



QUARTERLY ACTIVITIES REPORT

for the three months ended 31 December 2022
(figures are unaudited and in A\$ except where stated)

30 January 2023

December 2022 Quarter Highlights

During the quarter ended 31 December 2022 (**December Quarter**), Xanadu Mines Ltd (**Xanadu** or the **Company**) progressed the Company's Kharmagtai and Red Mountain Copper-Gold Projects.

Xanadu completed negotiations and signed its landmark investment deal with Zijin Mining Group Co. Limited (**Zijin**) to finalise commercial arrangements for its Strategic Partnership¹. To seek shareholder approval, the Company called an Extraordinary General Meeting (**EGM**) to be held on 7 February 2023². Chinese regulatory approval is now being sought by Zijin, noting that Zijin had already achieved the required approval from the Australia Foreign Investment Review Board (**FIRB**) for this investment³.

At Kharmagtai, the Company continued to prepare for commencement of the Pre-Feasibility Study (**PFS**). This included PFS Study Plan approval, included as a schedule of the now binding Zijin Joint Venture (**JV**) Shareholders' Agreement. The approved PFS Study Plan ensures clarity and alignment for the 50-50 Joint Venture (**JV**) operation. A Memorandum of Understanding (**MOU**) was also signed with Jade Gas Holdings Ltd to consider gas as a potential power source for the project⁴.

At Red Mountain, target generation trenching program was completed to inform design of the 2023 exploration drilling program.

Key Highlights

- Completed negotiations and signed the investment deal with Zijin.¹
- Approved the detailed Kharmagtai PFS Study Plan within JV Shareholders' Agreement.
- Extraordinary General Meeting scheduled for 7 February 2023 to seek shareholder approvals.²
- Completed target generation trenching program at Red Mountain.
- Progressed new project generation to identify potential new exploration tenements in Mongolia.
- Completed \$1.1 million placement in January 2023, ensuring sufficient working capital as we approach completion of the final approvals stage for Zijin Strategic Partnership.⁵

¹ ASX/TSX Announcement 21 December 2022 – Investment Deal Signed with Zijin – Pathway to Production

² ASX/TSX Announcement 29 December 2022 – Notice of Extraordinary General Meeting

³ ASX/TSX Announcement 22 August 2022 – FIRB Approves Zijin Investment in Xanadu

⁴ ASX/TSX Announcement 22 December 2022 – Jade Gas and Xanadu Mines Sign Gas Offtake MOU

⁵ ASX/TSX Announcement 18 January 2023 - \$1.1 million Placement

Executive Chairman & Managing Director, Colin Moorhead, said:

“Xanadu achieved an important milestone in the December Quarter, finalising and signing our investment deal with Zijin. This is a good outcome for Xanadu shareholders and for Mongolia, and it paves the way to start our Kharmagtai PFS in the first quarter of 2023, subject to final shareholder and Chinese regulatory approvals.

On the operational front, we finalised our PFS Study Plan and received approval from Zijin as part of our JV Shareholders Agreement, which will enable us to execute the study effectively within a 50-50 JV. We also completed our target identification trenching program at Red Mountain, which sets up our second project for discovery exploration during 2023. The Company was also actively searching for additional projects targeting critical minerals in Mongolia.

We look forward to receiving final approvals and ramping up our Kharmagtai PFS with our partner Zijin in the first Quarter of 2023.”

Xanadu Mines Ltd (ASX:XAM | TSX:XAM) (**Xanadu** or the **Company**) is pleased to provide an update on exploration and associated activities undertaken during the December Quarter.

Signed Investment Deal with Zijin

The Company has signed formal documentation for Phases 2 and 3 of the transaction with Zijin Mining Group Co., Limited (**Zijin**)⁶. This entails Zijin subscribing for additional shares in Xanadu to increase its corporate shareholding to 19.42%⁷ and the formation of a 50:50 Kharmagtai Joint Venture (**Kharmagtai JV**) through Xanadu's 100% owned subsidiary Khuiten Metals Pte. Ltd. (**Khuiten**), which holds a 76.5% effective interest in the Kharmagtai copper-gold project (**Kharmagtai**).

The significant cash investment by Zijin enables the Pre-Feasibility Study for Kharmagtai (**Kharmagtai PFS**) to be fully funded. The Kharmagtai PFS will commence in early 2023 and take the project to a potential Final Investment Decision (**FID**) as early as 2024. These funds will also accelerate Xanadu's growth focussed exploration program, targeting high-grade mineralisation at depth, higher-grade deposit extensions, and new discoveries within the 66.5 square kilometre tenement.

Key documents executed include a Subscription Agreement for the placement in Xanadu (**Phase 2 Placement**) together with a Subscription Agreement and Joint Venture Shareholders' Agreement with respect to Khuiten (**Phase 3 JV**), creating a binding partnership with Zijin, the fifth largest global copper mining company.⁸

Completion of the Phase 2 Placement will raise approx. A\$7.2 million for Xanadu (before costs) and increase Zijin's shareholding in Xanadu to 19.42% with the issue of approx. 179.1 million shares at A\$0.04 per share. The funds raised in the Phase 2 Placement will be used for (a) the exploration of Xanadu's highly prospective Red Mountain project; (b) new project generation in southern Mongolia; and (c) corporate regulatory and administrative costs.

Under the Phase 3 JV, Zijin will invest US\$35 million into the Kharmagtai project in return for the formation of a 50:50 joint venture through Xanadu's 100% owned subsidiary Khuiten. The US\$35 million will be used to complete the Kharmagtai PFS, continue exploration and support associated expenditure on the project's development.

Upon delivery of the Kharmagtai PFS, Xanadu will have certain rights to partially or fully selldown its project interest in Kharmagtai to Zijin. These rights (structured as put options) provide flexibility for Xanadu to manage its exposure to future funding requirements of the project as well as provide optionality to potentially realise value for shareholders after the economics of the project development are better defined.

⁶ ASX/TSX Announcement 21 December 2022 – Investment Deal Signed with Zijin – Pathway to Production

⁷ Reduced from 19.99% following \$1.1 million placement in January 2023 and Zijin decision not to participate

⁸ Kitco - <https://www.kitco.com/news/2022-09-26/Top-10-largest-copper-mining-companies-in-Q2-2022-report.html>

In line with prior communications of the Strategic Partnership⁹:

- Xanadu will remain operator of Kharmagtai until the earlier of delivery of the Kharmagtai PFS or 18 months from completion of the Phase 3 transaction, with Zijin as operator thereafter.
- Agreements remain subject to certain People's Republic of China regulatory approvals, and Xanadu Shareholder approval at its upcoming Extraordinary General Meeting (EGM) scheduled to be held in February 2023 and other conditions typical for transactions of this nature.

\$1.1 million Placement

Subsequent to the Quarter, the Company completed a placement to eligible professional and sophisticated investors of 41,887,844 fully paid ordinary shares in Xanadu at an issue price of \$0.027 each to raise \$1,130,9771.79 (before costs) (**Placement**).¹⁰

The proceeds of the Placement, together with the Company's existing cash reserves, will be applied towards general working capital purposes during the final approval approvals stage for the Zijin Strategic Partnership.

The issue price of \$0.027 per New Share represents a 7% discount to Xanadu's closing on 16 January 2023 of \$0.029 per share, a discount of 10% to the 5-day VWAP of \$0.030 per share; and a discount of 7% to the 30-day VWAP of \$0.029 per share.

New Shares under the Placement were issued pursuant to the Company's existing placement capacity under ASX Listing Rule 7.1 and will rank pari-passu with the existing fully paid ordinary shares currently on issue.

Bell Potter Securities Limited acted as Lead Manager to the Placement.

March Quarter Planned Activities

Key activities during the quarter ending 31 March 2023 (**March Quarter**) include:

- Complete \$1.1 million Placement, as discussed above;
- Obtain Chinese regulatory approvals for Zijin strategic partnership;
- Obtain Xanadu shareholder approvals for Zijin strategic partnership; and
- Commence the planned Kharmagtai Pre-Feasibility Study and Discovery Exploration. Planned program details, including PFS timeline and performance targets, will be communicated following receipt of the two outstanding approvals.

⁹ ASX/TSX Announcement 19 April 2022 - Strategic Partnership with Zijin Mining and Placement

¹⁰ ASX/TSX Announcement 18 January 2023 - \$1.1 million Placement

Results of Operations

	Quarter Ended				
	31 Dec 2022 \$'000	30 Sep 2022 \$'000	30 Jun 2022 \$'000	31 Mar 2022 \$'000	31 Dec 2021 \$'000
Gross Exploration Expenditure					
Kharmagtai	-	749	1,140	802	2,028
Red Mountain	-	343	117	242	435
Exploration expenditures capitalised	-	1,092	1,257	1,044	2,178
Impairment of deferred exploration expenditure	-	-	-	-	4,637
Corporate general and administration	1,095	1,042	1,641	861	854
Share-based payments	-	148	147	145	815
Depreciation and amortisation	20	18	17	16	17
Loss after income tax attributable to owners of XAM	720	1,239	1,917	732	6,320
Basic loss per share	0.05	0.09	0.14	0.06	0.50
Diluted loss per share	0.05	0.09	0.14	0.06	0.50
Kharmagtai drill metres*	-	-	-	-	5,716
Red Mountain drill metres^	-	-	-	-	-

* Reflects invoiced metres paid during the quarter under drilling contract. Physical metres drilled during the quarter may vary due to invoice timing.

^ Excludes horizontal trenching metres

Financial

Capital Structure

On 31 December 2022, the Company had 1,412,260,215 fully paid ordinary shares and 42,390,000 options over ordinary shares on issue and approximately \$0.10 million in cash. Following completion of the 18 January 2023 Placement¹¹ the Company received \$1.13 million in cash (before costs) to provide working capital during the final approvals stage for the Zijin Strategic Partnership, resulting in a total of 1,458,708,059 fully paid ordinary shares on issue.

ASX Announcements

This Quarterly Activities Report contains information reported in accordance with the 2012 Edition of the *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code, 2012)* in the following announcements released during the December quarter.

- ASX/TSX Announcement 21 December 2022 – Investment Deal Signed with Zijin – Pathway to Production
- ASX/TSX Announcement 29 December 2022 – Notice of Extraordinary General Meeting
- ASX/TSX Announcement 22 August 2022 – FIRB Approves Zijin Investment in Xanadu
- ASX/TSX Announcement 22 December 2022 – Jade Gas and Xanadu Mines Sign Gas Offtake MOU
- ASX/TSX Announcement 18 January 2023 - \$1.1 million Placement
- ASX/TSX Announcement 19 April 2022 - Strategic Partnership with Zijin Mining and Placement

¹¹ ASX/TSX Announcement 18 January 2023 - \$1.1 million Placement

About Xanadu Mines

Xanadu is an ASX and TSX listed Exploration company operating in Mongolia. We give investors exposure to globally significant, large-scale copper-gold discoveries and low-cost inventory growth. Xanadu maintains a portfolio of exploration projects and remains one of the few junior explorers on the ASX or TSX who control an emerging, globally significant copper-gold deposit in our flagship Kharmagtai project.

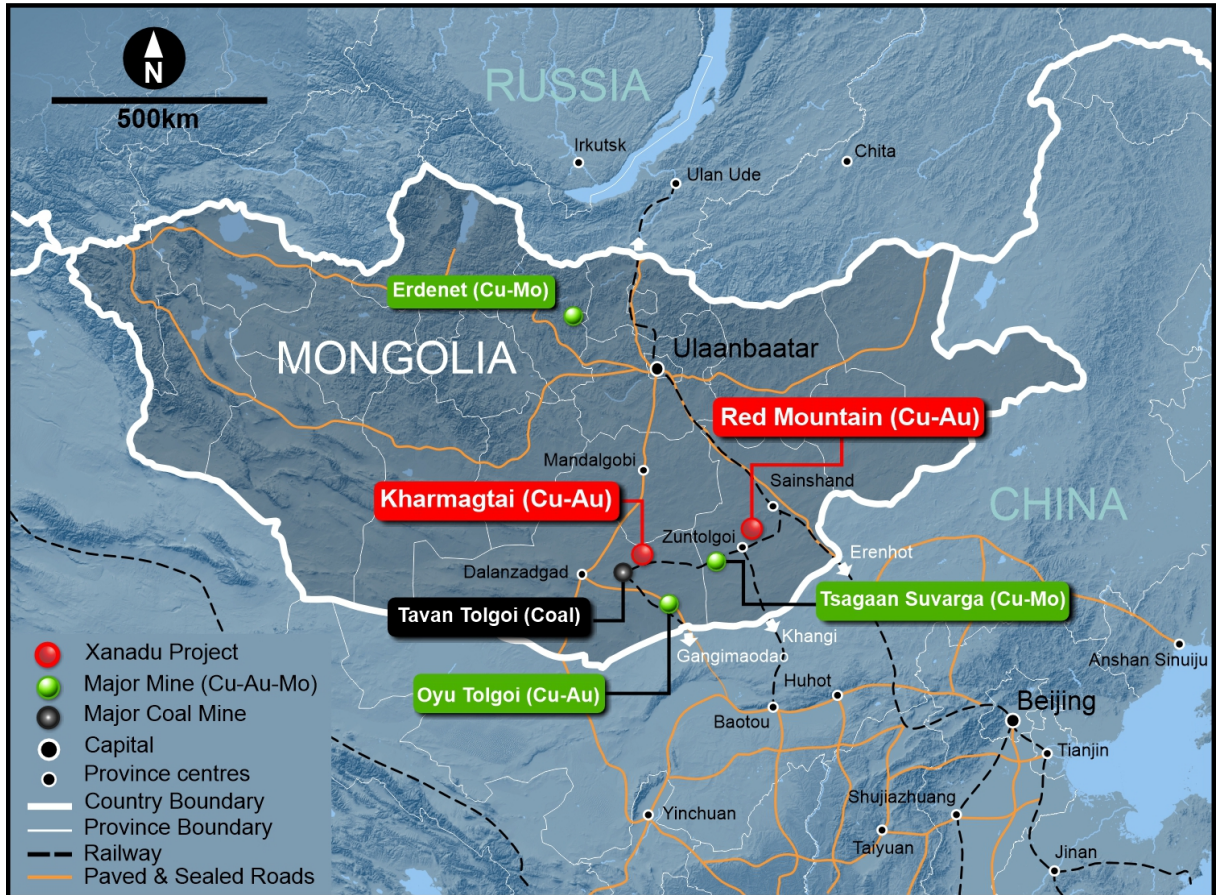


FIGURE 2: Location of Xanadu Projects in the South Gobi region of Mongolia

For further information, please visit www.xanadumines.com or contact:

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This Announcement was authorised for release by Xanadu’s Board of Directors.

APPENDIX 2: STATEMENTS AND DISCLAIMERS

MINERAL RESOURCES AND ORE RESERVES REPORTING REQUIREMENTS

The JORC Code, 2012 sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The Information contained in this Announcement has been presented in accordance with the JORC Code, 2012.

MINERAL RESOURCES AND ORE RESERVES

Previously reported Mineral Resource Estimates for Kharmagtai have not changed. There are no reported Ore Reserves.

MINING ACTIVITIES

There were no mine production or development activities during the September Quarter.

LIST OF TENEMENTS

Xanadu held licenses for the following tenements during the December Quarter. A strategic partnership was announced with Zijin, including a commitment to form a 50-50 JV in Khuiten Metals Pte Ltd, a Xanadu subsidiary which holds 76.5% of Kharmagtai. The JV will be finalised and executed in subsequent quarters. No new farm-in or farm-out agreements were entered into during the quarter.

Project Name	Tenement Name	Beneficial Ownership Start of Quarter	Beneficial Ownership End of Quarter	Location
Red Mountain	Red Mountain	100%	100%	Mongolia, Dornogobi province, Saikhandulaan soum
Kharmagtai	Kharmagtai	76.5%*	76.5%*	Mongolia, Umnugobi province, Tsogttsetsii soum

* Subject to future execution of Phase 3 of the Zijin Strategic Partnership, at which time ownership will reduce to 38.25% of Kharmagtai.

COMPETENT PERSON STATEMENTS

The information in this announcement that relates to Mineral Resources is based on information compiled by Mr Robert Spiers, who is responsible for the Mineral Resource Estimate. Mr Spiers is a full time Principal Geologist employed by Spiers Geological Consultants (**SGC**) and is a Member of the Australian Institute of Geoscientists. He has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the Qualified Person as defined in the CIM Guidelines and *National Instrument 43-101* and as a Competent Person under JORC Code, 2012. Mr Spiers consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

The information in this announcement that relates to exploration results is based on information compiled by Dr Andrew Stewart, who is responsible for the exploration data, comments on exploration target sizes, QA/QC and geological interpretation and information. Dr Stewart, who is an employee of Xanadu and is a Member of the Australasian Institute of Geoscientists, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the Competent Person as defined in the JORC Code, 2012 and the *National Instrument 43-101*. Dr Stewart consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

RELATED PARTIES

As set out in section 6.1 of the attached Appendix 5B, *Mining exploration entity or oil and gas exploration entity quarterly cash flow report*, payments made to related parties and their associates was approx. \$373,000 in the September Quarter. The amounts relate to salary, superannuation and bonus payments to Directors; legal fees paid to HopgoodGanim Lawyers (a company associated with Xanadu Non-Executive Director Michele Muscillo) for legal services; rent paid to Xanadu Executive Director Ganbayar Lkhagvasuren in relation to Xanadu's Ulaanbaatar office; rent and consulting fees paid to Colin Moorhead & Associates (a company associated with Xanadu's Executive Chairman and Managing Director, Colin Moorhead) in relation to Xanadu's Melbourne office, geology and sustainability consultants; and rent paid to Bastion Minerals Limited (ASX:BMO) (a company in which Xanadu's Vice President Exploration Dr Andrew Stewart is a Non-Executive Director) in relation to Xanadu's Sydney office.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Announcement, including information as to the future financial or operating performance of Xanadu and its projects may also include statements which are 'forward-looking statements' that may include, amongst other things, statements regarding targets, estimates and assumptions in respect of mineral reserves and mineral resources and anticipated grades and recovery rates, production and prices, recovery costs and results, capital expenditures and are or may be based on assumptions and estimates related to future technical, economic, market, political, social and other conditions. These 'forward-looking statements' are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Xanadu, are inherently subject to significant technical, business, economic, competitive, political and social uncertainties and contingencies and involve known and unknown risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in such forward-looking statements.

Xanadu disclaims any intent or obligation to update publicly or release any revisions to any forward-looking statements, whether a result of new information, future events, circumstances or results or otherwise after the date of this Announcement or to reflect the occurrence of unanticipated events, other than required by the *Corporations Act 2001* (Cth) and the Listing Rules of the Australian Securities Exchange (**ASX**) and Toronto Stock Exchange (**TSX**). The words 'believe', 'expect', 'anticipate', 'indicate', 'contemplate', 'target', 'plan', 'intends', 'continue', 'budget', 'estimate', 'may', 'will', 'schedule' and similar expressions identify forward-looking statements.

All 'forward-looking statements' made in this Announcement are qualified by the foregoing cautionary statements. Investors are cautioned that 'forward-looking statements' are not guarantee of future performance and accordingly investors are cautioned not to put undue reliance on 'forward-looking statements' due to the inherent uncertainty therein.

For further information, please visit the Xanadu Mines web site www.xanadumines.com.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

Xanadu Mines Ltd

ABN

92 114 249 026

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation		
(b) development		
(c) production		
(d) staff costs	(448)	(2,156)
(e) administration and corporate costs	(568)	(2,605)
1.3 Dividends received (see note 3)		
1.4 Interest received	39	41
1.5 Interest and other costs of finance paid	(14)	(44)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(991)	(4,764)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) tenements		
(c) property, plant and equipment	-	(9)
(d) exploration & evaluation	(662)	(3,772)
(e) investments		
(f) other non-current assets		

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment	5	33
	(d) investments		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(657)	(3,748)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	5,560
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material) <i>repayment of leases and other finance cost paid</i>	-	(50)
3.10	Net cash from / (used in) financing activities	-	5,510

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,998	3,321
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(991)	(4,764)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(657)	(3,748)

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	5,510
4.5	Effect of movement in exchange rates on cash held	(232)	(201)
4.6	Cash and cash equivalents at end of period	118	118

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	118	1,998
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	118	1,998

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	373
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	-	-
7.2	-	-
7.3	-	-
7.4	-	-
7.5	Unused financing facilities available at quarter end	
		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	

8. Estimated cash available for future operating activities	\$A'000
8.1	(991)
8.2	(662)
8.3	(1,653)
8.4	118
8.5	-
8.6	118
8.7	0.1
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
8.8	If item 8.7 is less than 2 quarters, please provide answers to the following questions:
8.8.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?
	<p>Xanadu expects to increase its operating cash flows in the coming months following shareholder and Chinese regulatory approvals of its completed strategic partnership (Agreement) with Zijin Mining Group. The Agreement will provide additional A\$7.2 million parent company funding via a share placement that increases Zijin's holding to 19.42% of Xanadu, and it will invest US\$35 million directly into the Kharmagtai project.</p> <p>Upon receipt of this funding, Xanadu will commence the PFS at its Kharmagtai project, including a resource drill-out, metallurgy, mining, infrastructure and other studies, and Xanadu will accelerate exploration across all projects.</p> <p>In January 2023, after the Quarter, Xanadu completed a \$1.1 million Placement (before costs) to provide working capital during the final approval stages of the Agreement with Zijin.</p>

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

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

Yes. See answer to 8.8.1.

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

Yes. See answer to 8.8.1.

Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 January 2023

Authorised by: By the board

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

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – e.g., Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.