

**ASX ANNOUNCEMENT**

**FOR IMMEDIATE RELEASE TO THE MARKET**

**Li-S Energy Limited – ASX Code: LIS**

**Thursday 31 October 2024**

**Quarterly Activities and Cashflow Reports**

Li-S Energy Limited (ASX: LIS) (“LIS” or “the Company”) is pleased to provide its September 2024 Quarterly Activities and Cashflow Reports.

This announcement has been authorised by the Board.

For further information contact:

**Dr. Lee Finniear**

Chief Executive Officer

Li-S Energy Limited

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# QUARTERLY ACTIVITIES REPORT

September 2024



Li-S Energy



Full sized, 10Ah semi-solid-state lithium sulfur pouch cell, manufactured out of Li-S Energy's Phase 3 facility in Geelong.

## CONTENTS

Official Phase 3 Ministerial Opening with Minister Ed Husic  
\$1.7m Industry Growth Program (IGP) Grant  
Trade Show and Exhibition Participation: Insights and Outcomes

# CEO's REPORT

The September Quarter saw continued success driving forward our production capability, grant funding and developing a global presence in key industries:

## Phase 3 Facility Opening & IGP Award

In August the Hon. Ed Husic MP, Minister for Industry formally opened our Phase 3, 2MWh automated pouch cell production facility.

Importantly, Minister Husic also chose Li-S Energy as the venue to launch the Industry Growth Program (IGP). Li-S Energy was one of five inaugural grant recipients, awarded a \$1.7M grant to build Australia's first lithium metal foil production line.

## Lithium Metal Foil Production Line

This exciting project will enable Li-S Energy to produce its own lithium metal foils and laminates for use on the anode in lithium sulfur and lithium metal batteries. With this capability we will be able to:

- Optimise anode foil thickness to increase cell performance
- Add specialty coatings such as our patented Li-nanomesh to mitigate **dendrites** and enhance cycle life
- Sell high quality foils and laminates internationally to the rapidly growing advanced battery market

## Small Format Phase 3S Line

During the quarter we completed commissioning of our small format Phase 3S production line. The aim of this line is to produce smaller lithium sulfur and lithium metal cells required by our partners for wearable and smaller unmanned systems applications. The first Phase 3S cells have been produced and are now in testing.

## “Dawn-til-Dusk” Drone Program

Having received the first tranche of the Emerging Aviation Technology Partnership (EATP) Grant funding, the teams at V-Tol Aerospace, Halocell

and Li-S Energy have made substantive progress in line with the project plan. Airframe design is well underway, initial test perovskite solar cell arrays have been supplied and Li-S Energy is designing a battery pack incorporating its intelligent Battery Management System.

## Conferences & Exhibitions

Highlighting Li-S Energy's increasing global brand recognition, in August I was invited to present at the **Solid-State Battery Summit** in Chicago, Illinois. The audience included global EV, Aviation, Drone and Defence industry leaders.

Also in August I represented the Australian Battery Industry on a panel at the AusIMM **Critical Minerals Conference** in Brisbane.

In September we exhibited at the **Land Forces Conference** in Melbourne, taking a corner booth on the Invest Victoria stand.

Interest in our lightweight battery technology was exceptional from both military personnel and defense prime contractors.

Of particular interest were the sample Li-S cells on our stand, shown next to equivalent Li-ion and military standard batteries. Visitors could pick up each sample and actually experience how significant the weight savings are with Li-S Energy technology.

Following on from this excellent interest, we are now entering into NDAs and engaging in meetings with key partner opportunities.



**Dr Lee Finniear**  
**Chief Executive Officer**



stock image

# Highlights, material developments and changes

## Q3 '24



Awarded \$1.7m Industry Growth Program grant to implement Australia's first Lithium foil processing capability



Our Phase 3 facility was officially opened by Minister Ed Husic



EATP Dawn 'til Dusk drone progressing on track



Phase 3s cell production line is now fully installed



Scan to watch our official opening promotional video



Li-S Energy was represented at several key conferences and exhibitions globally



Our team has expanded this quarter with the addition of two key R&D hires and two support staff.



The Company had \$22.4 million in current assets at 30 September 2024



## Li-S Energy

# Minister Husic Opens Phase 3 Facility

On Friday, August 9th, we had the privilege of hosting Minister Ed Husic and local MP Libby Coker, along with representatives from various media outlets, to officially open our Phase 3, 2MWh production facility, the largest of its kind in Australia.

Minister Husic also chose Li-S Energy as the location to officially launch the Industry Growth Program (IGP), and highlighted the company as an inaugural recipient of an IGP grant worth \$1.7M to build a lithium foil production line.

The visit lasted more than 1.5 hours, during which Minister Husic demonstrated a high level of engagement and enthusiasm regarding Li-S Energy and its potential to contribute to Australia's advanced manufacturing sector.

Minister Husic also requested an in-depth briefing on the lithium foil production line and the planned scale up to a commercial Phase 4 "Gigafactory". He expressed a keen interest to support this opportunity for advanced battery manufacturing in Australia.

## Media Coverage

Media interest in the event has been substantial, and included articles in the Sydney Morning Herald and The Age, plus live interviews on AusBiz and a number of popular online podcasts.

Internationally, articles were syndicated across NewsCorp publications in print and online, while BusinessWire expanded coverage to the USA and beyond.



*Dr. Steve Rowlands, LIS Chief Technology Officer explaining the stacking process to Minister Ed Husic and Libby Coker, MP*

# \$1.7m IGP Grant for Australia's first lithium foil production line

Li-S Energy is proud to be an inaugural recipient of the Industry Growth Program (IGP) Grant, being awarded \$1.7M to build and commission Australia's first lithium foil production line.

For Li-S Energy this project provides several key advantages:

1. **Supply Security** - We will no longer be reliant on foreign lithium foil supply
2. **Quality and Performance** - We can produce higher quality foils, with thicknesses and coatings optimised to improve the performance of Li-S Energy cells
3. **Manufacturing IP** – we will build essential IP needed for future GWh cell manufacturing
4. **Cost** – we will reduce the cost of our anodes by up to 90%
5. **Revenue** – we expect to sell high quality lithium foils and laminates internationally

## LI-FOIL PRODUCTION STEPS



The production line includes extrusion, rolling, laminating and coating processes to produce a range of lithium foil products including pure lithium foils, lithium copper laminates and the addition of speciality coatings.

The company has the advantage of being able to leverage its existing Dry Room, an essential element of lithium foil production, reducing the capital cost of the project.

The IGP Grant award is indicative of steadily increasing Federal Government recognition that Li-S Energy offers a unique opportunity for Australia to show leadership in advanced battery technology and scaled manufacturing.

We look forward to continuing to engage with both State and Federal Governments on additional projects, and on the design, location and funding for our upcoming Phase 4 commercial battery factory.



# Trade Shows and Exhibitions

## Solid-State Summit - Chicago

On August 13-15, our CEO, Dr. Lee Finniear was invited to speak as a guest panellist at the Solid-State Battery Summit in Chicago, IL.

The event was well attended with senior decision makers from EV, Aerospace and Defence in attendance, plus a number of battery R&D companies developing a range of battery technologies including:

- Lyten
- Gelion
- Zeta Energy
- Theion
- Solid Power
- Samsung
- Blue Solutions
- Hydro-Quebec
- Quantumscape
- Ampcera
- Wildcat
- Polyplus
- Ion Storage Systems
- Factorial



*Dr. Lee Finniear, LIS CEO getting ready to speak as part of the Lithium Sulfur Seminar in Chicago*

Commenting on the conference, Lee Finniear said:

“This Summit was an extremely valuable event for Li-S Energy. It enabled us to not only engage with a range of global prospective partners, but also to gauge where we stand compared to others in the advanced battery space. In particular I was able to draw a comparison between our current status compared to other players in

lithium sulfur and lithium metal cell development arena.

The good news is that based on competitor presentations at the event it is clear to me that we have built a highly capable Phase 3 production facility that is truly world class. Also the energy density results from our latest lithium sulfur cells are higher than those presented by other companies at the seminar. This gives me a high level of confidence that our strategy over the last three years is placing us high on the global leaderboard in this industry.”

## AusIMM Critical Minerals Conference - Brisbane

On 27<sup>th</sup> August, our CEO participated as a panelist at the AusIMM Critical Minerals Conference, alongside prominent Australian leaders in the battery technology and manufacturing sectors.

The discussion centred around the theme, “If we mine it here, we should make it here,” emphasising the future of Australian battery technology and the strategic importance of establishing domestic processing capabilities for critical battery minerals and battery cell manufacture at scale.

This engagement underscores Li-S Energy’s commitment to supporting the growth of a sustainable, locally-driven battery supply chain in Australia.

# Land Forces 2024

LIS had the privilege of being invited to participate in the Invest Victoria Government Pavilion at this year's Land Forces Exposition. The event was well attended, and our presence attracted significant attention, especially due to the lightweight advantages of our cell technology, which holds substantial promise for the drone and military equipment sectors.

Throughout the conference, we engaged in key discussions with a number of companies and generated credible leads for potential partnerships, customers, and suppliers. The Victorian Government team played an instrumental role in facilitating these connections, including a notable inclusion in the official tour led by Chief of Army, Lieutenant General Simon Stuart, AO DSC.

Our participation at this high-profile event has further cemented our industry reputation and opened doors to exciting opportunities in the defence industry.



Justin Holloway, LIS Cell Test & Production Manager detailing our advancements with Chief of Army, Lieutenant General Simon Stuart, AO DSC



The LIS Energy pod, corner facing as part of the Invest Victoria Pavilion



# Facilities and Talent Update

## Phase 3 Production Line

The Phase 3 Production Line has been fully commissioned and production development is now underway.

Phase 3 is producing 10Ah and 20Ah cells which are used for internal testing as part of the production development process. In addition, cells are now being produced to test battery pack configurations for the Emerging Aviation Technology Partnership (EATP) Pegasus “Dawn-til-Dusk” unmanned air system program.

## Phase 3s Production Line

The Phase 3S small format production line has been successfully installed and is operating as expected. Cells are being produced on the line and are currently undergoing internal testing, showing positive initial results.

## Production Development

We are currently engaged in an intensive phase of Production Development. This is a critical process needed to scale to volume production, improve cell performance, reliability and quality.

During this phase, the LIS team produces full-sized 10-21Ah pouch cells on our Phase 3 and Phase 3S production lines. Each batch of cells undergoes cycle testing, allowing us to evaluate performance and identify potential issues.

If issues are detected, we conduct thorough root cause analyses to understand any underlying defect. These insights are then incorporated into iterative design improvements for the next batch of cells.

This continuous and rapid feedback loop is essential to refine the quality and efficiency of the cells and the cell manufacturing processes, essential to deliver reliable high-quality cells to partners that perform to their requirements.

## Talent Acquisition

Over the past quarter, we successfully filled four essential roles to enhance our Geelong team, delivering additional skillsets needed to advance our technology and production.

**OH&S Officer** - Responsible for developing, monitoring and enhancing safety standards across our research and production operations, ensuring compliance with all regulations.

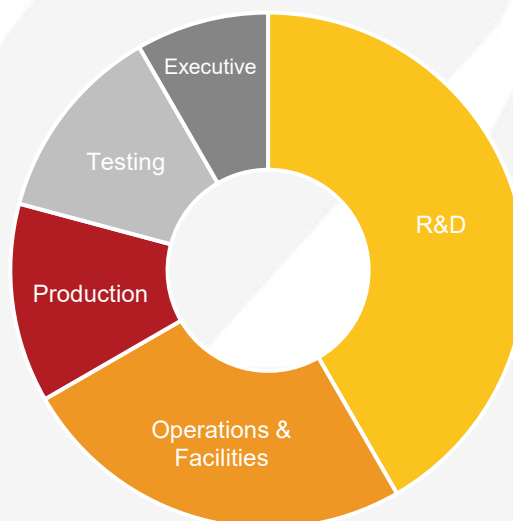
**Administration Officer** - Supporting our Operations and Facilities team, this role also oversees inventory tracking, supply chain management, and coordinates partner engagements.

**Production Development Engineer** - Engaged to optimise our production performance, this role is responsible for achieving the production accuracy and efficiency required across all production lines and processes.

**Research Assistant** – an addition to our research assistant team, further strengthening our cell development and materials optimisation capabilities.

As can be seen below, our staff headcount is heavily focused toward rapid technology optimisation and production.

**Li-S Energy Headcount by Department**  
(as at 30 September, 2024)



# Summary of expenditure

Please refer to Appendix 4C below for the detailed quarterly cash flow report, including a summary of the Company's expenditure on the above activities.

Net cash outflows used in operating activities during the quarter were \$1,530,000. This was primarily driven by:

- Total staff costs of \$936,000, of which \$582,000 was reallocated to investing activities and capitalised against intellectual property and property, plant and equipment;
- Payments for research and development associated with government grants received of \$129,000;
- Payments for administration and corporate costs of \$1,480,000, consisting of payments for management support services to a subsidiary of PPK Group Limited of \$230,000, and other administration and corporate costs of \$1,250,000;
- Partly offset by interest income of \$301,000 and a GST refund received of \$154,000.

The net cash outflows used in investing activities during the quarter were \$1,497,000, consisting primarily of:

- Payments for property, plant and equipment of \$1,054,000, primarily related to equipment purchases associated with the phase 3 production facility of \$631,000, and capitalisation of employee costs of \$423,000;
- Payments for intellectual property of \$969,000, mainly reflecting payments to Deakin University for development activities of \$695,000, and capitalisation of employee costs against the development activities undertaken of \$159,000;
- Partly offset by government grants received in relation to payments for intellectual property and plant and equipment of \$526,000.

The net cash outflows from financing activities for the quarter were \$53,000, consisting of repayments to its lease liabilities, accounted for in accordance with AASB 16 *Leases*.

## Use of funds

Pursuant to Listing Rule 4.7C.2, the Company provides in Table 1 below, a comparison of its actual expenditure on the individual items in the “use of funds” statement since the date of admission to the official list against the estimated expenditure on those items in the “use of funds” statement in the IPO prospectus and an explanation of any material variances.

\$'000	Use of funds estimate (per Prospectus)	% of Funds	Cash payments to 30 September 2024	% of actual funds expended against Cash Payments to 30 September 2024
Project Expenditure	29,113	85.63%	21,756	69.65%
Costs of the Offer	3,582	10.54%	2,236	7.16%
Other Working Capital	1,305	3.84%	7,242	23.19%
<b>TOTAL</b>	<b>34,000</b>	<b>100.00%</b>	<b>31,234</b>	<b>100.00%</b>

**Table 1** – Comparison of “use of funds” statement per prospectus to cash payments since the date of admission to the official list of the ASX to 30 September 2024

For the purposes of the above “use of funds” table, the Company has allocated significant administration and corporate costs to the ‘Other Working Capital’ category. Per section 5.11 of the Prospectus, the Company held additional funds from pre-IPO capital raisings for the purpose of funding working capital requirements. The ‘Other Working Capital’ cash payments to 30 September 2024 includes the secured loans advanced in the year ended 30 June 2023, along with cash outflows related to the acquisition of investments. The total cash at the date of IPO was \$50,563,000. Total cash as at 30 September 2024 was \$19,731,000.

The material variances above are a result of both the inclusion of all cash payments in the table versus the use of funds estimate, which excluded the pre-IPO capital raisings and deployment of funds into investments, along with the timing of the actual cash payments versus the use of funds period estimate utilised in the IPO prospectus, being the period to 30 September 2024. Furthermore, expenditure does not occur in a linear manner, with actual cash payments evolving as the Company progresses towards the completion of the construction and fitout of the phase 3 facility.



## Payments to associates or related parties

In accordance with Listing Rule 4.7C.3, the Company advises that it paid \$1,094,000 to related parties of the Company during the quarter, consisting of:

- payments to Deakin University of \$695,000 relating to project activities undertaken in relation to the Recycling and Clean Energy Commercialisation Hub Research Framework Agreement, which forms part of the Federal Government's Trailblazer Universities Program;
- payments to Deakin University of \$162,000 relating to various lease agreements for production bays (including outgoings) at Deakin's ManuFutures advanced manufacturing hub in Geelong, Victoria;
- payments to a subsidiary of PPK Group Limited of \$230,000 for management support services provided in accordance with the relevant agreement, and as disclosed in section 12.6 of the Prospectus; and
- payments to subsidiaries of PPK Group Limited of \$7,000 for purchase of nanomaterials, recovery of contracted labour costs, and pass through of costs incurred on behalf of the Company.



# CORPORATE DIRECTORY (as at 31 October 2024)

Li-S Energy Ltd ABN 12 634 839 857

A public company incorporated in Queensland and listed on the ASX (code LIS)

Chief Executive Officer	Dr Lee Finniear
Chief Financial Officer	Ms Sarah Price
Board of Directors	Mr Benjamin Spincer Ms Hedy Cray Mr Marc Fenton
Company Secretaries	Mr Will Shiel Mr Liam Fairhall
Registered Office	Level 13 120 Edward St Brisbane QLD 4000 p +61 7 3054 4555 e <a href="mailto:info@lis.energy">info@lis.energy</a> w <a href="http://lis.energy">lis.energy</a>
Stock Exchange Listing	ASX Code: LIS
Auditor	Ernst & Young
Share Registry	Automic Share Registry Level 5, 126 Phillip Street Sydney NSW 2000 <a href="http://www.automicgroup.com.au">www.automicgroup.com.au</a>
Media Enquiries	<a href="mailto:media@lis.energy">media@lis.energy</a>

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

Li-S Energy Limited

**ABN**

12 634 839 857

**Quarter ended ("current quarter")**

30 September 2024

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1	1
1.2 Payments for		
(a) research and development	(129)	(129)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(354)	(354)
(f) administration and corporate costs	(1,480)	(1,480)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	301	301
1.5 Interest and other costs of finance paid	(23)	(23)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other – GST refunds	154	154
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,530)</b>	<b>(1,530)</b>



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(1,054)	(1,054)
	(d) investments	-	-
	(e) intellectual property	(969)	(969)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:	-	-
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (proceeds from government grants)	526	526
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(1,497)</b>	<b>(1,497)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	(53)	(53)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(53)</b>	<b>(53)</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
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<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	22,811	22,811
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,530)	(1,530)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,497)	(1,497)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(53)	(53)
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>19,731</b>	<b>19,731</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	19,731	22,811
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>19,731</b>	<b>22,811</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	399
6.2	Aggregate amount of payments to related parties and their associates included in item 2	695

*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.*

<b>7.</b>	<b>Financing facilities</b> <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>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	<b>Total financing facilities</b>	-	-
7.5	<b>Unused financing facilities available at quarter end</b>		-
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		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,530)
8.2	Cash and cash equivalents at quarter end (item 4.6)	19,731
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	19,731
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	12.9
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	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: N/A	
8.6.2	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: N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	



## 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 2024

Authorised 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 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 standard applies 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.