KINETIKO ENERGY LTD

ASX Announcement
31 October 2023

QUARTERLY ACTIVITIES REPORT ENDING 30 SEPTEMBER 2023

HIGHLIGHTS

- **Health, Safety and Environment**
    - No accidents, injuries or health or environmental incidents have been reported during the period.
    - Safety meetings are held prior to every shift on the wellsite.
    - The Regulator (Petroleum Agency of SA) visited our worksite during the last week of September and all commentary was positive.
    - A SHEQ Officer will be appointed prior to the next drilling phase.

- **Regulatory**
    - Afro Energy has completed its entire minimum work scope for the original Exploration Rights and has begun on the obligatory work scope for the renewal periods. ER270 renewal expires in June 2025 while ER271 and ER272 expire in Feb 2025.
    - The signing ceremony for the three renewals of Rights was held at the new PASA offices on 28 June 2023, attended by (then) CEO Dr Phindile Masangane and AE Chairman, Mr Don Ncube.

- **New Joint Venture with South African Strategic Investor**

  Afro Energy is in negotiations with the Industrial Development Corporation of South Africa ("**IDC**") to co-develop a new Special Purpose Vehicle ("**SPV**") for the appraisal, development and production of wellfields in Block ER271. The intention is to produce natural gas to midstream LNG infrastructure to deliver 50MWe (60,000 tonnes per annum) in Stage 1 growing to 500MWe gas equivalent energy.

  The first stage 50MWe equivalent project is estimated to cost approximately A$138M comprising A$90M equity and A$48M debt.

  The second stage intends the parties expand the JV to 500MWe LNG gas equivalent, which would be the largest onshore LNG project in South Africa.

  The IDC has been granted the option to participate in the co-development of further 1,000MW LNG gas equivalent projects, totaling 1.5GW.

  The Term Sheet will underpin the Company's strategic objectives to unlock over 2TCF in gas reserves and become a sustainable cleaner energy solution for the South African economy.

- **Corporate restructure / merger**

  In September, Kinetiko completed the acquisition of the 51% interest in Afro Energy (Pty) Ltd (Afro Energy) from its joint venture partner, Badimo Gas (Pty) Ltd (Badimo), through the issue of 495,482,590 fully paid ordinary shares issued in the Company (Consideration Shares) to underlying Badimo shareholders (Acquisition). Afro Energy is the South African incorporated entity holding the exploration rights in South Africa prospective for natural gas.

Kinetiko now holds 100% of the issued capital of Afro Energy following completion of the Acquisition and, in turn, 100% of the exploration rights to the flagship Mpumalanga Gas Project.

Capital Raising

Kinetiko entered into a subscription agreement with Talent 10 Holdings (Pty) Ltd (**T10**) to raise A$6,500,000 through the issue of 72,222,222 fully paid ordinary Kinetiko shares at an issue price of $0.09 each (Capital Raising). The Capital Raising was the first step in a series of corporate transactions required for the Company to complete its acquisition and restructure of Afro Energy.

Kinetiko issued 495,482,590 Shares (Adjusted Consideration Shares) to the underlying shareholders in Badimo Gas (Pty) Ltd (Badimo), being the entity holding the remaining 51% interest in Afro Energy.

Upon completion of the Capital Raising, Afro Energy issued new shares in Afro Energy to the Company for an aggregate subscription price equal to the South African rand equivalent of AUD $6,500,000, payable in cash to Afro Energy (being the amount raised under the Capital Raising) (Afro Energy Subscription).

Following the Afro Energy Subscription, the Company held a ~95% interest in Afro Energy, with the outstanding Afro Energy shares then held by Badimo being bought back pursuant to a share buyback agreement between Badimo and Afro Energy. Upon the completion of these transactions, Kinetiko became the sole shareholder in Afro Energy and issued the Adjusted Consideration Shares to the underlying Badimo Shareholders.

Board of Director changes

In association with the Acquisition, and as approved by shareholders at the Company's recent general meeting on 23 June 2023, two nominee directors of Badimo, Mr Donald Ncube and Mr Robert Bulder, were appointed to the Company's Board of Directors.

Indicative Capital Structure

Security	Number
Existing Shares	852,785,744
Consideration Shares	495,482,590
Total Shares Post Restructure	**1,348,268,334**
Options	3,000,000
Fully Diluted	**1,351,268,334**

- **Maiden Gas Reserves & major Increase In Contingent Resource**

Building on the material existing certified Contingent 2C Gas Resource of 4.9 TCF, Kinetiko received an independent gas reserves and resources report from Sproule B.V. dated 14 August 2023 ("Sproule Report"). Maiden gas reserves of 6.4 BCF assessed over pilot gas production field underpinned by an existing, limited scope IDC joint venture produced positive economics.

A 20%+ increase in 2C Contingent Resource to over 6.0 TCF was reported with the expectation for significant further upgrades from adjacent application exploration right (ER 320) when granted.

Concurrent Prospective Resource 2U was calculated at an additional 5.8 TCF, convertible to contingent resource based on further exploration drilling.

Maiden reserves assessed were over an initial 6.8 km^2 30 well cluster which represents less than 0.2% of the Afro Energy's granted rights and application areas, providing for enormous potential for further increases in gas reserves.

- **Cash**

As of 30 September 2023, Kinetiko is in a strong financial position with no debt and approximately $3.89m in available funds comprising $2.25m in cash, in addition to a further $1.64m of proportionate funding advanced to Afro Gas Development Pty Ltd to commence joint venture with the IDC who in addition has also contributed approximately $1.21m.

Introduction

Energy exploration company Kinetiko Energy Limited (ASX:KKO) ("**Kinetiko**" or "**Company**") is pleased to report on corporate developments and operational activities during the September 2023 quarter at Tenements ER12/3/270, ER12/3/271, ER12/3/272 and ER12/3/320. The activities are conducted through Afro Energy (Pty) Ltd ("**Afro Energy**") on closure of the merger, a 100% subsidiary of the Company.

Exploration update

Strong Exploration Results from Block ER272

The Company's initial exploration campaign of six core (Figure 1) holes have all delivered excellent results, as visible in the logs below (Figure 2), showing easily correlating geology. The pink-shaded inter-curves in the logs are the crossover between neutron and density log responses and represent very gassy sediments between 50m and 343m in the shallowest and deepest cases. Net gas cuts range from 101m to 166m with an average of 128m across the core holes, with core hole 292-06C topping out at 166m out of 178m of sub-igneous stratigraphy, or 93% of the bore length being gas-laden. The reservoirs display the most superior porosities and permeabilities across the Company's exploration geology, thereby holding the potential for commercial flow rates.

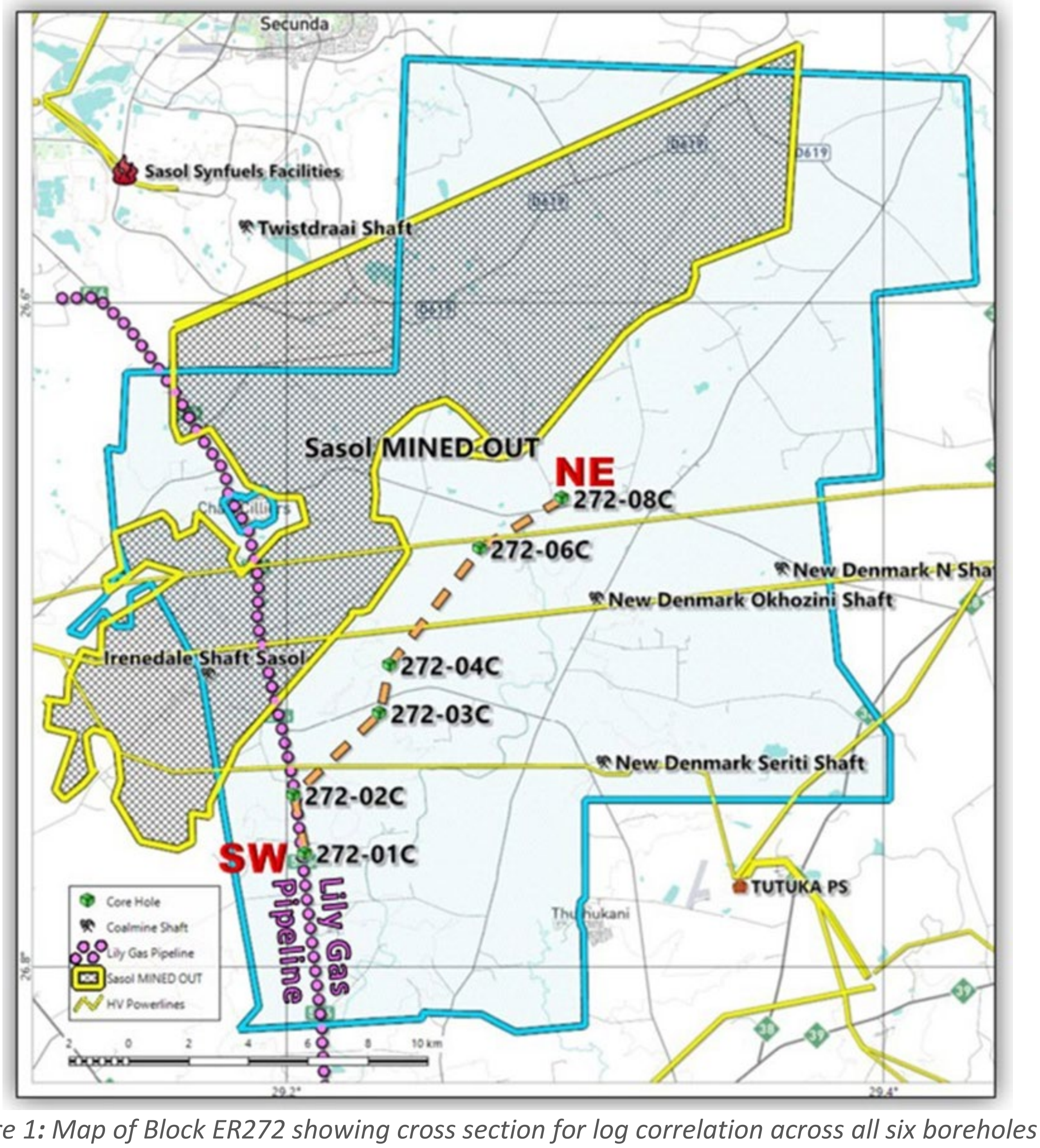

Figure 1: Map of Block ER272 showing cross section for log correlation across all six boreholes

These are the wireline logs from the 6 core exploration holes within ER 272 situated in the unmined area between the massive Sasol Secunda Synfuels Plant and the Tutuka Power Station. The datum in this cross-section is the top of the main coal seam. The holes have between 101-166m gassy sandstones (pink crossover) below dolerite sill caps, especially below the coal seam targeted for mining. The depth of the gassy sandstones ranges from 50 to 343m. Tapping the gas with production wells will have the added benefit of removing the gas ahead of underground mining.

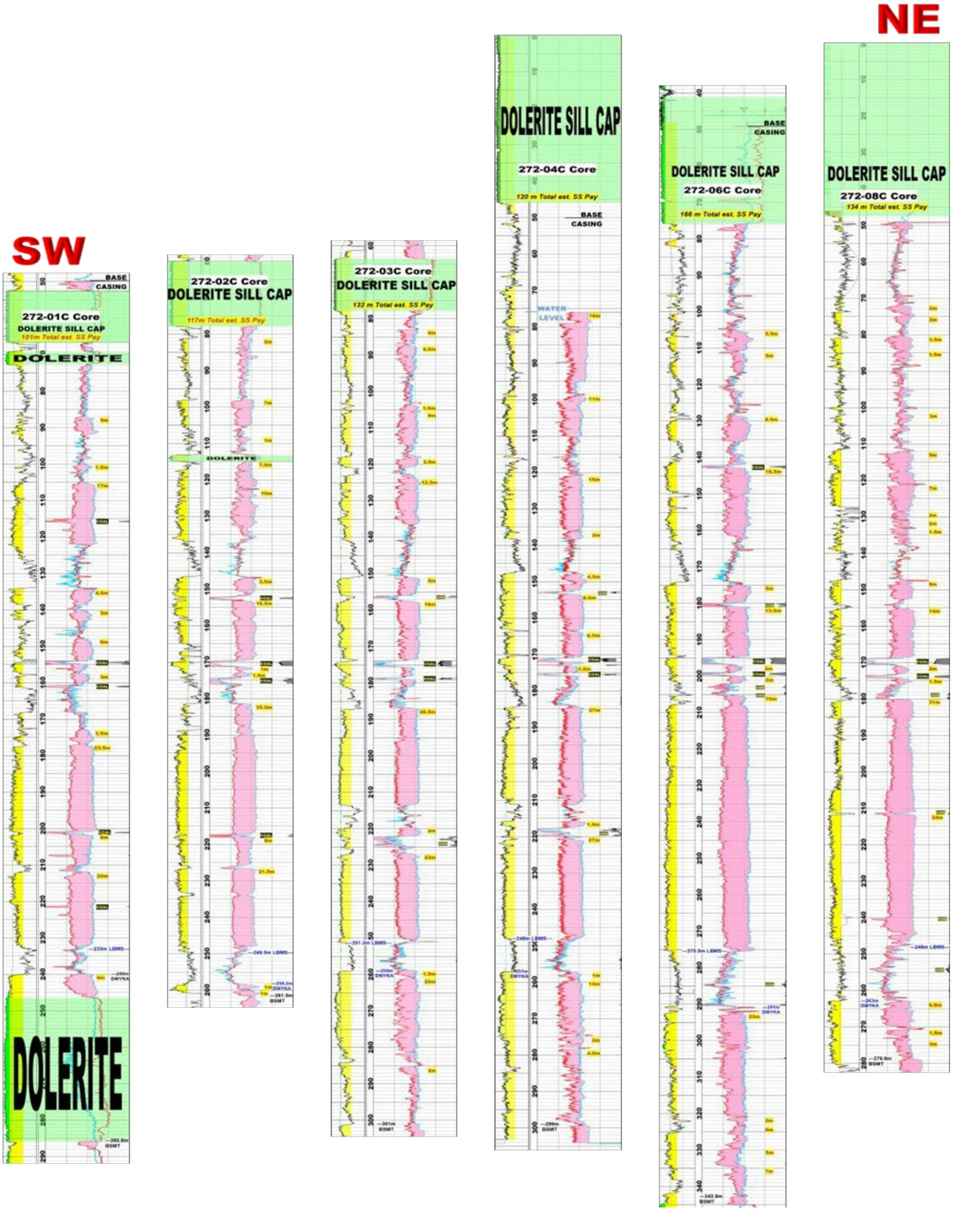

Figure 2: Combined logs of all six core holes in block ER272. Pink colouring indicates neutron-density crossover and therefore gas-bearing sediments.

The geographical position of such a high-potential exploration success being in the vicinity of both the Sasol Synfuels plant at Secunda and the Lily-1 pipeline has obvious commercial advantages. Sasol intends to utilise an increasing amount of its own gas from their historical source in Mozambique, a lot of which is currently in national reticulation. That source is expected to deplete substantially post-2026. In an obvious solution to mitigate the pollutive effects of coal, Sasol also plans to replace a significant amount of coal in their Coal-to-Liquids Synfuel plant with cleaner gas, leaving less process gas output for the "Lily Line" customers who are facing a real issue with a gas cliff looming.

This therefore represents multiple large offtake opportunities for Kinetiko's gas in the region, and is one of the major drivers for the huge national coverage this exploration outcome has generated.

Sproule Report: Maiden Gas Reserves and Major Increase in Contingent Resource Confirms Positive Economics and Enormous Scalability

The Sproule Report can be found as an attachment to ASX Announcement dated 22 August 2023: *Independent Reserve Evaluation Report: Estimation of Natural Gas Reserves and Resources with Associated Economics of the Licenses ER 270, 271 & 272 in the Republic of South Africa As of July 1, 2023*

The main objective of the Sproule Report was to confirm that the geological setting that makes up Kinetiko's, through its 49% shareholding interest in Afro Energy, granted exploration rights would produce positive economics which has been confirmed.

The significant highlights from the Sproule Report are:

1. Kinetiko's Net Contingent Gas Resources (2C) has increased by over 20% to 6.0TCF;
2. Maiden gas reserve certification has been assessed over the Company's planned 30 well pilot production cluster as part of its Industrial Development Corporation of South Africa joint venture ("SPV0 Project") and calculated to deliver positive economics. The SPV0 Project is to be located in a cluster of wells covering approximately 6.8km2 which forms 0.2% of the granted rights and prospective geology (see figure 1); and
3. In addition, 5.8 TCF of Prospective Resources (2U) has been certified on the two exploration rights where exploration work is continuing (ER 270 and ER 272).

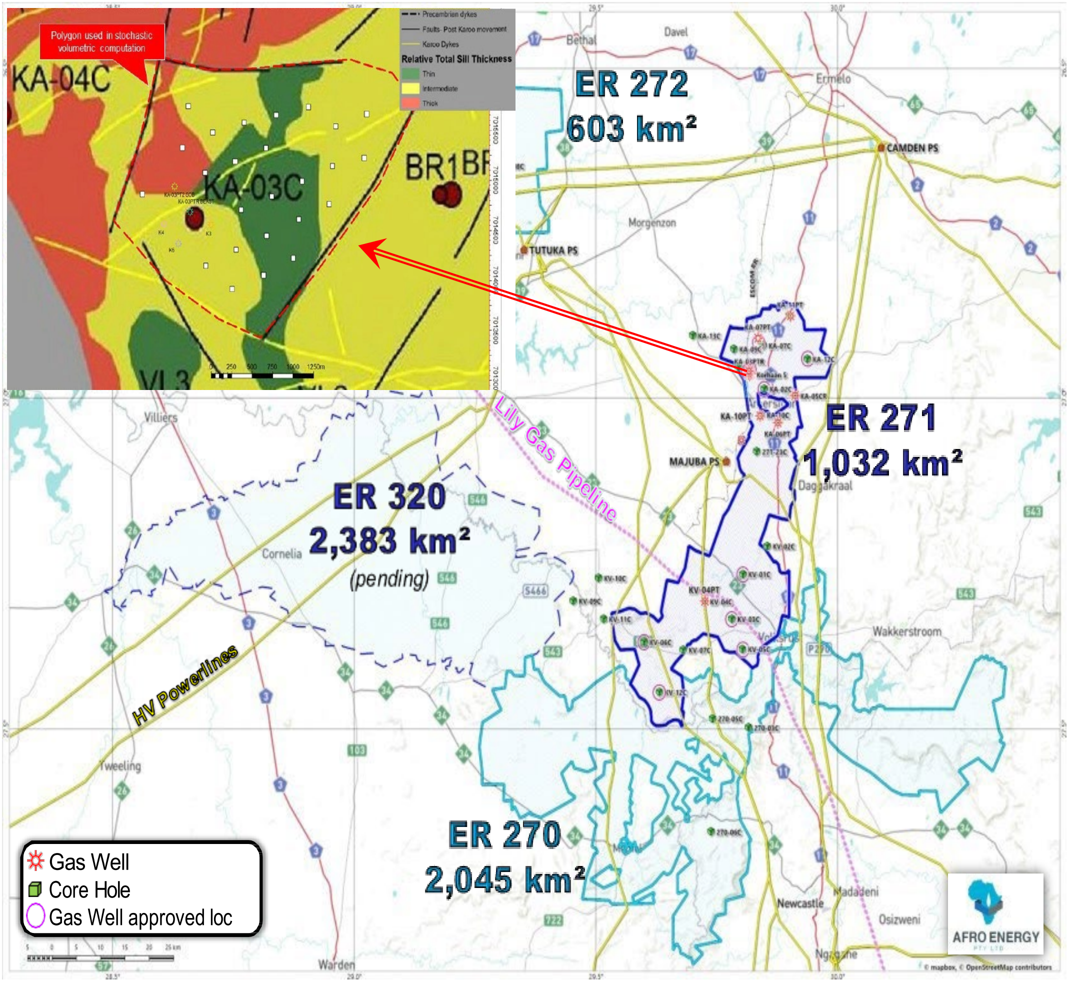

Figure 4: Illustration of the 30-well cluster and small land area compared to total ER's

Sproule B.V., an independent sub-surface consultancy based in Calgary, Canada has conducted an independent evaluation of the natural gas reserves and resources in South Africa of License's ER270, 271 and 272 which, at the date of the Sproule Report, are wholly owned by Afro Energy.

Refer to Appendix 1 (in ASX Announcement dated 21 August 2023: *Maiden Gas Reserves & Major Increase In Contingent Resource Confirms Positive Economics & Enormous Scalability*) for additional information on this independent reserves and resources certification required by the ASX Listing Rules.

RESERVES TABLE:

Table 1 Summary of Net Gas Reserves for ER 271 Gas Field Development Project (Gross)

	PDP	PDNP	PUD	Total Proved (1P)	Proved + Probable (2P)	Proved + Probable + Possible (3P)
Gas (MMCF)	0.0	655.3	3,276.5	3,931.8	6,427.5	10,047.4

*The Company notes that the Gross figures listed in the table above represent Afro Energy's 100% interest in the exploration rights. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both a risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially recoverable hydrocarbons.

RESOURCES TABLES:

Table 2 Contingent Conventional Resources Calculated for the Three Kinetiko Licenses (Gross)

License	1C	2C	3C
ER 271	1,044	1,741	2,697
ER 270	851	1,439	2,232
ER 272	823	1,093	1,423
Total	**2,718**	**4,273**	**6,352**

*The Company notes that the Gross figures listed in the table above represent Afro Energy's 100% interest in the exploration rights.

Table 3 Contingent CBM Resources Calculated for the Three Kinetiko Licenses (in Bcf, Gross)

License	1C	2C	3C
ER 270			
Sorbed CR	78.6	1,028.1	5,896.5
Free CR	-	-	1,071.0
Total CR	**78.6**	**1,028.1**	**6,967.5**
ER 271			
Sorbed CR	39.4	515.3	2,955.5
Free CR	-	21.5	255.2
Total CR	**39.4**	**536.8**	**3,210.7**
ER 272			
Sorbed CR	11.0	144.3	827.5

Free CR	-	6.0	71.5
Total CR	**11.0**	**150.3**	**899.0**
Total CBM CR	**129.0**	**1,715.2**	**11,077.2**

*The Company notes that the Gross figures listed in the table above represent Afro Energy's 100% interest in the exploration rights.

Table 4 Total Contingent Resources Calculated for the Three Kinetiko Licenses (in Bcf, Gross)

License	1C	2C	3C
Total CBM and SST CR	**2,846.0**	**6,031.4**	**17,429.1**

*The Company notes that the Gross figures listed in the table above represent Afro Energy's 100% interest in the exploration rights.

Table 5 Prospective Convectional Resources Calculated for the Three Kinetiko Licenses (in Bcf, Gross)

License	1U	2U	3U
ER 271	-	-	-
ER 270	3,201	5,413	8,396
ER 272	303	406	529
Total	**3,504**	**5,819**	**8,925**

*The Company notes that the Gross figures listed in the table above represent Afro Energy's 100% interest in the exploration rights. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both a risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially recoverable hydrocarbons.

About Sproule

Sproule is a leading independent petroleum engineering and certification firm based in Calgary, Canada with offices in Denver, Colorado which has experience working in most of the significant petroleum provinces throughout the world. Sproule has completed Reserve and Resource assessments for a number of clients in Australia and internationally including Adelaide Energy, Arrow Energy, Bow Energy, ConocoPhillips, CS Energy, Eastern Star Gas, Metgasco Ltd, Molopo Energy Australia, Pure Energy, Santos Ltd, Senex, Sunbird Energy and Sunshine Gas.

Information Required by Listing Rule 5.4.1

The company had cash outflows for exploration and evaluation incurred during the first quarter of the 2024 financial year in the amount of approximately **ZAR 13,574 million (A$1,120k)** to cover, inter alia:

- Drilling services
- Wellsite equipment
- Contractor fees
- Waste Management solutions
- Evaluation
- Environmental auditing
- Salaries, wages and day-rates
- Landowner Engagement
- Tenement Renewal Fees

This represents spend towards SA suppliers and employees during this quarter.

During the September 2023 quarter, payments totaling approximately $65k was paid to directors and their associates for directors' fees, company secretarial fees, corporate fees, capital raising fees and legal fees.

Commitment to Domestic Employment

Kinetiko employs local community members, labourers, plant, equipment, and consumables in every possible opportunity following our policy to localise our spending wherever we can find quality goods and services at competitive rates.

Kinetiko has employed South African specialist companies for various exploration activities during the most recent annum. Some of the major suppliers are:

Company	Application
SLR Consulting	Environmental Practitioners
WSP-Golder	Environmental Practitioners
Infin Drilling (Pty) Ltd	Core drilling rig, casing and related services
Franklin Electrical / LOG	Supply and maintenance of surface and downhole equipment
Akhona Oil and Gas Services	Supply of Cementation Engineering and HSE Personnel
Cliffe Dekker Hofmeyr	Legal services

Numerous other businesses and individuals in Mpumalanga and Gauteng have benefited from our presence and procurement requirements during 2023.

Tenure Status as at 30 September 2023

Tenement reference	Nature of interest
ER320 (TCP 106)	Application for conversion from Technical Cooperation Permit to Exploration Right has had to be re-started, after recent advice from PASA. Application is expected to be started by re-performing the Scoping Document, beginning in Q4 2023.
ER 270	Exploration Right granted on 03 September 2019. Er Renewal award received on 16 Feb 23.
ER 271	Approval granted by Dept of Mineral Resources (DMR) on 19 August 2021 for consolidation with ER38 and ER56. ER Renewal award received on 12 June 23. Production Right application support contract has been issued.
ER 272	Exploration Right granted on 21 August 2019. ER Renewal award received on 16 Feb 23.

Competent Persons and Compliance Statements

Unless otherwise specified information in this report relating to operations, exploration and related technical comments have been compiled by CEO, Mr. Nick de Blocq, who has over 36 years of experience in energy minerals exploration and production, including various executive roles. Mr. de Blocq consents to the inclusion of this information in the form and context in which it appears.

This announcement is available to view on the Company's website www.kinetiko.com.au

The Company confirms that it is not aware of any new information or data that materially affect the information included in the relevant market announcements and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

\- ENDS-

For more information visit: www.kinetiko.com.au or contact,

Adam Sierakowski
Executive Chairman
08 6211 5099
adam@Kinetiko.com.au

Evy Litopoulos
Investor relations
Resolve IR
evy@resolveir.com

About Kinetiko Energy and Afro Energy

Kinetiko Energy is an Australian gas explorer focused on advanced shallow conventional gas and coal bed methane (CBM) opportunities in rapidly developing markets in Southern Africa. South Africa has extensive gassy coal basins, extensive energy infrastructure and a growing gas demand, making it an attractive area for investment. The Company has a large potential exploration area, of which approximately 7000km^2 is granted and being explored.

Afro Energy (Pty) Ltd. was incorporated as a joint venture founded in 2015 by Kinetiko Energy Ltd (49%) and Badimo Gas (Pty) Ltd of South Africa (51%) as a JV company to own 100% of the exploration rights with required BEE (Black Empowerment Endowment) certification, and facilitate South African investment in order to continue to explore, develop, and commercialise gas production.

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Appendix 5B

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

Name of entity

KINETIKO ENERGY LIMITED

ABN	Quarter ended ("current quarter")
45 141 647 529	30 September 2023

Consolidated statement of cash flows			Current quarter $A'000	Year to date (3 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	(85)	(85)
	(e)	administration and corporate costs	(39)	(39)
1.3	Dividends received (see note 3)		-	-
1.4	Interest received		46	46
1.5	Interest and other costs of finance paid		(1)	(1)
1.6	Income taxes paid		-	-
1.7	Government grants and tax incentives		-	-
1.8	Other – net GST and VAT (paid) / refunded		(79)	(79)
1.9	**Net cash from / (used in) operating activities**		**(158)**	**(158)**

2.	**Cash flows from investing activities**			
2.1	Payments to acquire or for:			
	(a)	entities	(6,500)	(6,500)
	(b)	tenements	-	-
	(c)	property, plant and equipment	(257)	(257)
	(d)	exploration & evaluation	(1,120)	(1,120)
	(e)	investments	-	-
	(f)	other non-current assets	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Loans to other entities/individuals	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Repayment of loans to other entities/individuals	167	167
2.6	**Net cash from / (used in) investing activities**	**(7,710)**	**(7,710)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	6,500	6,500
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)	-	-
3.10	**Net cash from / (used in) financing activities**	**6,500**	**6,500**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	3,559	3,559
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(158)	(158)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(7,710)	(7,710)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,500	6,500

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
4.5	Effect of movement in exchange rates on cash held	54	54
4.6	**Cash and cash equivalents at end of period**	**2,245**	**2,245**

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	2,245	3,559
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)**	**2,245**	**3,559**

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	65
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	-	-
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.		
	N/A		

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(158)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(1,120)
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(1,278)
8.4	Cash and cash equivalents at quarter end (item 4.6)	2,245
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	2,245
8.7	**Estimated quarters of funding available (item 8.6 divided by item 8.3)**	1.75

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.

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?

Answer: No, the company has near concluded its exploration and onsite evaluation works so expects expenditure to decrease in the coming quarter.

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?

Answer: The company is investigating both debt and equity opportunities to secure future capital.

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?
	Answer: Yes, the company expects to be able to continue its operations and to meet its business objectives based on its responses to items 1 and 2 above.
	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: 31 October 2023

Authorised by the Board

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 – eg 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.