



ASX / Media Release

## Pivotal Systems Corporation December 2021 Quarterly Activities Report

**Fremont, California and Sydney, Australia; 31 January 2022** – Pivotal Systems Corporation (“Pivotal” or the “Company”) (ASX: PVS), a leading provider of innovative gas flow control (GFC) solutions to the semiconductor industry, is pleased to release a Quarterly update and Appendix 4C Report for the quarter ending 31 December 2021 (“Q4 2021”).<sup>1</sup>

### Key Highlights

- Successful completion and US\$200k payment from Non-Recurring Engineering (NRE) agreement with leading Japanese Original Equipment Manufacturer (OEM) for next generation Atomic Layer Deposition (ALD) product based on the delivery of that device in December 2021.
- Successfully integrated and installed GFCs on a tool at South 8 Technologies, Inc., in the reported period, following the Memorandum of Understanding (MOU) signed in Q3 2021
- Achieved record unaudited full year new orders of US\$33.4 million vs US\$21.2 million for FY2020, representing 57% new order growth year over year
- Achieved record unaudited full year revenue of US\$29.2 million, 34.4% increase on the prior period (FY2020: US\$21.8 million) driven by strong demand from existing OEM and Integrated Device Manufacturer (IDM) customers
- Pivotal has now shown 7 quarters of consecutive revenue growth<sup>2</sup>.
- Full year FY2021 unaudited gross margins expanded significantly to 31.3%, up from 1.6% in the prior corresponding period (pcp)
- Unaudited Q4 2021 revenue of US\$7.9 million was up 6% sequentially on the last quarter (Q3 2021: US\$7.4 million) and up 38% on the prior period (Q4 2020: US\$5.7 million)
- Unaudited strong Q4 2021 gross margins of 32.7% up from gross margins of 12.0% in the pcp and up from 24.3% in Q3 2021
- Backlog (confirmed orders not yet shipped) at 31 December 2021 was US\$3.9 million versus US\$2.6 million at 30 September 2021, driven by strong quarterly bookings
- Cash at 31 December 2021 was US\$4.0 million
- Appointment of Non-Executive Director Jason Korman to the Board of Directors
- Overall Wafer Fabrication Equipment (WFE) market expected to have grown 44% to a new industry record of US\$88 billion in 2021, with continued market growth of 12.4% expected in 2022 to approximately US\$99 billion<sup>3</sup>
- Pivotal expects FY2022 revenues in the range of US\$34 to US\$40 million.

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<sup>1</sup> All numbers unless otherwise indicated are reported using U.S. Generally Accepted Accounting Principles (“U.S. GAAP”), consistent with ASX announcement dated 23 December.

<sup>2</sup> Based on International Financial Reporting Standards (“IFRS”). The Company is moving from IFRS to US GAAP reporting from FY2021

<sup>3</sup> Source: [SEMI](https://www.semi.org)



### **Quarter Cash Flow Summary**

The Company's cash position at 31 December 2021 was US\$4.0 million, with higher accounts receivable of US\$9.0 million reflecting the timing effect of cash collection from shipments made late in the quarter to customers.

Cash receipts from customers for the period were US\$7.1 million, a 24.0% increase from US\$5.7 million in Q3 2021. Cash payments for Product Manufacturing were US\$5.2 million, down 13% from US\$6.0 million in Q3 2021. Pivotal continued to invest in product development with US\$1.2 million in costs incurred during the quarter, up 10% from US\$1.1 million in Q3 2021. The increase in cash payments for product manufacturing reflect the increased investment into inventory to meet expected product demand in future periods.

During the quarter, the Company made salary and payments of US\$0.24 million to related parties and their associates including executive director's salary payments, non-executive director fees, and fees for consulting services provided by a director-related entity.

As previously announced, the Company is moving from IFRS to US GAAP reporting from FY2021. The impact of this GAAP conversion was a reclassification of US\$2.1 million cash outflows, from investing activities to operating activities as development costs are not capitalized under US GAAP. The current Appendix 4C reflects this change in item 1.2 (a) being US\$2.1 million year-to-date amount as of 30 September 2021, and US\$0.7 million per the quarter ended 31 December 2021.

### **Product Update**

In December, Pivotal successfully completed the Non-Recurring Engineering (NRE) Agreement with Japan's largest Original Equipment Manufacturer (OEM) and collected a US\$200k payment for final delivery of results. The PVS new ALD product met or exceeded all original requirements in the joint agreement as well as timely shipment of the unit to the OEM.

In total, Pivotal has received US\$1.0 million in upfront and milestone payments from this strategically important NRE Agreement signed in August 2020. Pivotal has fulfilled all the OEM's requirements by having exclusively developed a next generation gas flow control product for incorporation into their semiconductor production equipment in ALD. The market for ALD tools is expected to grow at a compound annual growth rate (CAGR) of 29% to US\$8 billion by 2024.<sup>4</sup>

This was the second NRE Agreement with this large Japanese OEM, which has leveraged Pivotal's world class engineering team and leading-edge capability to develop sophisticated, highly differentiated and innovative new product lines to meet their future flow control solutions in a cost-effective and timely manner. Pivotal's next generation GFCs deliver exquisite control in gas flow, thereby increasing the efficiency of ALD manufacturing processes with associated improvements in yield and lower overall input costs over time.

The Remote Electronics GFCs continued to increase its adoption. In this regard, the Company also shipped advanced GFCs for operation at temperatures up to 70C that do not require remote electronics. These new GFCs, which will find immediate use in challenging high temperature gas applications, contain new electronics and advanced high temperature piezoelectric actuators designed to operate at these elevated temperatures. This demonstrates both unique and industry leading capabilities. Over time, we expect both

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<sup>4</sup> Source: Marketwatch, Kenneth Research [Data](#)



IDMs and OEMs to move from Remote Electronic GFC's to Integrated High Temperature GFC's to reduce footprint and reduce costs.

### **Operations Update**

Fourth quarter full-time headcount was 46 employees, compared with 45 employees at Q3 2021.

The Company's China and Korea based Contract Manufacturers (CMs) continue to operate at a capacity of 4,000 units per month based on a 5-day, 2 shift production. This flexible manufacturing model enables Pivotal the ability to effectively react to supply chain disruptions.

Gross Margin performance for Q4 2021 of 32.7% was favorably impacted by US\$400K revenue from a Japanese OEM for successful delivery of the next generation ALD flow controller. Also, during the reported period, Pivotal received US\$520K in volume-based discounts from Compant China versus US\$461K Q3 2021.

### **Supply Chain**

During Q4 2021, the Company continued to experience supply shortages, particularly attributable to semiconductor chips utilized in the manufacture of printed circuit boards used in Pivotal GFCs. The supply bottleneck is global in nature and has impacted several different industries, including the WFE market. However, Pivotal's team successfully navigated these constraints to deliver another quarter of revenue growth.

The Company expresses some caution on its ability to meet all anticipated demand and the timing of shipments to customers in early 2022. Importantly, based on numerous supplier discussions, the supply of chips is anticipated to improve in the second half of FY2022 while near term visibility is still cloudy. These chips shortages have been effectively managed in the past and Pivotal will continue to monitor and manage to the best of its ability going forward.

As Pivotal has previously commented, the underlying drivers of growth for WFE remain unchanged, and demand is expected to show significant growth into 2022, despite a strong 2021. Additional government spending initiatives in the US, South Korea, Japan and the EU to support domestic semiconductor manufacturing and invest in-leading edge chip development remain as additional long terms drivers of industry growth.

### **Industry Update**

The worldwide WFE market continues to experience very strong growth, driven by the global semiconductor industry's capacity expansion to meet strong demand.

On 14 December 2021, SEMI provided an update on expectations for the overall WFE market, which have grown 44% to a new industry record of US\$88 billion, followed by an anticipated 12.4% increase in 2022 to approximately US\$99 billion, with SEMI commenting that investments in the digital infrastructure buildout and secular trends across multiple end markets will continue to fuel the healthy growth in 2022.

The foundry and logic segments, accounting for more than half of total wafer fab equipment sales, has surged 50% year-over-year to reach approximately US\$49 billion in 2021, driven by demand for both leading-edge



and mature nodes. This demand growth is expected to continue into 2022 with spending increasing a further 17%. In addition, enterprise and consumer demand for memory and storage is contributing to strength in DRAM and NAND equipment spending. The DRAM equipment segment had the leading the expansion in 2021 surging 52% to approximately US\$15 billion and is anticipating to grow another 1% in 2022. The NAND equipment market is projected to have to jumped 24% in 2021 to approximately US\$19 billion and is anticipated to grow another 8% in 2022.

### **Outlook**

Pivotal expects that it will continue to gain market share in its target market segments during 2022. We expect the WFE market will continue to grow as outlined by SEMI. We are carefully monitoring global supply chain uncertainties in conjunction with our customers and our suppliers.

Currently, we expect 2022 revenues in the range of US\$34 to US\$40 million.

Pivotal will pursue financing alternatives to support the investment needed to achieve this level of growth.

*THIS RELEASE DATED 31 JANUARY 2022 HAS BEEN AUTHORISED FOR LODGEMENT TO ASX BY THE BOARD OF DIRECTORS OF PIVOTAL SYSTEMS.*

- ENDS -

**For further information, interview and photos:**

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If investors wish to subscribe to Pivotal Systems' email alert service for ASX Announcements, please follow this [link](#).

### **Safe Harbor Statement**

This press release and the accompanying Appendix 4C contains forward-looking statements, which address a variety of subjects including, for example, our statements regarding expected growth rates, expected product offerings, product development, marketing position and technical advances. Statements that are not historical facts, including statements about our beliefs, plans and expectations, are forward-looking statements. Such statements are based on our current expectations and information currently available to management and are subject to a number of factors and uncertainties, which could cause actual results to differ materially from those described in the forward-looking statements. The Company's management believes that these forward-looking statements are reasonable as and when made. However, you should not place undue reliance on any such forward-looking statements because such statements speak only as of the



date when made. We do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law or the ASX Listing Rules. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results, events and developments to differ materially from our historical experience and our present expectations or projections.

**About Pivotal Systems Corporation (ASX: PVS)**

Pivotal Systems Corporation (ARBN 626 346 325), is a company incorporated in Delaware, USA, whose stockholders have limited liability. Pivotal Systems provides the best-in-class gas flow monitoring and control technology platform for the global semiconductor industry. The Company's proprietary hardware and software utilizes advanced machine learning to enable preventative diagnostic capability resulting in an order of magnitude increase in fab productivity and capital efficiency for existing and future technology nodes. For more information on Pivotal Systems Corporation, visit <https://www.pivotalsys.com/>.

**Notice to U.S. persons: restriction on purchasing CDIs**

Pivotal Systems is incorporated in the State of Delaware and its securities have not been registered under the U.S. Securities Act of 1933 or the laws of any state or other jurisdiction in the United States. Trading of Pivotal Systems' CHES Depositary Interests ("CDIs") on the Australian Securities Exchange is not subject to the registration requirements of the U.S. Securities Act in reliance on Regulation S under the U.S. Securities Act and a related 'no action' letter issued by the U.S. Securities and Exchange Commission to the ASX in 2000. As a result, the CDIs are "restricted securities" (as defined in Rule 144 under the U.S. Securities Act) and may not be sold or otherwise transferred except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. For instance, U.S. persons who are qualified institutional buyers ("QIBs", as defined in Rule 144A under the U.S. Securities Act) may purchase CDIs in reliance on the exemption from registration provided by Rule 144A. To enforce the transfer restrictions, the CDIs bear a FOR Financial Product designation on the ASX. This designation restricts CDIs from being purchased by U.S. persons except those who are QIBs. In addition, hedging transactions with regard to the CDIs may only be conducted in compliance with the U.S. Securities Act.

**+Appendix 4C****Quarterly cash flow report for entities  
subject to Listing Rule 4.7B****Name of entity**

Pivotal Systems Corporation

**ARBN**

626 346 325

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

31 December 2021

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$US'000</b>	<b>Year to date (12 months) \$US'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	7,063	27,256
1.2 Payments for		
(a) research and development	(1,182)	(4,357)
(b) product manufacturing and operating costs	(5,209)	(23,602)
(c) advertising and marketing	(879)	(3,018)
(d) leased assets	-	-
(e) staff costs	(550)	(2,365)
(f) administration and corporate costs	(1,927)	(4,006)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(31)	(161)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (Insurance claim)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,715)</b>	<b>(10,253)</b>

As previously announced, the Company is moving from IFRS to US GAAP reporting from FY2021. The impact of this GAAP conversion is a reclassification of \$2.1M cash outflows, from investing activities to operating activities as development costs are not capitalized under US GAAP. The current Appendix 4C reflects this change in item 1.2 (a) being \$2.1M year-to-date amount as of 30 September 2021, and \$0.7M per the quarter ended 31 December 2021.

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'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	(75)	(168)
	(d) investments	-	-
	(e) intellectual property	-	-
	(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 (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(75)</b>	<b>(168)</b>

As discussed in section 1, Cash flows from operating activities, the impact of the GAAP conversion is a reclassification of \$2.1M cash outflows, from investing activities to operating activities as development costs are not capitalized under US GAAP. Section 2 of the current Appendix 4C reflects this change in item 2.1 (f) being \$2.1M year-to-date amount as of 30 September 2021, and \$0.7M per the quarter ended 31 December 2021.

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	9,683
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	82	291
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(250)	(1,000)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
3.9	a. Other (Lease principal repayments)	(69)	(264)
	b. Other (Redemptions of RBI Preferred Stock)	(423)	(1,840)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(660)</b>	<b>6,870</b>

<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	7,438	7,539
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,715)	(10,253)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(75)	(168)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(660)	6,870
4.5	Effect of movement in exchange rates on cash held	0	0
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>3,988</b>	<b>3,988</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 \$US'000</b>	<b>Previous quarter \$US'000</b>
5.1	Bank balances	3,988	7,438
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>3,988</b>	<b>7,438</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$US'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	240
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>		



7.	<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 amounts at quarter end \$US'000</b>	<b>Amount drawn at quarter end \$US'000</b>
7.1	Loan facilities	750	750
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	3,280	-
7.4	<b>Total financing facilities</b>	4,030	750
7.5	<b>Unused financing facilities available at quarter end</b>	3,280	
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.		

**Financing facility with Bridge Bank**

On 27 August 2019, Pivotal Systems Corporation ("the Company") closed a US\$10.0 million business financing agreement with Bridge Bank, a division of Western Alliance Bank (NYSE: WAL). The US\$10.0 million facility is comprised of:

- US\$7.0 million Revolving Credit Line, and
- US\$3.0 million term loan ("Term Loan").

The amount of liquidity available under the US\$7.0 million Revolving Credit Line is based upon the Company's balances and composition of eligible customer receivables and inventory, as well as other factors. Amounts borrowed under the Revolving Credit Line, mature and become due and payable in 24 months, unless extended by the parties. The Revolving Credit Line bears interest at a rate equal to 1.5% above the Prime Rate. As of December 31, 2021, there are currently no amounts drawn under the Revolving Credit Line and the maximum amount that could be borrowed under this facility is US\$3.3 million as reported in item 7.3. However, this amount may reduce (or not be available) in subsequent quarters if Pivotal's business is adversely affected by COVID-19 (or otherwise). The US\$3.0 million Term Loan, reported in item 7.1, bears interest at a rate equal to 2% above the Prime Rate and provided funds for capital expenditures and other corporate purposes and is payable in 36 monthly instalments commencing in October 2019. This Term Loan was fully drawn and, as of December 31, 2021, the owed balance is US\$0.75 million.

The facility is secured over all the assets of the Company.

**COVID-19 Payroll Protection Program Loan**

On 21 April 2020, the Company signed loan documents with Western Alliance Bank and received funding of US\$0.9 million from the United States Government Small Business Administration, "SBA", Payroll Protection Program which is part of a national fiscal relief program created by the Coronavirus Aid, Relief, and Economic Security Act, "CARES Act". On 19 January 2021, this loan that bore interest at a fixed rate equal to 1.0% per annum, was forgiven in full (principal and interest).

### **RBI Preferred Stock financing**

On 20 February 2020, the Company received US\$10 million funding (Tranche 1) from the issue of RBI Preferred Stock to Anzu Industrial RBI USA LLC as previously announced to the market.

On 2 June 2021, the Company raised a further US\$3 million under the RBI Preferred Stock facility. The key condition to draw down this Tranche 2 of the RBI Preferred Stock issue was that Pivotal maintains more than US\$15 million revenue in the trailing 12 months. The second condition relating to the extinguishment of Pivotal's existing debt facility with Bridge Bank was waived by Anzu.

On 1 March 2021, the initial redemption of RBI Preferred Stock by the Company took place in accordance with the terms of the RBI Preferred Stock and the Certificate of Incorporation of the Company. Therefore, the Company redeemed 609 RBI Preferred Shares at US\$ 1,250 per share for a total of US\$ 761,250. On 24 May 2021, the Company redeemed 193 RBI Preferred Shares at US\$ 1,250 per share for a total of US\$ 241,250. On 30 August 2021, the Company redeemed 332 RBI US\$ 1,250 per share for a total of US\$415,000. On 22 November 2021, the Company redeemed 338 RBI US\$ 1,250 per share for a total of US\$422,500. See 3.9 Section above.

### **US\$6.7 Million Equity Placement**

On 22 July 2021, the Company announced that it received binding commitments for a US\$6.7 million share placement (A\$9.1 million) to new and existing institutional investors, including cornerstone commitments from the Company's largest Australian institutional investor Viburnum Funds along with participation of the Company's second largest shareholder in the US, Anzu Partners, LLC. Out of these commitments, on 28 July 2021, the Company received \$5.8 million funding for the issuance of 6,177,809 CDI's, and on September 17th it issued 959,986 CDIs to raise the remaining \$0.9 million after obtaining shareholder approval on 13 September 2021.

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$US'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(2,715)
8.2	Cash and cash equivalents at quarter end (item 4.6)	3,988
8.3	Unused finance facilities available at quarter end (item 7.5)	3,280
8.4	Total available funding (item 8.2 + item 8.3)	7,268
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	2.7
<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: Not applicable.	
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: Not applicable.	

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: Not applicable.

*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.*

## 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 2022 (PST) / 31 January 2022 (AEDT).....

Authorised by: ...Ron Warrington, Chief Financial Officer.....  
(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.