

Appendix 4D

Half year report

1. Company details

Name of entity:	archTIS Limited
ABN:	79 123 098 671
Reporting period:	for the half year ended 31 December 2019
Previous period:	for the half year ended 31 December 2018

2. Results for announcement to the market

The consolidated entity has adopted Australian Accounting Standard AASB 16 'Leases' from 1 July 2019. The Accounting Standard has been adopted using the modified retrospective approach and - as such- the comparatives have not been restated. Instead, the opening balances as at 1 July 2019 have been adjusted as described in Note 1 to the accounts.

Revenues from ordinary activities	down 73% to	\$ 242,877
Loss from ordinary activities after tax attributable to the owners of archTIS Limited	up 6% to	(2,273,490)
Loss for the half-year attributable to the owners of archTIS Limited	up 6% to	(2,273,490)

Dividends

No dividends were paid or payable during the half year ended 31 December 2019. -

Comments

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$2,273,490 (31 December 2018: \$2,152,494)

Following the launch of Kojensi Gov in H2FY19 several Federal government agencies have signed contractual agreements to use Kojensi Gov during the half year. In addition, a key partnership agreement was signed with DXC technologies opening a pathway to access up to 7,000 users in the Australian National Intelligence Community. The company continues to develop a strong sales pipeline of opportunities to be executed in 2020 off the back of a successful marketing campaign generating new leads in key markets in Australia, New Zealand, USA and Europe.

The Company has \$0.8m of cash along with receivables of \$0.3m and \$1.5m of R&D Refundable Tax Offset as at 31 Dec 19. The R&D refund was received early January 2020.

The main risk for the consolidated entity, and therefore the focus of management, is selling the current product through: (a) converting the significant pipeline of sales opportunities; (b) new and existing partnerships and resellers; (c) additional seats to existing customers.

3. Net tangible assets

	Reporting period (Cents)	Previous period (Cents)
Net tangible assets per ordinary security	1.19	5.16

4. Control gained over entities

Name of entities (or group of entities)	archTIS EU, s.r.o.
Jursidiction in which incorporated	Czech Republic
Date control gained	30 November 2018

\$

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)

-

Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)

-

5. Loss of control over entities

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

6. Details of associates and joint venture entities

	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$	Previous period \$
Name of associate / joint venture				
IDMaaS Joint Venture	35	35	-	-
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			-	-
Income tax on operating activities			-	-

7. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

Details of attachments (if any):

The Interim Report of archTIS Limited for the half-year ended 31 December 2019 is attached.

9. Signed

Signed in accordance with a resolution of the directors.

On behalf of the Directors:



Stephen Smith
 Chairman
 27 February 2020
 Perth, WA



archTIS Limited
ABN 79 123 098 671
Interim Report
31 December 2019

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Directors	Stephen Smith Daniel Lai Bruce Talbot Leanne Graham Wayne Zekulich Miles Jakeman AM
Company secretary	Baden Bowen
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
Accountants	mgi Joyce Dickson Level 1, 65 Canberra Avenue Griffith, ACT 2603
Solicitors	Steinepreis Paganin 16 Milligan Street, Perth, WA 6000
Bankers	Westpac Banking Corporation 6-8 Wollongong Street Fyshwick, ACT 2609
Stock exchange listing	archTIS Limited shares are listed on the Australian Stock Exchange (ASX: AR9)
Website	www.archtis.com
Corporate Governance Statement	https://www.archtis.com/company/investor-relations/

Directors' report
31 December 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of archTIS Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half year ended 31 December 2019.

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:

Stephen Smith
Daniel Lai
Bruce Talbot
Leanne Graham
Wayne Zekulich
Miles Jakeman AM (appointed 13 February 2020)

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- Marketing and selling the company's Kojensi product and converting the significant sales pipeline to revenue.

Dividends

There have been no dividends paid or declared since the start of the financial year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$2,273,490. (31 December 2018: \$2,152,494). Highlights include:

- Several Federal government agencies have signed contractual agreements to use Kojensi Gov during the half year
- Key partnership agreement signed with DXC technologies during the half year opening a pathway to access up to 7,000 users in the Australian National Intelligence Community
- The company continues to develop a strong sales pipeline of opportunities to be executed in 2020 off the back of a successful marketing campaign generating new leads in key markets in Australia, New Zealand, USA and Europe.

Significant changes in the state of affairs

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

Matters subsequent to the end of the reporting period

On 13 February 2020 the company appointed Dr Miles Jakeman AM to the board of directors. Dr Jakeman was the co-founder and former CEO of Australian software and technology success story, Citadel Group. Dr Jakeman brings to the board strong industry knowledge and existing networks of key contacts in Defence, intelligence and government.

The Statement of financial position as at 31 December 2019 includes a receivable of \$1,495,825 (30 Jun 19: \$1,494,825) for the R&D refundable tax offset in respect of FY19. This amount was received in full in cash in early January 2020.

Likely developments and expected results of operations

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

Auditor's independence declaration

The auditor's independence declaration is included in this half-year report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001

On behalf of the Directors:



Stephen Smith
Chairman

27 February 2020
Perth, WA

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of archTIS Limited for the half year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads "RSM Australia Partners".**RSM AUSTRALIA PARTNERS**A handwritten signature in black ink, appearing to be "Rodney Miller".

RODNEY MILLER
Partner

Canberra, Australian Capital Territory
Dated: 27 February 2020

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The financial statements cover archTIS Limited as a consolidated entity consisting of archTIS Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is archTIS Limited's functional and presentation currency. archTIS Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Level 3, archTIS House
10 National Circuit
Barton, ACT 2600

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2020.

Contents:

- Statement of profit or loss and other comprehensive income
- Statement of financial position
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archTIS Limited
ABN 79 123 098 671
Statement of profit or loss and other comprehensive income
for the half year ended 31 December 2019



	Note	Consolidated Half-year ended	
		31 Dec 19	31 Dec 18
		\$	
Revenue from continuing operations		242,877	902,434
Interest revenue		5,932	34,413
Revenue		248,809	936,847
Cost of goods sold		(124,836)	(209,529)
Gross profit		123,973	727,318
Income from research and development tax incentive		-	306,248
Employee benefits expense		(680,489)	(655,857)
Contractors and sub-contractors		(340,212)	(351,120)
Superannuation		(86,231)	(138,940)
Share based payments		(33,456)	(153,047)
Depreciation and amortisation expense		(430,004)	(785,831)
Consultancy fees		(22,500)	(258,794)
Advertising expense		(118,632)	(12,739)
Accountancy expense		(23,822)	(55,771)
Lease expense		-	(139,094)
Other expenses	3	(615,527)	(537,310)
Operating profit		(2,226,900)	(2,054,937)
Interest and finance charges paid/payable	3	(46,590)	(4,807)
Profit (loss) before tax from continuing operations		(2,273,490)	(2,059,744)
Income tax benefit (expense)		-	(92,750)
Profit (loss) after income tax expense for the half year from continuing operations		(2,273,490)	(2,152,494)
Other comprehensive income		-	-
Total comprehensive income (loss) for the half year		(2,273,490)	(2,152,494)
Profit (loss) for the half year is attributable to:			
Owners of archTIS Limited		(2,273,490)	(2,152,494)
		(2,273,490)	(2,152,494)
Earnings per share for profit from continuing operations attributable to the owners of archTIS Limited			
Basic earnings per share	13	(1.85)	(2.08)
Diluted earnings per share	13	(1.85)	(2.08)

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

		Consolidated	
		31 Dec 19	30 Jun 19
			\$
Note			
	Assets		
	Current assets		
	Cash and cash equivalents	4 776,590	3,255,200
	Trade and other receivables	293,245	161,835
	Other assets	136,778	113,435
	R&D refundable tax offset	1,494,825	1,494,825
	Total current assets	2,701,438	5,025,295
	Non-current assets		
	Property, plant and equipment	62,435	107,214
	Intangible assets	5 4,629,132	4,383,182
	Right of use asset	6 1,176,749	-
	Total non-current assets	5,868,316	4,490,396
	Total assets	8,569,754	9,515,691
	Liabilities		
	Current liabilities		
	Trade and other payables	278,477	256,590
	Employee Benefits	351,200	296,816
	Other current liabilities	158,560	281,698
	Lease liability	126,182	-
	SaaS Fees in Advance - Kojensi Gov	126,364	-
	Software Fees in Advance - Kojensi Enterprise	50,818	-
	Total current liabilities	1,091,601	835,104
	Non-current liabilities		
	Provisions	73,512	72,780
	Employee Benefits	-	19,049
	Lease Liability	1,314,731	-
	Total non-current liabilities	1,388,243	91,829
	Total liabilities	2,479,844	926,933
	Net assets	6,089,910	8,588,758
	Equity		
	Issued capital	7 13,701,686	13,701,686
	Reserves	8 1,646,606	1,613,150
	Retained earnings (accumulated losses)	(9,258,382)	(6,726,078)
	Total equity (attributable to the owners of archTIS Limited)	6,089,910	8,588,758

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

		Issued capital	Reserves	Retained profits	Total equity
Consolidated	Note	\$	\$	\$	\$
Balance at 1 July 2019		13,701,686	1,613,150	(6,726,078)	8,588,758
Profit after income tax expense for the half-year		-	-	(2,273,490)	(2,273,490)
Other comprehensive income for the half-year		-	-	-	-
Total comprehensive income for the half-year		-	-	(2,273,490)	(2,273,490)
Introduction of AASB 16				(258,814)	(258,814)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	8	-	33,456	-	33,456
Dividends paid		-	-	-	-
Balance at 31 December 2019	7,8	13,701,686	1,646,606	(9,258,382)	6,089,910

		Issued capital	Reserves	Retained profits	Total equity
Consolidated	Note	\$	\$	\$	\$
Balance at 1 July 2018		6,767,689	731,746	(2,739,886)	4,759,549
Profit after income tax expense for the half-year		-	-	(2,152,494)	(2,152,494)
Other comprehensive income for the half-year		-	-	-	-
Total comprehensive income for the half-year		-	-	(2,152,494)	(2,152,494)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	7	8,000,000	-	-	8,000,000
Option fees	7	500			500
Capital raise fees	7	(1,066,503)	-	-	(1,066,503)
Share-based payments		-	603,048	-	603,048
Dividends paid		-	-	-	-
Balance at 31 December 2018	7,8	13,701,686	1,334,794	(4,892,380)	10,144,100

		Consolidated	
		Half-year ended	
	Note	31 Dec 19	31 Dec 18
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		317,514	905,177
Payments to suppliers and employees (inclusive of GST)		(2,799,642)	(4,271,357)
		<u>(2,482,128)</u>	<u>(3,366,180)</u>
Receipts from R&D Tax Incentive		-	-
Interest received		5,932	34,413
Interest paid		-	(4,590)
Net cash provided by (used in) operating activities	12	<u>(2,476,196)</u>	<u>(3,336,357)</u>
Cash flows from investing activities			
Proceeds from short term bank deposits		-	1,200,000
Payments for short term bank deposits		-	(6,000,000)
Purchase of property, plant and equipment		(2,414)	(22,981)
Net cash provided by (used in) investing activities		<u>(2,414)</u>	<u>(4,822,981)</u>
Cash flows from financing activities			
Proceeds from issue of shares and options	7	-	8,000,500
Costs of capital raise		-	(616,502)
Repayment of secured bank loans		-	(300,000)
Net cash provided by (used in) financing activities		<u>-</u>	<u>7,083,998</u>
Net increase (decrease) in cash and cash equivalents		(2,478,610)	(1,075,340)
Cash and cash equivalents at the beginning of the financial half-year		3,255,200	1,638,668
Effects of exchange rate changes on cash and cash equivalents		-	-
Cash and cash equivalents at end of period	4	<u>776,590</u>	<u>563,328</u>

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

**Notes to the financial statements
for the half year ended 31 December 2019**

1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Going concern

For the half-year ended 31 December 2019 the company incurred a loss of \$2,273,490 (half year to 31 Dec 18: loss of \$2,059,744). During the half-year to 31 December 2019 the entity had net cash outflows from operating activities of \$2,476,196 (31 December 2018: \$3,336,357). Management has prepared cash flow projections for a period of twelve months from the date of approval of the financial report.

The ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through the issue of new equity. The existence of this condition indicates a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern.

Notwithstanding the above, the directors have prepared the financial statements on a going concern basis which contemplates the continuity of normal business activity, the realisation of assets and the settlement of liabilities through the normal course of business for the following reasons:

- Several Federal government agencies have signed contractual agreements to use Kojensi Gov during the half year
- Key partnership agreement signed with DXC technologies during the half year opening a pathway to access up to 7,000 users in the Australian National Intelligence Community
- The Company has \$0.8m of cash along with receivables of \$0.3m and \$1.5m of R&D Refundable Tax Offset as at 31 Dec 19. The R&D refund was received early January 2020.
- The Directors are confident that they will be able to raise additional equity as and when required.

Should the Company be unable to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

New or amended Accounting Standards and Interpretations adopted

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

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

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

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.

**Notes to the financial statements
for the half year ended 31 December 2019**

1. Significant accounting policies (continued)

Impact of adoption

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

	1 July 2019 \$
Operating lease commitments as at 1 July 2019	328,121
Finance lease commitments as at 1 July 2019 (AASB 16)	-
add: lease commitments on likely exercise of option to extend lease	1,599,346
less: future interest charges based on the weighted average incremental borrowing rate of 6.2%	(421,060)
Lease liabilities (AASB 16)	<u>1,506,407</u>
Lease liabilities - current (AASB 16)	227,789
Lease liabilities - non-current (AASB 16)	<u>1,278,618</u>
As above	1,506,407
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	<u><u>258,814</u></u>

Right-of-use assets

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

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

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

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any 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.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

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

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

Sale of goods

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

Rendering of services

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

Interest

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

Other revenue

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

Trade and other receivables

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

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

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

Contract assets

Contract assets are recognised when the consolidated entity has satisfied the performance obligations in the contract and either has not recognised a receivable to reflect its unconditional right to consideration or the consideration is not due. Contract assets are treated as financial assets for impairment purposes.

Customer acquisition costs

Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract with a customer and are expected to be recovered. Customer acquisition costs are amortised on a straight-line basis over the term of the contract.

Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained or which are not otherwise recoverable from a customer are expensed as incurred to profit or loss. Incremental costs of obtaining a contract where the contract term is less than one year is immediately expensed to profit or loss.

**Notes to the financial statements
for the half year ended 31 December 2019**

1. Significant accounting policies (continued)

Customer fulfilment costs

Customer fulfilment costs are capitalised as an asset when all the following are met: (i) the costs relate directly to the contract or specifically identifiable proposed contract; (ii) the costs generate or enhance resources of the consolidated entity that will be used to satisfy future performance obligations; and (iii) the costs are expected to be recovered. Customer fulfilment costs are amortised on a

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

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

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Contract liabilities

Contract liabilities are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier), before the consolidated entity has transferred the goods or services to the customer. The liability is the consolidated entity's obligation to transfer goods or services to a customer from which it has received consideration.

2 Revenue

	Consolidated Half-year ended	
	31 Dec 19	31 Dec 18
	\$	\$
From continuing operations		
<i>Revenue from contracts with customers</i>		
Sale of goods		
Rendering of services	206,286	893,651
Sale of goods	36,591	3,366
	<u>242,877</u>	<u>897,017</u>
<i>Other revenue</i>		
Lease incentives	-	5,417
Interest Revenue	5,932	34,413
Net gain on disposal of property, plant and equipment	-	-
	<u>5,932</u>	<u>39,830</u>
Revenue from continuing operations	<u>248,809</u>	<u>936,847</u>

3 Expenses

	Consolidated Half-year ended	
	31 Dec 19	31 Dec 18
	\$	\$
Profit before income tax from continuing operations includes the following specific expenses:		
Cost of sales	<u>124,836</u>	<u>209,529</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	<u>46,590</u>	<u>4,807</u>
Rental expense relating to operating leases		
Amortisation of Right of Use Asset	81,155	-
Minimum lease payments	-	133,194
Superannuation expense		
Defined contribution superannuation expense	<u>86,231</u>	<u>138,940</u>
Share-based payments expense		
Share-based payments expense	<u>33,456</u>	<u>153,047</u>

3 Expenses (continued)

	Consolidated	
	31 Dec 19	31 Dec 18
	\$	\$
<i>Other expenses</i>		
Information, communications and technology	206,867	168,169
General administration	213,219	126,013
Travel	4,325	87,097
Meetings and conferences	111,467	55,912
Recruitment	14,143	51,289
Accommodation	-	23,279
Audit	45,118	17,612
Insurances	20,388	7,939
	<u>615,527</u>	<u>537,310</u>
<i>Interest</i>		
Interest - lease (AASB 16)	(46,590)	-
Finance Charges and expenses	-	(4,807)
	<u>(46,590)</u>	<u>(4,807)</u>

4 Cash and cash equivalents

	Consolidated	
	31 Dec 19	30 Jun 19
	\$	\$
Cash at bank and on hand	776,590	3,255,200
	<u>776,590</u>	<u>3,255,200</u>

5. Intangible assets

	Consolidated	
	31 Dec 19	30 Jun 19
	\$	\$
Capitalised development Cost:		
Internally Generated Software		
Balance at beginning of period	3,202,566	-
Additions from internal development		3,202,566
Balance at end of period	<u>3,202,566</u>	<u>3,202,566</u>
Accumulated amortisation and impairment:		
Balance at beginning of period	(115,819)	-
Amortisation	(322,889)	(115,819)
Impairment losses		
Balance at end of period	<u>(438,708)</u>	<u>(115,819)</u>
Development in Progress		
Balance at beginning of period	1,296,435	3,059,698
Commercialisation of development to software		(3,202,566)
Additions to development in progress	568,839	2,223,208
Written down	-	(783,905)
Balance at end of period	<u>1,865,274</u>	<u>1,296,435</u>
Carrying amount at end of period	<u>4,629,132</u>	<u>4,383,182</u>

5. Intangible assets (continued)

	Consolidated	
	31 Dec 19	30 Jun 19
	\$	\$
<i>Reconciliations</i>		
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:		
Carrying amount at beginning of period	4,383,182	3,059,698
Additions from internal development and Development in Progress	568,839	2,223,208
R&D tax incentive benefit	-	-
Impairment losses	-	(783,905)
Amortisation of Internally Generated Software	(322,889)	(115,819)
Carrying amount at end of period	4,629,132	4,383,182

Capitalised development costs relate to the development of new techniques to provide enhanced secure content management capability.

The recoverable amount of the entity's capitalised development costs has been determined by a value-in-use calculation using a discounted cash flow model, based on a 5 year projection period approved by management.

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:

- 19% post-tax discount rate;
- 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;
- 3-5% per annum increase in operating costs and overheads.

The discount rate of 19% post-tax 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.

Management believes the projected revenue growth rate is prudent and justified, based on its market analyses and evaluation. There were no other key assumptions for the product.

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

Sensitivity

As disclosed in note 1, the directors have made judgements and estimates in respect of impairment testing of capitalised development cost. Should these judgements and estimates not occur the resulting capitalised development cost carrying amount may decrease. The sensitivities are as follows:

- Expected revenue assumption would need to decrease by more than 40% for the product before capitalised development cost would need to be impaired, with all other assumptions remaining constant;
- The assumed discount rate would be required to increase to 42% for the product before capitalised development cost would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of product's capitalised development cost is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

6. Right of Use Asset

	Consolidated	
	31 Dec 19	30 Jun 19
	\$	\$
Land and buildings - right of use	1,947,723	-
Less: accumulated amortisation	(770,974)	-
	1,176,749	-

Additions to the right-of-use assets during the half-year were \$1,947,723

The consolidated entity leases land and buildings for its office under an agreement of six years with an option to extend. The lease has an escalation clause.

7. Equity - Issued capital

	Consolidated			
	31 Dec 19 No.	31 Dec 19 \$	30 Jun 19 No.	30 Jun 19 \$
Ordinary shares - fully paid	123,096,982	13,701,696	123,096,982	15,467,018
Ordinary shares - paid to \$0.0000	-	-	-	-
Capital raise fees	-	-	-	(1,765,322)
	<u>123,096,982</u>	<u>13,701,696</u>	<u>123,096,982</u>	<u>13,701,696</u>
Balance at beginning of year	123,096,982	13,701,696	83,816,982	6,767,689
Share issue			40,000,000	8,000,000
Receipts - options	-	-		500
Share forfeitures		-	(720,000)	-
Capital raise fees	-	-	-	(1,066,503)
Net increase (decrease) during year	-	-	39,280,000	6,933,997
Balance at end of year	<u>123,096,982</u>	<u>13,701,696</u>	<u>123,096,982</u>	<u>13,701,686</u>

Reconciliation of cash proceeds from issue of shares Balance at beginning of year.

	13,701,686	6,767,689
Share issues	-	8,000,000
Options	-	500
Capital raise fees	-	(1,066,503)
Cash proceeds from issue of shares	<u>13,701,686</u>	<u>13,701,686</u>
Ordinary shares		

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.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

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

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

8. Equity -Reserves

	Consolidated	
	31 Dec 19	30 Jun 19
	\$	\$
<i>Share-based payment reserve</i>		
Balance at beginning of period	1,611,892	786,331
Arising on share-based payments	33,456	825,561
Balance at end of period	1,645,348	1,611,892
<i>Foreign Exchange Translation reserve</i>		
Balance at the beginning and end of period	1,258	1,258
Total	1,646,606	1,613,150

9. Share options

The company issues equity-settled share based payments to certain entities. Under AASB 2 these are measured at fair value at the date of the grant. This amount is expensed on a straight line basis over the vesting period based on the company's estimate of the number of shares that will eventually vest.

The weighted average fair value of the share options granted during the financial year to 31 December 2019 is \$0.1 (30 June 2019: \$0.079). Options were valued using a black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

	Consolidated	
	31 Dec 19	30 Jun 19
Inputs into the valuation model:		
Grant date share price	\$0.13	\$0.20
Exercise price	\$0.20	\$0.20-\$0.24
Expected volatility	70%	70%
Option life	3.5 years	3-4 years
Early exercise multiple	-	2-2.5 years
Dividend rate	\$0.00	\$0.00
Risk-free interest rate	2.65%	2.65%
Share option value (Binomial valuation)	\$0.100	\$0.079
at start of period	19,589,880	12,989,880
Granted	250,000	6,600,000
Exercised	-	-
Lapsed	-	-
at end of period	19,839,880	19,589,880
Date exercisable	01-Jul-20	01-Jul-20
	to	to
	01-Jul-23	01-Jul-23
Expiry date	01-Feb-21	01-Feb-21
	to	to
	01-Jul-23	01-Jul-23

10. Contingent assets and contingent liabilities

Estimates of the potential financial effect of contingent liabilities that may become payable:

Guarantees

A financial institution has provided bank guarantees secured over a term deposit account.

11. Events after the reporting period

On 13 February 2020 the company appointed Dr Miles Jakeman AM to the board of directors. Dr Jakeman was the co-founder and former CEO of Australian software and technology success story, Citadel Group. Dr Jakeman brings to the board strong industry knowledge and existing networks of key contacts in Defence, intelligence and government.

The Statement of financial position as at 31 December 2019 includes a receivable of \$1,495,825 (30 Jun 19: \$1,494,825) for the R&D refundable tax offset in respect of FY19. This amount was received in full in cash in early January 2020.

12. Cash flow information

	Consolidated Half-year ended	
	31 Dec 19	31 Dec 18
Reconciliation of cash flow from operations with profit (loss) after income tax		
Profit (loss) after income tax	(2,273,490)	(2,152,494)
Non-cash flows in profit (loss):		
- Depreciation and amortisation	430,004	33,020
- AASB 16 adjustment	(64,762)	
- Impairment of capitalised development	-	752,811
- Share-based payments	33,456	153,047
Changes in operating assets and liabilities, net of the effects of purchase and		
- (Increase) decrease in trade and other receivables	(131,410)	27,173
- (Increase) decrease in accrued revenue	177,182	(18,212)
- (Increase) decrease in prepayments	(23,342)	(21,108)
- (Increase) decrease in research and development assets	(568,840)	(1,473,727)
- (Increase) decrease in R&D tax incentive receivable	-	(673,670)
- Increase (decrease) in trade and other payables	(90,329)	(39,185)
- Increase (decrease) in employee benefits	35,335	75,988
Net cash provided by (used in) operating activities	(2,476,196)	(3,336,357)

13. Earnings per share

	Consolidated Half-year ended	
	31 Dec 19 Cents	31 Dec 18 Cents
<i>Earnings per share for profit from continuing operations</i>		
Profit after income tax	(1.85)	(2.08)
Non-controlling interest	-	-
Profit (loss) after income tax attributable to the owners of archTIS Limited	(1.85)	(2.08)
Basic earnings per share	(1.85)	(2.08)
Diluted earnings per share	(1.85)	(2.08)

In the directors' opinion:

- a. the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- b. the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- c. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors:

A handwritten signature in blue ink, appearing to read "Stephen Smith", with a horizontal line underneath.

Stephen Smith
Chairman

27 February 2020
Perth, WA

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

We have reviewed the accompanying half-year financial report of archTIS Limited, which comprises the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of archTIS Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 (a) in the financial report, which indicates that the Company incurred a net loss after tax of \$2,273,490 during the half year ended 31 December 2019 and, had net operating cash outflows of \$2,476,196. As stated in Note 1 (a), these events or conditions, along with other matters as set forth in Note 1 (a), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Conclusion

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

- (a) giving a true and fair view of the company's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

RSM Australia Partners

RSM AUSTRALIA PARTNERS



Rodney Miller
Partner

Canberra, Australian Capital Territory
Dated: 27 February 2020