ASX ANNOUNCEMENT
31 January 2023

December 2022 Quarterly Activities Report

HIGHLIGHTS

- **Linda's zinc soil anomaly footprint doubles in size and new zinc anomalies discovered outside of the Linda Prospect**
- **New laboratory rock-chip assays up to 42% zinc at surface with 5 samples above 20% zinc and over 40% of the samples above 1% zinc at surface**
- **SA Government grants Baratta Copper Mine application as EL 6863, adjacent to the company's recently granted EL 6803**
- **Initial reconnaissance at Baratta confirms potential for copper, base-metal and rare earth elements (REE) with portable XRF results of discarded ore up to 36% copper on the Baratta Mine Copper trend**
- **Historic exploration work at Baratta has identified multiple copper anomalies on strike extensive parallel trends at surface that are underlain by dense and magnetic bodies in Stelar's reprocessed geophysics**
- **Large IP chargeable target identified in historical datasets to the west of the Baratta Copper Mines**
- **Assay results from Evelyn Dam drilling (EVE002) returned elevated rare earths (REE) associated within iron oxide alteration and breccias zones**
- **Stelar Metals is actively undertaking due diligence on new lithium and zinc projects for potential acquisition or earn-in**
- **Stelar is well funded to continue SA exploration programs, with $4.4M cash at bank at 31 December 2022.**

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Critical minerals explorer Stelar Metals Limited (**ASX:SLB**) ("**Stelar Metals**" or the "**Company**") is pleased to provide its Quarterly Activities Report for the quarter ended 31 December 2022 (Quarter). Stelar is targeting discovery of critical minerals needed to drive the move to decarbonise the world and that are experiencing unprecedented demand. Stelar has five 100% owned projects located in South Australia's premier world class exploration and mining districts (Figure 1). The Company has an experienced exploration team with a track record of discovery success exploring for commodities that are in increasing demand.

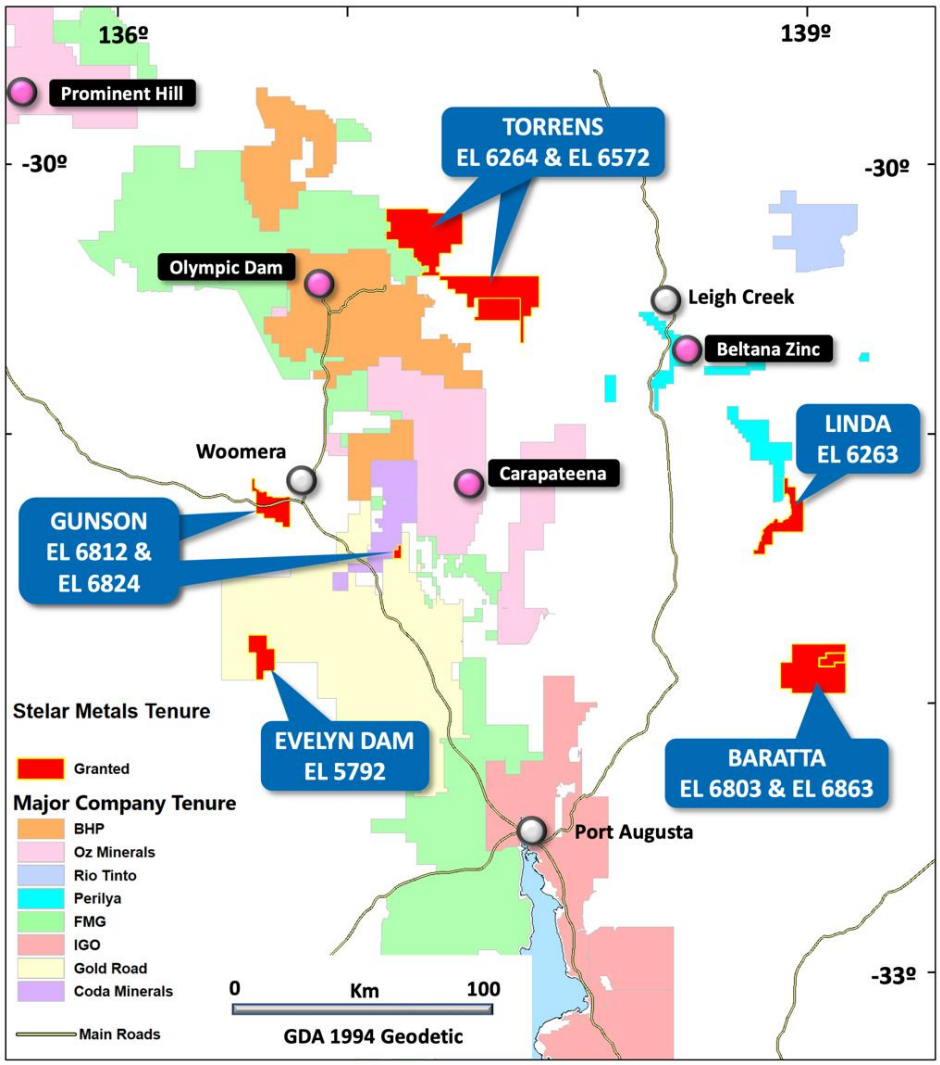

Figure 1: Stelar's exploration projects in South Australia.

Linda Zinc Project, SA

During the reporting period, Stelar extended the soil sampling coverage across the broader Linda region that doubled the size of the coherent Linda surface footprint (Figures 2 & 3), which now extends over 600m x 300m area with portable XRF results soil results up to 0.7% Zn (sample L066).

Multiple high-grade rock-chip samples assaying in laboratory up to 42% zinc (sample 3006) were collected by Stelar from outcrops across the Linda Prospect and the area to the west of Linda where outcrops responded positively to the presence of high-grade zinc using a wet-chemical zinc-zap test (Figure 4). A high proportion (21 out of 46 total) of samples collected during the recent surface rock chip sampling program assayed over 1% zinc reflecting the significant distribution of zinc mineralisation at Linda.

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At surface, zinc mineralisation is present as smithsonite ($ZnCO_3$), an oxidised weathering product of sphalerite (zinc sulphide) which has been confirmed as coarse infill in BHP's historic diamond drill holes. Zinc mineralisation is hosted by structurally controlled karst development in Cambrian Wilkawillena Formation grainstone and mudstones.

Stelar considers that the BHP drilling, which only included shallow vertical RC holes to 25m depth and two diamond holes have not adequately tested the Linda Zinc Prospect.

Additionally, several areas outside of the Linda Prospect have returned strong zinc anomalism have been discovered including at the contact with the Linda Breccia; to the west of Linda where stratigraphic contacts contain visible mineralisation.

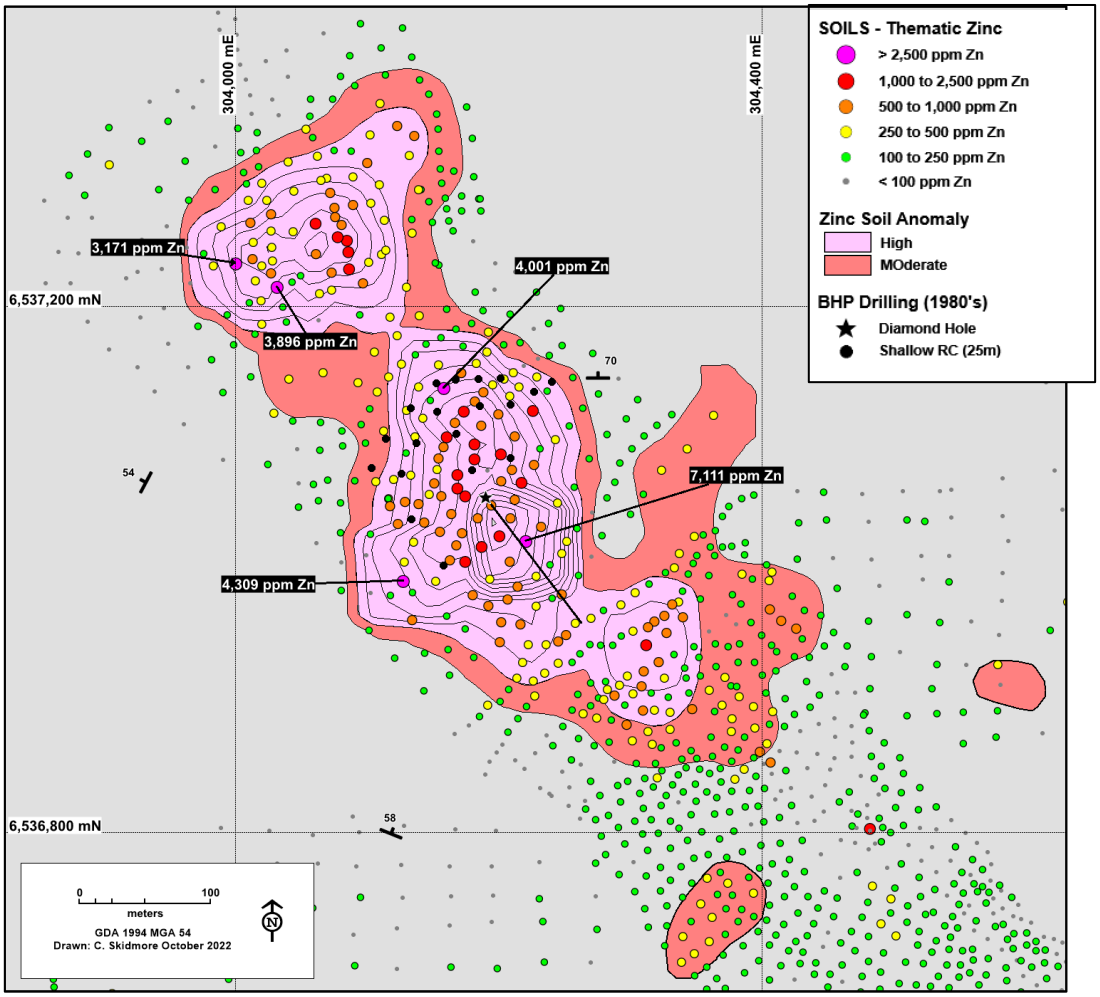

Figure 2: New soil anomaly doubling zinc central target size at Linda showing thematic zinc and the location of historic BHP drilling

Stelar has completed its initial broad-scale geological mapping of the Linda area as illustrated in Figure 3. Additionally, several areas outside of the Linda Prospect have returned strong zinc anomalism have been discovered including at the contact with the Linda Breccia; to the west of Linda where stratigraphic contacts contain visible mineralisation; and to the south in NeoProterozoic units of Wonoka Formation carbonates.

Stelar has now collected and analysed over 2,250 soil sample locations at Linda using its Niton XL5+ portable XRF (pXRF). To confirm and validate Stelar's sampling methodology and analysis using pXRF, 100 original samples collected over the northern extension of the original Linda anomaly were also submitted to Intertek Laboratory for the same total digest and 60-element geochemical suite as the rock-chip samples. The results indicate that the pXRF results are comparable, but slightly lower than the laboratory analysis. Therefore, Stelar considers the method of collection and analysis using pXRF is appropriate accuracy and efficient for the purpose of identifying area of zinc surface anomalism.

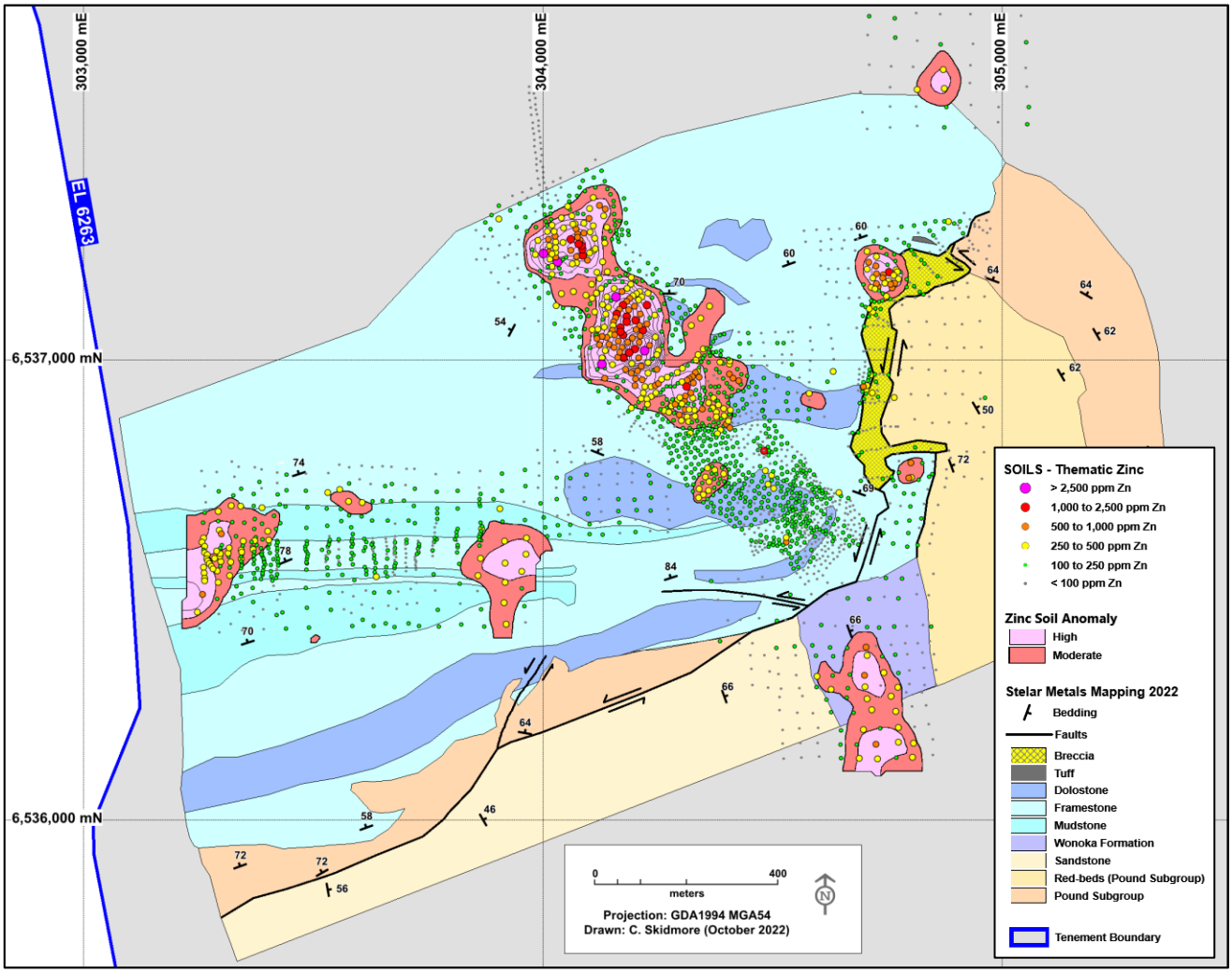

Figure 3: New soil anomalies identified by recent soil surveys expanding zinc potential within greater Linda Prospect showing thematic zinc on Stelar's recent geological mapping

An additional 42 rock-chip samples were analysed by Intertek Laboratory in Adelaide for multi-element geochemistry using four-acid total-digest and ICP-MS and ICP-OES for 60 elements including REE. Stelar included 3 certified high-zinc standards in sequence and the laboratory's internal QAQC reported results of checks, blanks and 13 certified standards. Summarised results are given in Table 1. The magnitude of the rock-chip assay results at Linda are comparable to direct-shipping ore grades.

The highly anomalous, but lower tenor (0.5-5% zinc), rock-chip samples which extend to the west of Linda, as illustrated in Figure 1, correspond to abundant limestone outcrops interbedded with mudstones that consistently respond positively to positive wet-chemical zinc-zap tests over 500m strike length (Figure 4).

Next Steps

Subsequent field work over the coming months will continue to extend the surface sampling coverage and validate the newly discovered areas (Figures 6 and 7).

> **Areas A, B and C:** Detailed mapping of the Cambrian limestones and structure by research fellows from Adelaide University to optimise the positioning of future drill holes. Additionally, rockchip samples will be taken to verify the anomalous soil results.
>
> **Areas D and E:** Both Linda West and Wonoka are open in several directions. Additional soils and rock-chip sampling will be collected to progress these target areas.

Stelar continues negotiating a Native Title Management Agreement with the Traditional Owners and once agreed will commence Heritage Clearance Surveys and seek drilling approval from the South Australian regulators.

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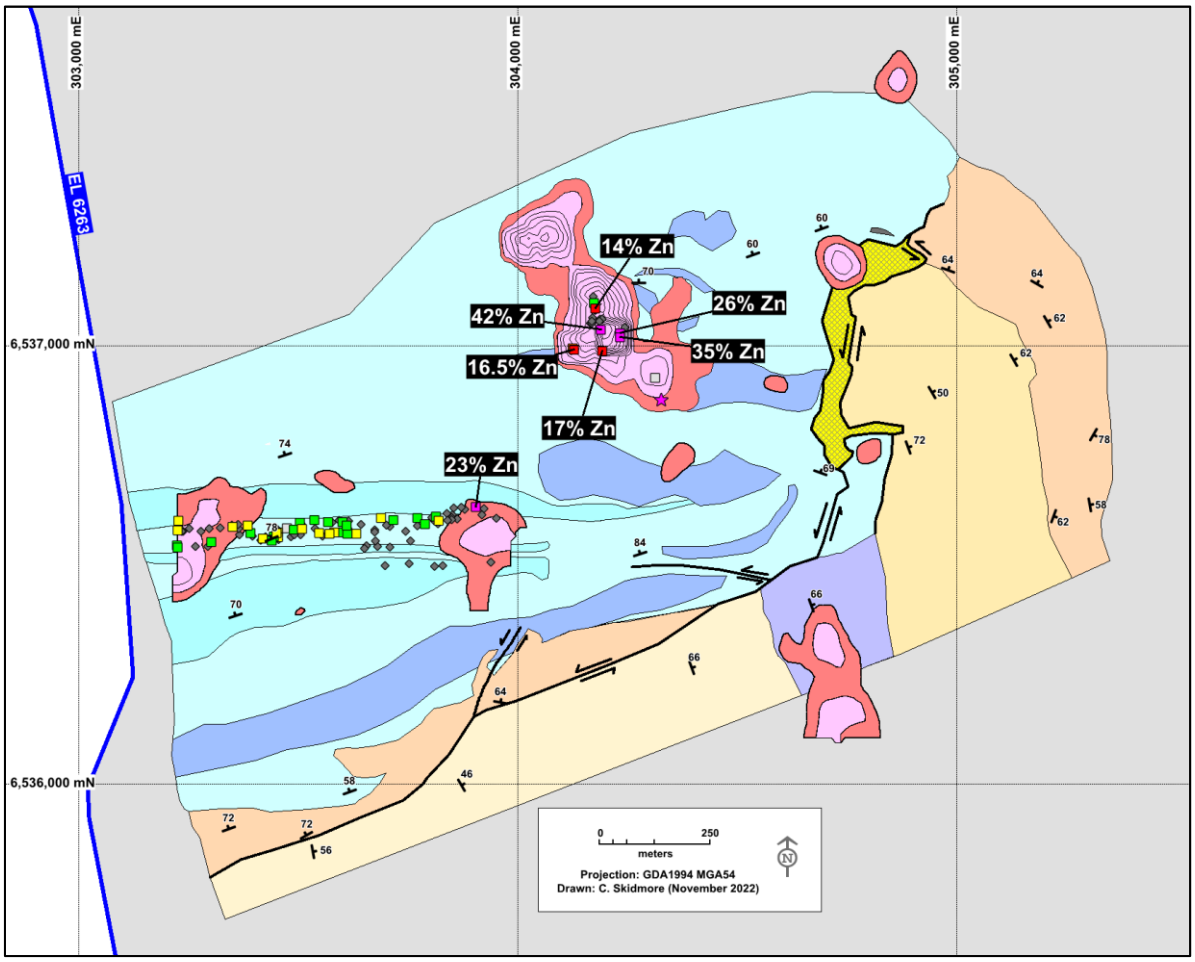

Figure 4: Stelar's new rock-chip assay results illustrated by thematic zinc

Figure 5: Examples of a positive (red) zinc-zap wet chemical test in the new area west of Linda

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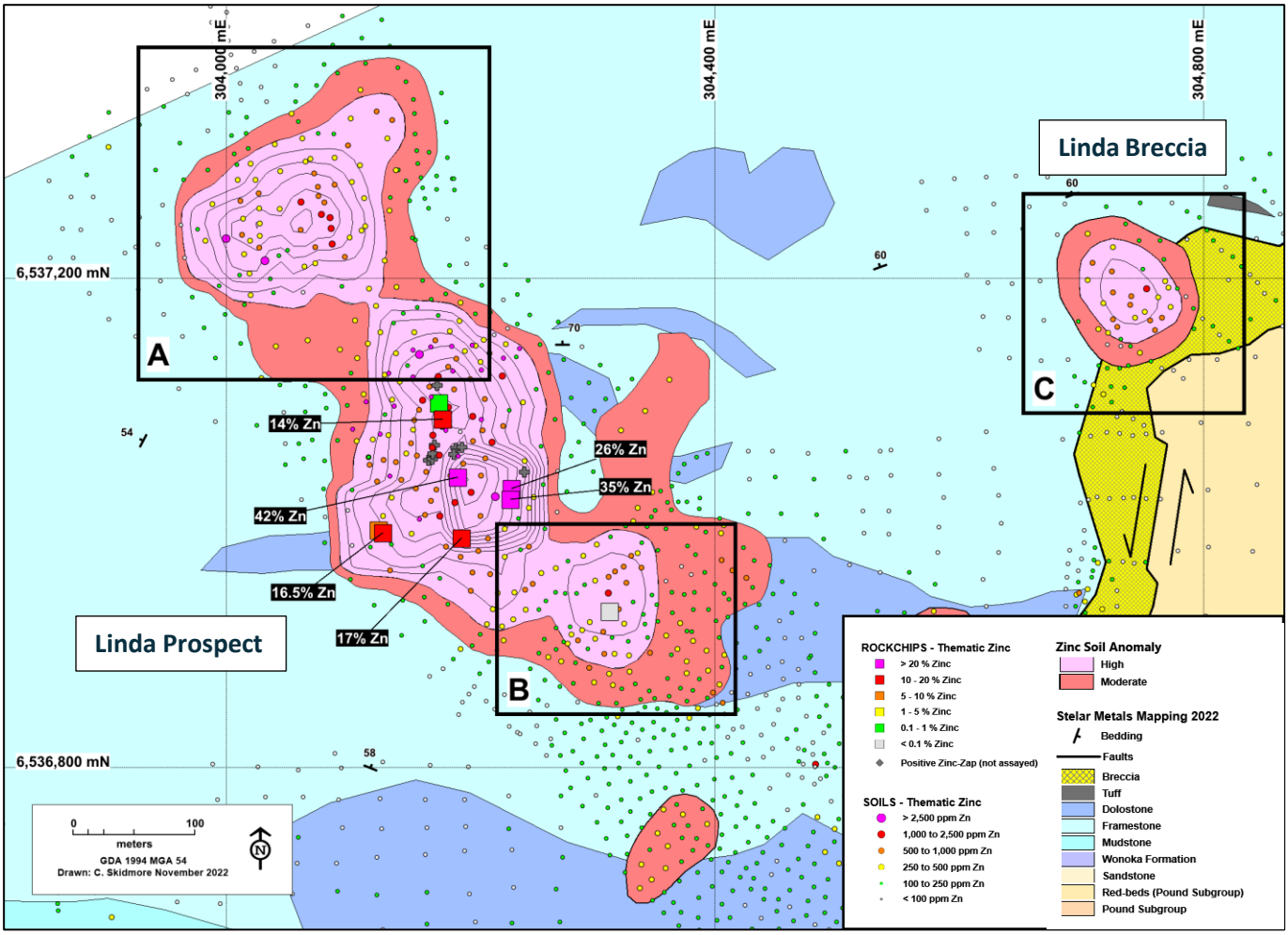

Figure 6: Linda Prospect and Linda Breccia Target Areas for mapping and rock-chip sampling

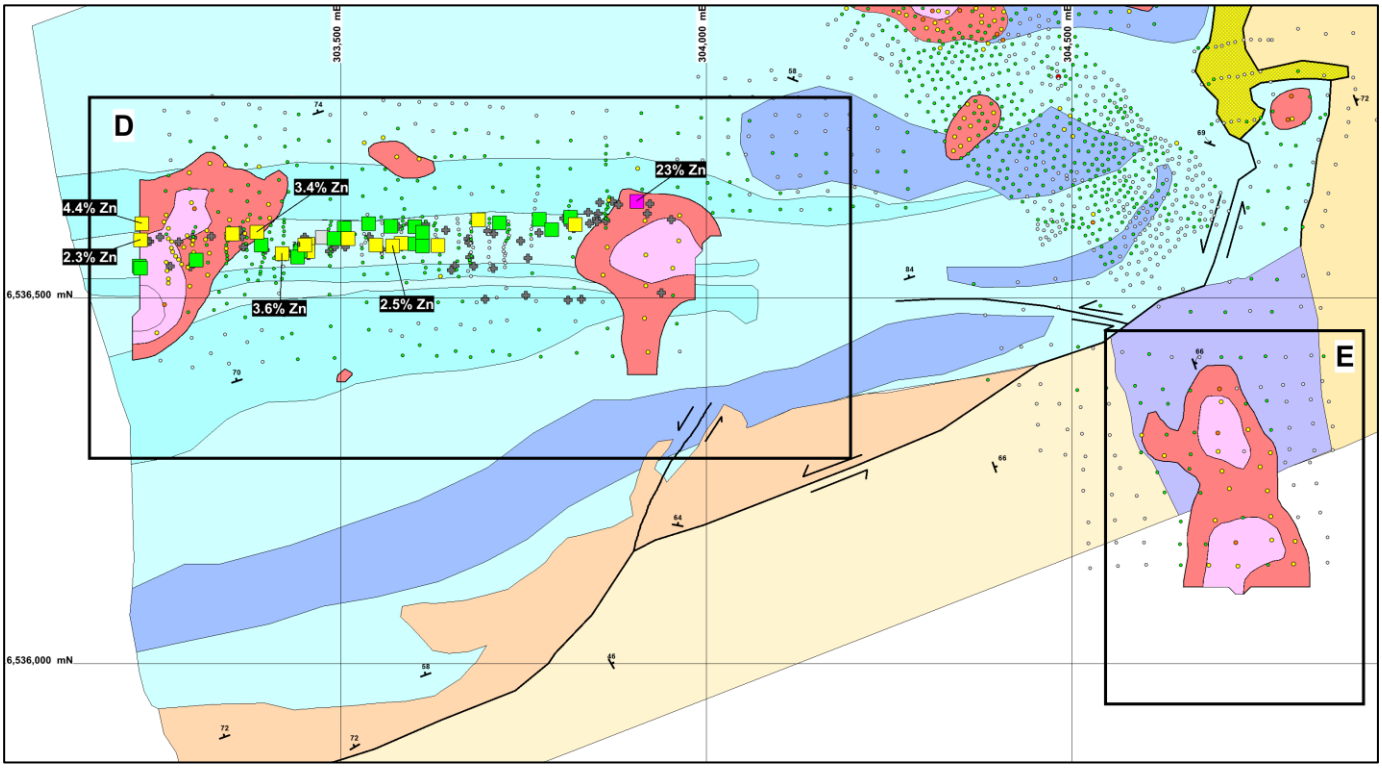

Figure 7: Linda West and Wonoka Target Areas for additional soil and rock-chip sampling

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Baratta Copper-REE Project

The Baratta Copper Project located in northern South Australia, is considered prospective for sediment-hosted copper and Rare Earth Element (REE) mineralisation. This prospectivity is also supported by the recent copper and significant REE discoveries made by Taruga Minerals at Wyacca, Morgan's Creek and other prospects, directly west along strike from Stelar's tenure (Figure 8). Stelar has been granted EL 6863 for an initial 6-year term over the historic Baratta Copper Mine, immediately adjacent to the Company's recently granted Baratta Project EL 6803.

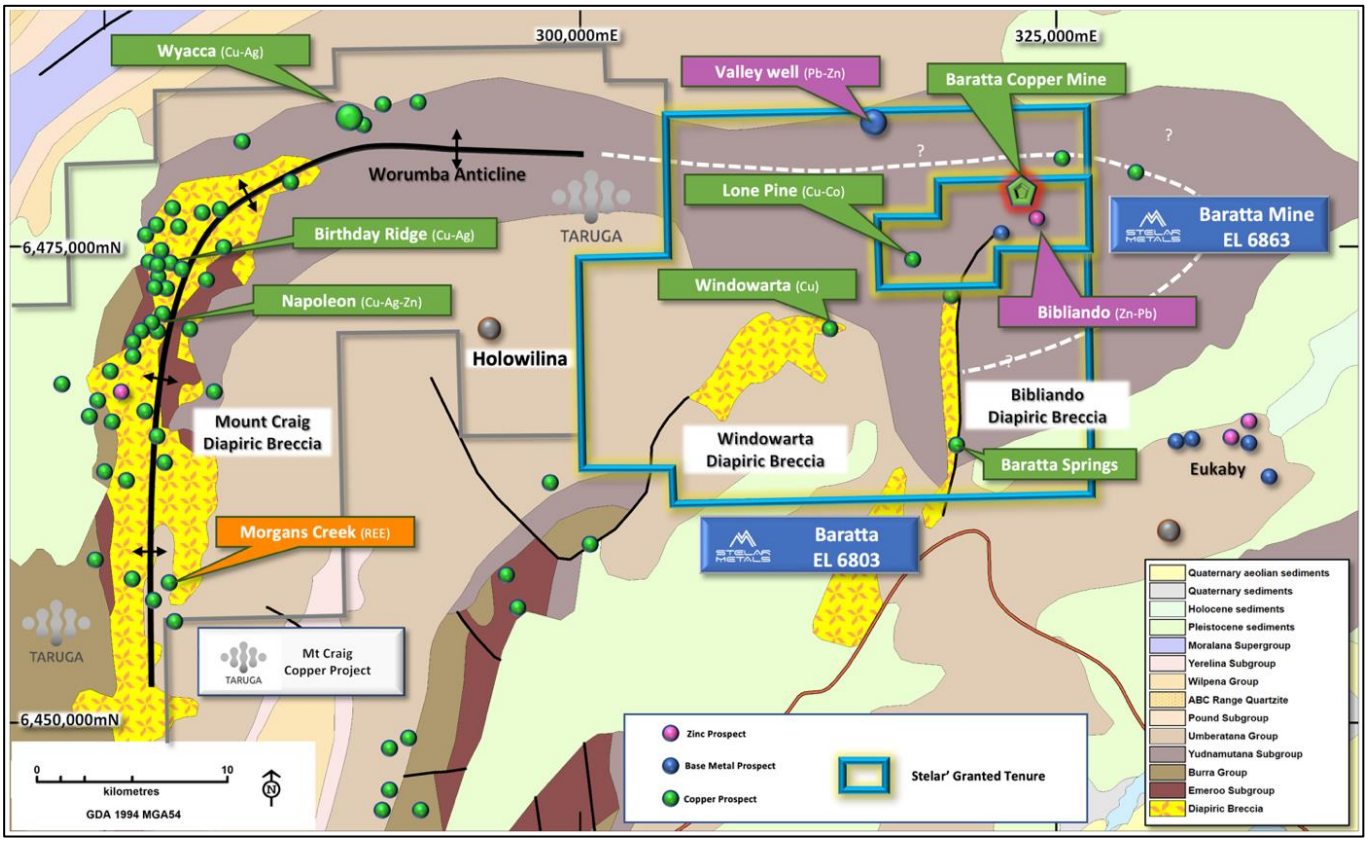

Figure 8: Regional geological setting of the Baratta Project showing major prospects.

The historic Baratta Copper Mine produced copper ore between 1896 and 1904 from a zone of workings 1.5km long in a structure that is interpreted to control copper mineralisation. This mineralised horizon, recognised as a flat-dipping quartz-haematite gossan, also extends for several kilometres into Stelar's adjacent EL 6803 recognised by numerous shallow workings (Figure 9). A sample of discarded ore in one shallow pit of brecciated quartz-siderite-haematite with oxidised copper minerals recorded 36% Cu and 478g/t Ag using Stelar's portable XRF (Figure 10).

Previous broad spaced soil sampling at Baratta has identified multiple copper anomalies indicating the potential for additional parallel repeats in this highly anomalous copper area. Historical records show that no drilling has been undertaken to test, either the Baratta Mine or the along strike extensions.

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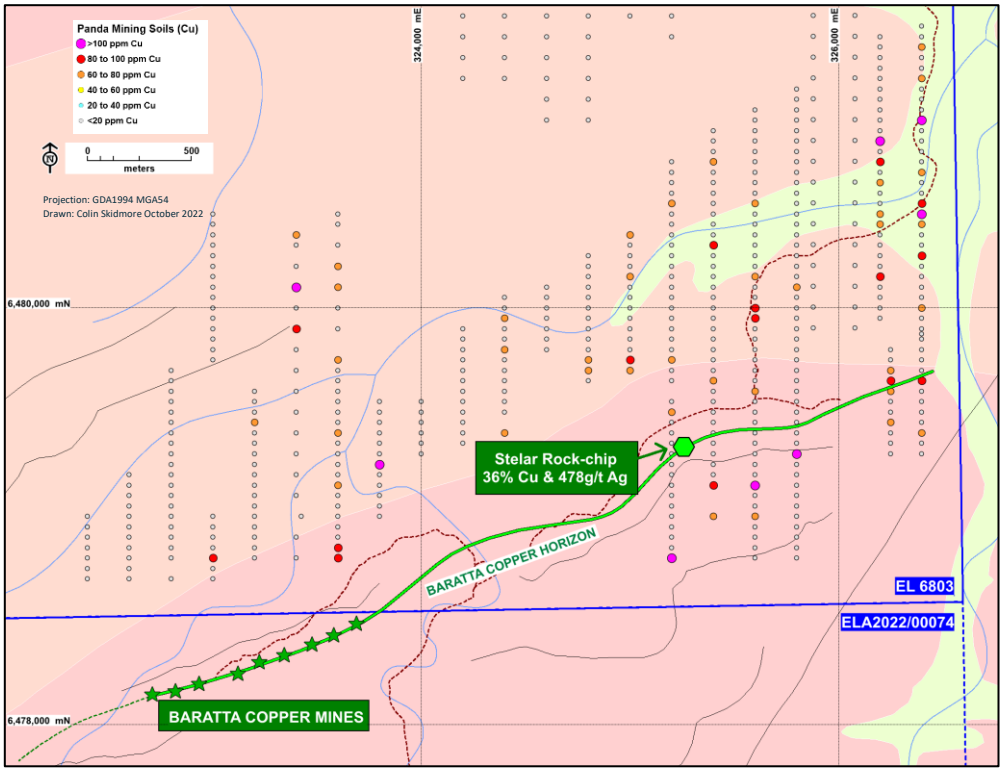

Figure 9: Location of the Baratta Copper Mine illustrating the interpreted mineralized stratigraphy and Panda Mining's 2009 soils showing thematic copper.

Figure 10: Left: View of the historical Line of Lode at Baratta Copper Mine, Right: Example of discarded copper ore on old working within the granted EL (XRF: 36% Cu and 478 g/t Ag)

Panda Mining collected two Gradient Array Induced Polarisation (GAIP) surveys in 2014, comprising 314-line kilometres which has been translated, recompiled, and extensively corrected by Stelar. The northern survey which extends over much of EL 6863 including the Baratta Copper Mine displays strong chargeable zones which parallel the trend of stratigraphy and the trend of surface copper mineralisation (Figure 12).

The historic mine workings correspond directly with a discrete chargeable zone as do the mineralised extensions which subcrop on EL 6803 to the northeast where Stelar collected the 36% Cu rock-chip sample illustrated in Figure 10. The strongest chargeable zone is however along strike from the historic mine workings to the west which appears not to have been worked or tested which warrants further investigation.

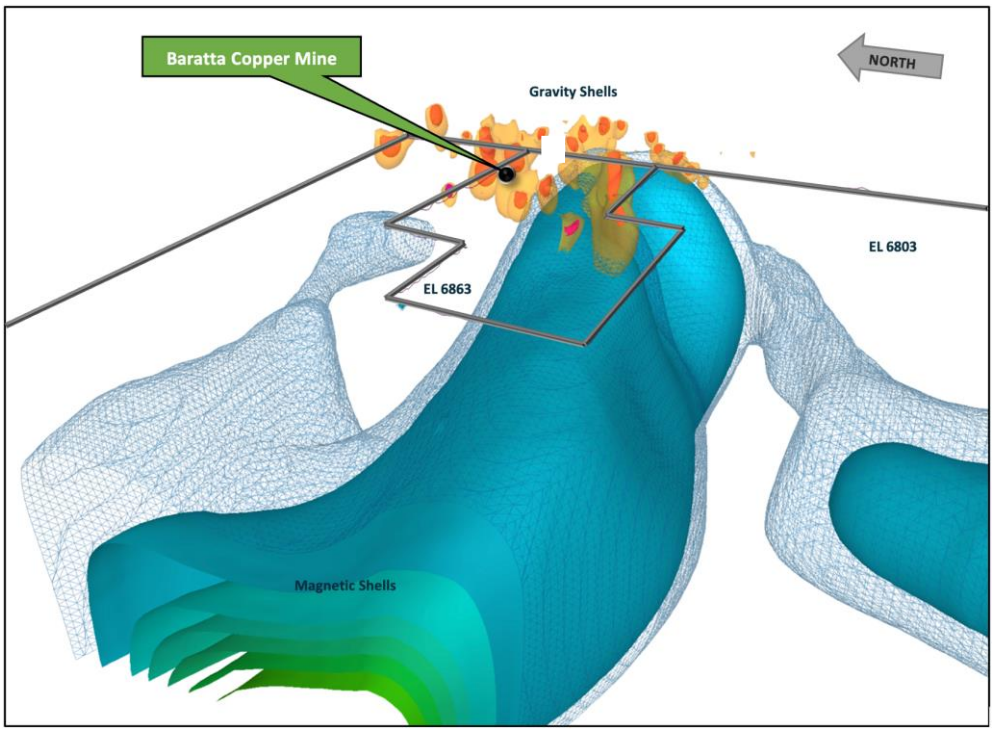

Figure 11: Baratta 3D visualization looking NE of east-west magnetic anomaly (blue-green) and high-level gravity anomalies (orange-red)

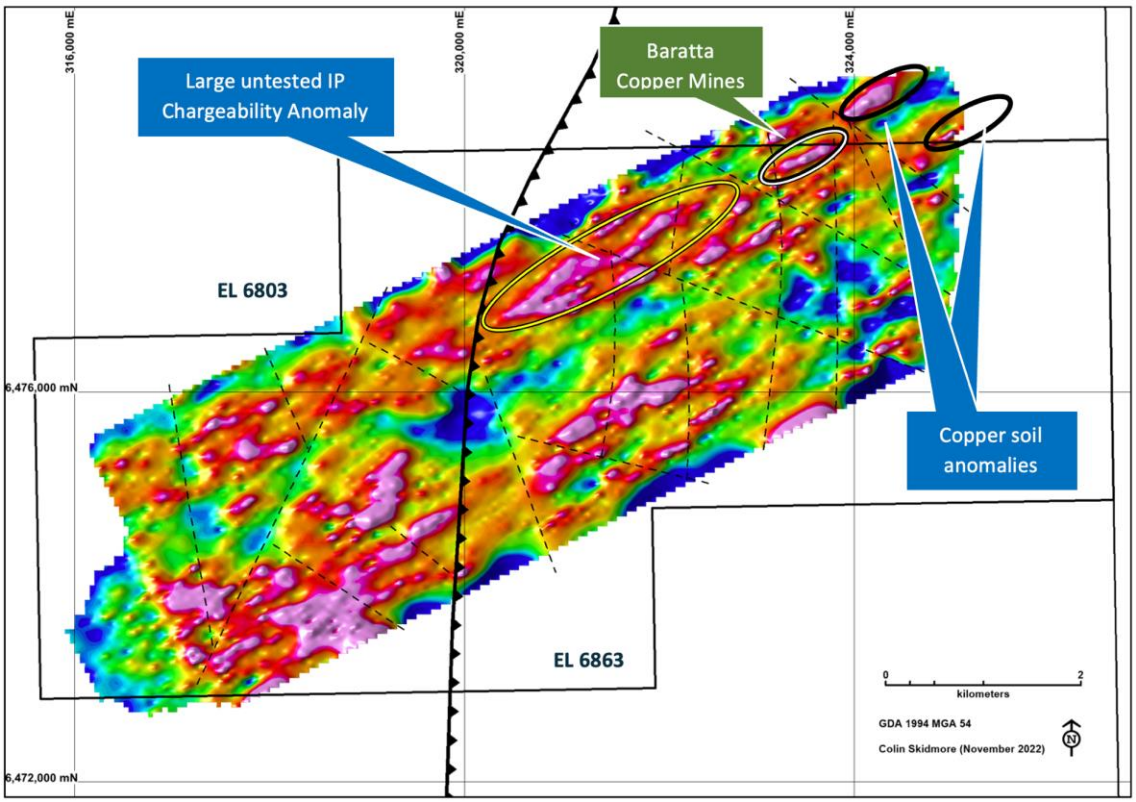

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Figure 12: EL 6863 GA-IP Chargeability Image showing historic Baratta Copper Mine area, known copper soil anomalies and large untested chargeability anomaly

The Bibliando diapir (Figure 8) extends north-south for 5 kilometres but is only ~400m wide in a structurally complex zone. Panda Mining, the previous explorer, mapped and collected rock-chip samples (Figure 13) that recognised at least 3 phases of intrusion with a central core of massive silicification surrounded by kaolinized polymict brecciation with a dominant dolomite rock type with pods of calcite and barite. Panda interpreted that the diapir was an evolved carbonatite intrusive.

Panda discovered several large insitu gossans after sulphides in the diapir which were anomalous in copper and phosphorous. Panda concluded that this diapir was prospective for copper and REE mineralisation and planed drilling however open file reports indicate that no further work was done after 2012 aside from the collection of IP data in 2015 shortly before the tenure holding was relinquished.

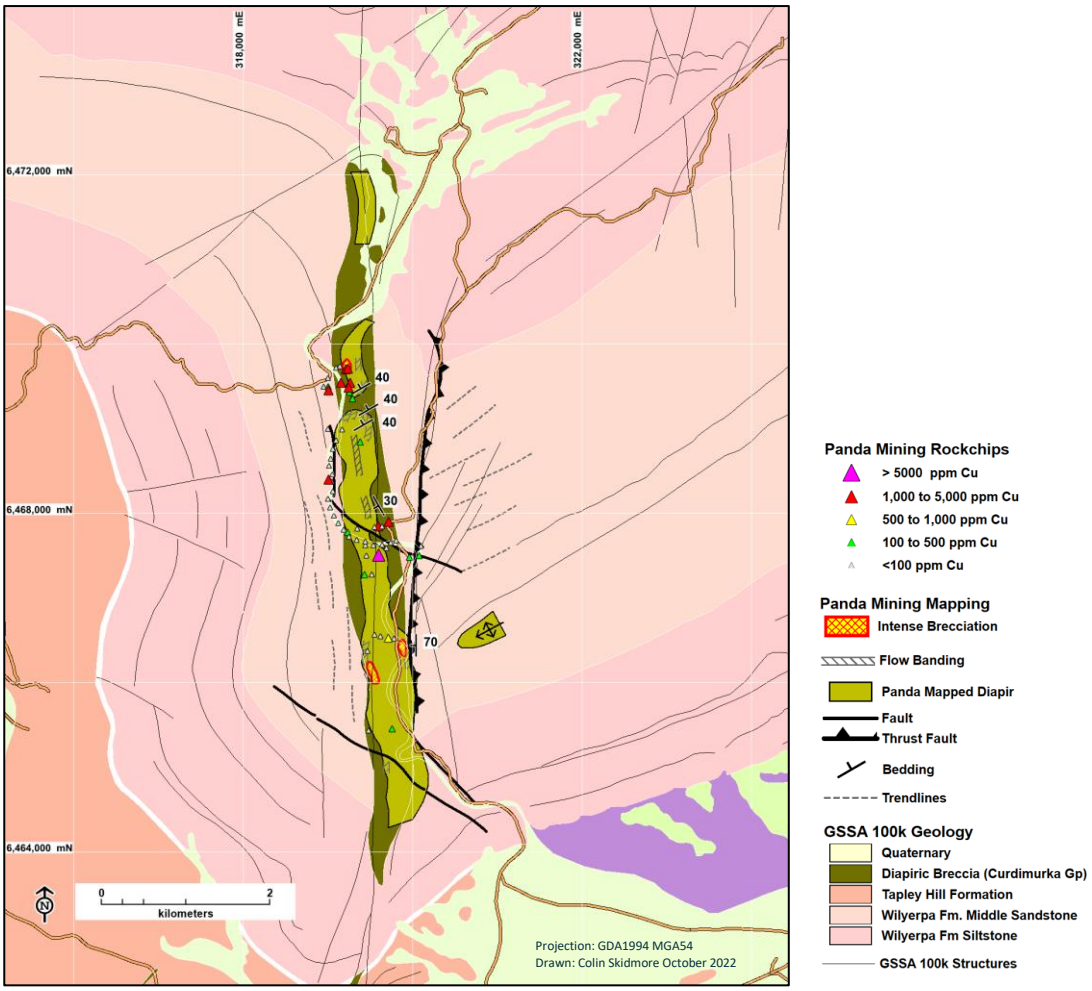

Figure 13: Bibliando Diaper showing geological setting and Panda Mining's thematic copper rock-chip sampling

Central within EL 6803 the Windowarta Diapir and its surrounding Tapley Hill sediments have potential to host REE metals as the geological setting is similar to that of Taruga's Morgan Creek REE project (ASX announcement, TAR, 20 October 2022). Stelar has recalibrated its new Niton portable XRF to include a REE suite of elements and is currently undertaking orientation work to devise an optimal sampling methodology to better evaluate the potential of this and other diapirs in the Flinders Ranges.

There are several additional recorded mineral occurrences on the Baratta Project such as copper-cobalt at Lone Pine and silver at Baratta Springs which still require follow-up (Figure 8). On the foothill slopes of the northern part of EL 6803, Panda Mining discovered a broad lead-zinc anomaly during their initial soil sampling program in 2008 at Valley View.

Evelyn Dam

Stelar completed its inaugural diamond hole (EVE002) to 1,578.9m which tested a large gravity anomaly (Figure 14) at its 100%-owned Evelyn Dam Project in South Australia in August 2023. Assay results from sampled intervals were received in November 2022

The hole successfully tested the target gravity anomaly as planned and encountered volcanic breccias with variable haematite-silica, sericite-chlorite and carbonate-fluorite alteration assemblages through the target zone typical of potential IOCG alteration (Figure 15). Four zones of noteworthy geology, including representative sections of the mafic dyke and three volcanic breccia zones were cut to generate 91 original samples for multi-element geochemistry using four-acid total-digest and ICP-MS and ICP-OES for 60 elements by Intertek Laboratory in Adelaide.

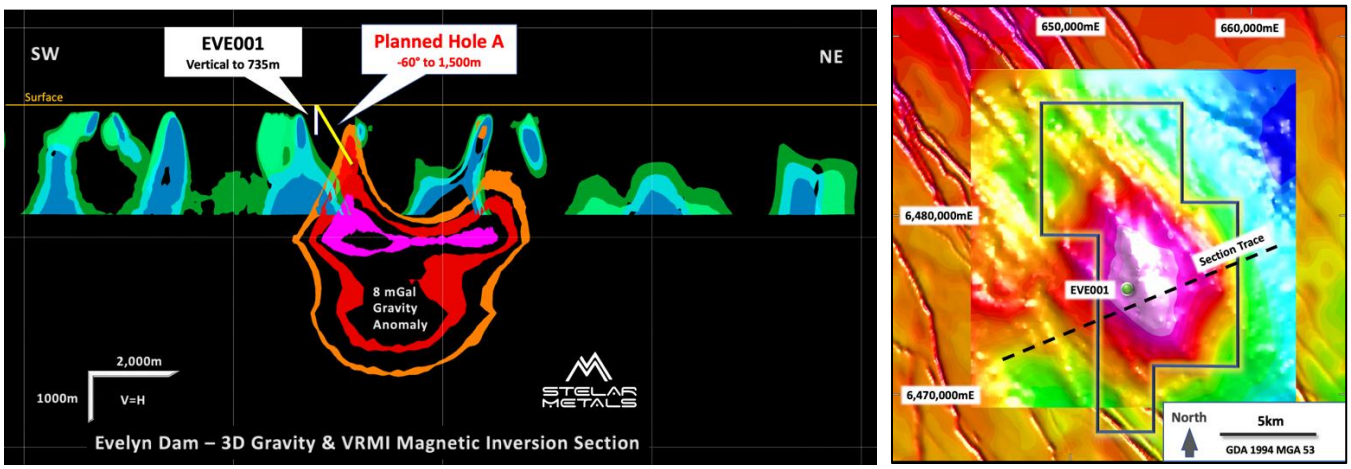

Figure 14: Section and plan view of Evelyn Dam 3D inverted geophysics (red - Gravity Model; blue-green - Magnetic) from 26 August announcement

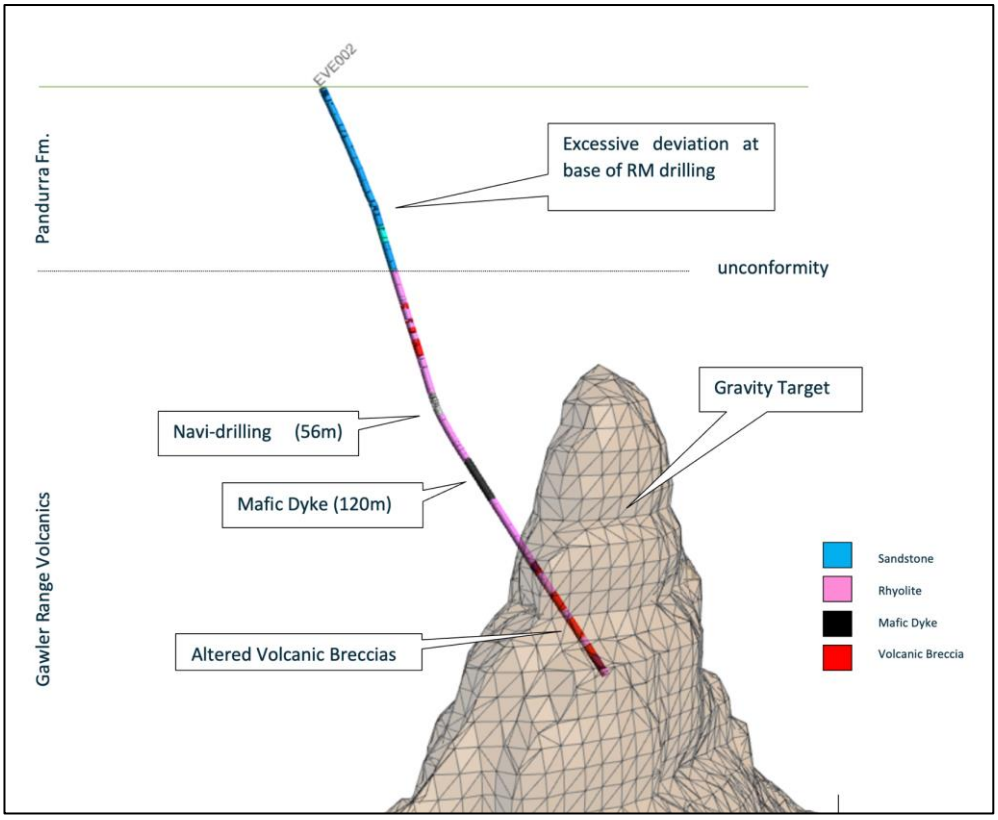

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Figure 15: Schematic 3D view of EVE002 trace (looking NW) showing geology relative to the target gravity anomaly

Elevated levels of light rare earth elements including caesium, lanthanum and yttrium were noted in the volcanic breccia units in the target zone from 1,346m depth. However, the base metals assays were not significant. Elevated REE levels are a signature of large-scale IOCG ore bodies and alteration systems like Olympic Dam and Carrapateena also located in the Gawler Craton in SA.

Stelar Metals is reviewing the geophysical models and prospectivity at Evelyn Dam and given previous major mining company investment in the Evelyn Dam project historically by BHP and Rio, Stelar will consider looking for a joint venture partner prior to advancing the Project further.

CORPORATE

Annual General Meeting

Stelar Metals held its Annual General Meeting on 29 November 2022. All resolutions put to shareholders at the AGM were carried.

Cash

At 31 December 2022, Stelar Metals had $4.404 million in the bank.

ASX Additional Information

The Company provides the following information pursuant to ASX Listing Rule requirements:

1. ASX Listing Rule 5.3.1:

Exploration and Evaluation Expenditure during the quarter was $203,888. Of this, $83,789 and $61,314 was incurred for exploration field work undertaken at the Linda and Baratta Projects respectively, final costs of $26,669 in respect of the drilling programme undertaken at Evelyn Dam during the previous quarter, and annual tenement rent fees relating to the Torrens Project.

2. ASX Listing Rule 5.3.2:

The Company confirms that there was no mine production and development activities for the quarter.

3. ASX Listing Rule 5.3.4:

The Company provides the following comparison between its actual expenditure incurred during the quarter to that of the Statement of Capital Structure included within its Prospectus submitted to the ASX on 16 March 2022.

Use of Funds	Estimate of the first 2 years after ASX admission ($)	Actual expenditure to Sept 2022 ($)	Actual expenditure Dec Qtr 2022 ($)	Balance Remaining ($)
Exploration on Evelyn Dam Project	2,050,000	777,881	26,669	1,245,450
Exploration on Linda Zinc Project	1,740,000	178,918	83,789	1,477,293
Exploration on Torrens Project	565,000	33,818	29,791	501,391
Exploration on Baratta Project	835,000	20,703	61,314	752,983
Exploration on Gunson Project	490,000	17,900	2,325	469,775
Expenses of the Offer	779,114	626,915	-	152,199
Admin costs and working capital	1,002,216	414,660	196,050	391,506
Total	**7,461,330**	**2,070,795**	**399,938**	**4,990,597**

4. **ASX Listing Rule 5.3.5:** Payment to related parties of the Company and their associates during the quarter was $62,645 in cash.

The Company advises that this relates to remuneration of Directors only. Please see the Remuneration Report in the Company's Prospectus for further details on Directors' Remuneration. Set out below is the following additional information in relation to the cash flow statement:

Name of Director	Nature of Payment	$
Stephen Biggins	Ongoing Director fees	35,420
Geoffrey Webster	Ongoing Director fees	13,613
Will Dix	Ongoing Director fees	13,613
	Total	**62,646**

Tenements

In accordance with Listing Rule 5.3.3, Stelar Metals provides the following Information concerning Its mining tenements.

Application ELA 2022/00074 was granted as EL 6863.

The following table lists the Company's mining tenements held at the end of the quarter, and their location:

Holder	Project	Lease	Lease Location	Least Status
Stelar Metals	Evelyn Dam	EL 5792	Eastern Gawler Craton	Granted
Stelar Metals	Linda	EL 6263	Adelaide Fold Belt	Granted
Stelar Metals	Baratta	EL 6803	Adelaide Fold Belt	Granted
Stelar Metals	Gunson	EL 6812 & EL 6824	Eastern Gawler Craton	Granted
Stelar Metals	Torrens	EL 6572 & EL 6264	Sturt Shelf	Reduced Area
Stelar Metals	Baratta Mine	EL 6863	Adelaide Fold Belt	Granted

APPROVED BY THE BOARD OF STELAR METALS LIMITED

FOR MORE INFORMATION:

Colin Skidmore
Chief Executive Officer, Stelar Metals Limited

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ABOUT STELAR METALS

Stelar Metals is ready to discover highly prized minerals of copper and zinc needed to drive the move to decarbonise the world and experiencing unprecedented demand. All five projects are 100% owned by Stelar Metals and are located in South Australia's premier world class exploration and mining district. The Company has an experienced exploration team with a track record of discovery success exploring for commodities that are in increasing demand.

EXPLORATION RESULTS

The information in this announcement that relates to Exploration Results is based on information compiled by Mr Colin Skidmore, a Competent Person who is a Member of the Australian Institute of Geoscientists. Mr Skidmore is a full-time employee of Stelar Metals Ltd. Mr Skidmore has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activities being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code (2012)). Mr Skidmore consents to the inclusion in this announcement of the matters based on his information in the form and context in which it appears.

This announcement includes information that relates to Exploration Results prepared and first disclosed under the JORC Code (2012) and extracted from the Company's initial public offering prospectus which was released on the ASX on 16 March 2022. A copy of this prospectus is available from the ASX Announcements page of the Company's website: https://stelarmetals.com.au/.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the relevant market announcement. Where the information relates to Exploration Results, the Company confirms that the form and context in which the competent person's findings are presented have not been materially modified from the original market announcement.

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Appendix 5B

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

Name of entity

STELAR METALS LIMITED

ABN	Quarter ended ("current quarter")
43 651 636 065	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 (if expensed)	-	-
	(b) development	-	-
	(c) production	-	-
	(d) staff costs*	(75)	(134)
	(e) administration and corporate costs	(104)	(219)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	-
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**	**(179)**	**(353)**

* net salaries after recharge to exploration and inclusive of director fees paid

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements (see note 6)	-	-
	(c) property, plant and equipment	-	(31)
	(d) exploration & evaluation (if capitalised)	(212)	(1,150)
	(e) investments	-	-
	(f) other non-current assets	-	-

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	-	7
	(d) (investments)/divestments of shares	-	-
	(e) other non-current assets	-	-
2.3	Cash flows-406- 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**	**(212)**	**(1,174)**

3.	**Cash flows from financing activities**		
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	-	-
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**	**-**	**-**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	4,795	5,931
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(179)	(353)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(212)	(1,174)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**4,404**	**4,404**

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	2,404	4,795
5.2	Call deposits	2,000	-
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)**	**4,404**	**4,795**

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 (see note 6)	63
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)	(179)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(212)
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(391)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	4,404
8.5	Unused finance facilities available at quarter end (Item 7.5)	-
8.6	Total available funding (Item 8.4 + Item 8.5)	4,404
8.7	**Estimated quarters of funding available (Item 8.6 divided by Item 8.3)**	11.26

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

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 – item 8.7 not less than 2 quarters

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 – item 8.7 not less than 2 quarters

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 – item 8.7 not less than 2 quarters

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 January 2023

Authorised by: The Board of Stelar Metals Limited

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.