 2020, 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 that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material 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: [http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.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 21 to 26 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of archTIS Limited., for the year ended 30 June 2020, 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*  
**RSM AUSTRALIA PARTNERS**



**RODNEY MILLER**  
Partner

Canberra, Australian Capital Territory  
Dated: 21 September 2020

## SHAREHOLDER INFORMATION

### 30 JUNE 2020

The shareholder information set out below was applicable as at 18 September 2020.

On 21 September 2018, the company was admitted to the official list of the Australian Securities Exchange (ASX). For the period from listing to the 30 June 2020, the company used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

The company has no current on-market buy back.

#### Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

1 to 1,000	238
1,001 to 5,000	2,401
5,001 to 10,000	936
10,001 to 100,000	1,389
100,001 and over	195
	<b>5,159</b>
Holding less than a marketable parcel	563

#### Equity security holders

##### *Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below: Ordinary shares

	Number held	% of total shares issued
Hsbc Custody Nominees(Australia) Limited	14,081,783	8.30%
Daniel Chun Leung Lai	7,320,616	4.32%
Bruce Talbot	7,286,436	4.30%
Possum Hill Pty Ltd	7,284,252	4.30%
Mr Peter Robert Woodland	5,528,336	3.26%
Mr David Wood	3,155,682	1.86%
Citicorp Nominees Pty Limited	2,781,264	1.64%
Bond Street Custodians Limited	2,200,000	1.30%
Mr Ottmar Weiss	1,968,450	1.16%
Mr Miles Gareth Jakeman	1,454,545	0.86%
Redhill Holdings Ltd	1,333,668	0.79%
Mr David Frederick Oakley	1,270,000	0.75%
Power Invest Pty Ltd	1,268,750	0.75%
Pershing Australia Nominees Pt Y Ltd	1,202,132	0.71%
Mr Arya Ehteshami	1,100,220	0.65%
Oceanfront Properties Pty Ltd	1,050,000	0.62%
Cityscape Asset Pty Ltd	1,040,694	0.61%
Monex Boom Securities (Hk) Ltd	1,028,563	0.61%
Invia Custodian Pty Limited	1,000,000	0.59%
Mst Financial Services Pty Ltd	1,000,000	0.59%
Amicaa Advisors Pty Ltd	1,000,000	0.59%
Ligon 205 Pty Ltd	909,091	0.54%
<b>Top 20 Holders of Ordinary Shares</b>	<b>66,264,482</b>	<b>39.07%</b>
<b>Total Remaining Holders Balance</b>	<b>103,327,505</b>	<b>60.93%</b>

Of the above ordinary shares, 25,482,151 shares are escrowed until 21 September 2020

## SHAREHOLDER INFORMATION

### 30 JUNE 2020

#### Unquoted Options

	Ordinary shares	
	Number On issue	Number of holders
Expiring 10 Oct 2022 exercisable at \$0.10 escrowed until 21 Sep 2020	4,289,880	3
Expiring 28 Aug 2023 exercisable at \$0.10	500,000	1
Expiring 01 Feb 2021 exercisable at \$0.12 escrowed until 21 Sep 2020	7,200,000	7
Expiring 01 Jul 2023 exercisable at \$0.20 escrowed until 21 Sep 2020	1,200,000	2
Expiring 05 Jul 2021 exercisable at \$0.20	1,600,000	2
Expiring 05 Sep 2022 exercisable at \$0.24 escrowed until 21 Sep 2020	4,930,000	13
Expiring 01 Feb 2021 exercisable at \$0.12	300,000	1
Expiring 01 Jul 2023 exercisable at \$0.20	250,000	1
Expiring 13 Feb 2023 exercisable at \$0.20	540,000	1
Expiring 01 Jul 2023 exercisable at \$0.20	500,000	1
<b>Totals</b>	<b>21,309,880</b>	<b>32</b>

#### Substantial Holders

The substantial holders in the Company are listed below:

	Ordinary shares	
	Number held	% of total shares issued
HSBC CUSTODY NOMINEES(AUSTRALIA) LIMITED	14,081,783	8.30%
DANIEL CHUN LEUNG LAI	7,320,616	4.32%
BRUCE TALBOT	7,286,436	4.30%
POSSUM HILL PTY LTD	7,284,252	4.30%
MR PETER ROBERT WOODLAND	5,528,336	3.26%

#### Voting rights

The voting rights attached to ordinary shares are set out below:

#### Ordinary shares

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.

There are no other classes of equity securities.