

QUARTERLY REPORT FOR THE PERIOD ENDED 31 MARCH 2021

HIGHLIGHTS

- Vital commences mining operations at Nechalacho in March 2021 ahead of the commencement of rare earth concentrate production in Q2 CY2021
- Vital on track to become the first rare earths producer in Canada and only the second in North America, with production on track to commence next quarter
- Drilling program completed to define mine plan for Stage 2 rare earths production at Nechalacho
- 12kg rare earth carbonate bulk sample produced at Nechalacho for offtake partner REEtec after executing definitive offtake agreement for supply of 1,000t REO (ex-cerium) for 5 years
- Infrastructure and equipment including ore sorter substructure, feed hoppers, stackers, conveyors and other items arrive on site at Nechalacho
- Vital completes A\$43M institutional placement to fund construction, mining and operations for production at Nechalacho.

Vital Metals Limited (ASX: VML) (“Vital Metals” or “the Company”) is pleased to report on its activities during the March 2021 quarter, including at its 100%-owned Nechalacho Rare Earth Project in Yellowknife, Northwest Territories, Canada, where it expects to commence rare earth oxide production in Q2 CY2021.

Vital Metals Managing Director Geoff Atkins said: *“The March quarter has seen us achieve several major milestones on our way to commencing rare earth production at Nechalacho in the current quarter, including a transformational A\$43 million placement that fully funds our operations into production and validates our strategy to produce rare earths for a globally diversified supply chain.*

“Vital Metals is on its way to becoming Canada’s first rare earths producer – and only the second in North America – within weeks following the mobilisation of our mining fleet and I look forward to keeping our shareholders up to date on our progress towards that goal.”



NECHALACHO RARE EARTHS PROJECT, CANADA (JORC RESOURCE: 94.7MT @ 1.46% REO)

Mining Commences at Nechalacho

In late March, Vital Metals announced the commencement of mining operations at Nechalacho, with the contract mining fleet mobilising to site. Local mining contractor Det'on Cho Nahanni Construction commenced operations at Nechalacho's North T Zone following mobilisation via the private Nechalacho ice road, a 110km long, 1.1m thick engineered ice road on the Great Slave lake from Dettah, Yellowknife Bay, NWT to the Nechalacho Rare Earth Project on the Hearne Channel in Chief Drygees Territory.

Vital Metals and its subsidiary Cheetah Resources held a ceremony on 20 March 2021 marking the commencement of mobilisation.



Figure 1: Ammonia nitrate en route to Nechalacho via Vital's private ice road

Commencement of mining followed the signing of a definitive mining contract with Det'on Cho Nahanni Construction in February after a Memorandum of Understanding executed in January 2020 established Det'on Cho Nahanni Construction as the preferred Mining Services Contractor (see ASX Announcement 23 January 2020). Det'on Cho Nahanni Construction is 51% owned by Det'on Cho Corporation, which is in turn owned by the Yellowknives Dene First Nation.

The scope of work under the mining contract includes mining, site clearing, preparation of retention pond, site roads, ROM pad, plus crushing and screening.

All plant and equipment, including an ore sorter and associated infrastructure, has arrived at site in preparation for rare earth production at Nechalacho.

Det'on Cho Nahanni Construction will mine the North T Zone as a small open pit, with material transported to Vital Metal's ore sorter on site at Nechalacho for sorting. This will create a product suitable for further processing off-site at Vital Metal's rare earth extraction plant, to be constructed in Saskatoon, which will produce a mixed rare earth carbonate product for sale to separation facilities.

Det'on Cho Nahanni Construction will undertake mining and crushing during a single campaign between March and September 2021, under the control and direction of Cheetah Resources.

Mined ore will be stockpiled for use in ore sorting operations which will be undertaken by Cheetah personnel during the summer periods of 2021 to 2023.

It is anticipated that a second mining campaign will be required in 2024 to replenish stockpiles.

Vital Metal's strategy is to develop Nechalacho in two stages. Stage 1 of the operations focuses on the North T Zone resource (105,000 tonnes grading 8.9% TREO¹), and Stage 2 will involve the development of the much larger Tardiff deposit.

Drilling for Stage 2 Mine Plan

In February, Vital Metals announced it had entered a drilling contract, through its subsidiary Cheetah Resources Corp, with NorthTech Ltd, a Yellowknife-based drilling company. The 1,800m drill program is underway at Nechalacho to test three high-grade targets in the Tardiff deposit and evaluate potential expansion of the T Zone by targeting two additional zones, the South T and the S zones, which lie adjacent to the planned North T pit, where Vital Metals plans to commence production later this year.

Drilling aims to enable Vital Metals to develop a mine plan for the Nechalacho Stage 2 mine development, as well as define additional resources in the vicinity of the current pit.

In Vital Metal's staged strategy for Nechalacho, Stage 2 envisages the development of several high-grade zones identified within the Tardiff (Upper Zone) deposit. The Company previously announced this deposit's total resource of 95 million @ 1.46% total rare earth oxides (TREO) (1.3 million tonnes of contained TREO)². The Tardiff deposits are envisaged as providing the resource for the long-term operation and expansion of the project.

In addition to rare earths, this zone also contains zircon and niobium grades which are comparable with other polymetallic rare earth projects and were also the subject of feasibility test work previously undertaken at Nechalacho by Avalon Advanced Materials Inc. Key features of the proposed Stage 2 operations are as follows:

- Long-term/large-scale commercial operation providing long term security to the rare earth supply chain;

¹ Refer ASX announcement dated 15 April 2020. The Company is not aware of any new information or data that materially affects the information included in the original announcement and that all material assumptions and technical parameters underpinning the resource estimate in the announcement continue to apply and have not materially changed.

² Refer ASX announcement dated 13 December 2019. The Company is not aware of any new information or data that materially affects the information included in the original announcement and that all material assumptions and technical parameters underpinning the resource estimate in the announcement continue to apply and have not materially changed.



- Fund expansion and the development of Tardiff deposit through the sale of mixed RE carbonate from the North T zone currently being mined; and
- Vital Metal's Definitive Offtake Agreement with REEtec (see below) provides the option for the supply of up to 5,000t REO (ex-Cerium)/yr for a period of more than 10 years. Should this option be exercised, this will be a cornerstone for Stage 2 operations at the Tardiff Zone.

Previous work on the Tardiff deposit has identified several high-grade targets which contained similar bastnaesite mineralization to the North T resource.

This drilling program will test two of these targets plus a high-grade zone adjacent to the previous defined resource. The program aims to delineate further high-grade resources, within the existing global resource (1.3Mt contained TREO)³, to enable the definition of a mine plan which will provide sufficient feed for the targeted Stage 2 production, including options contemplated within the definitive Offtake Agreement signed with REEtec. It is noted that cerium typically accounts for approximately 50% of the total rare earth oxides contained within bastnaesite mineralisation.

The drill program comprises a minimum of 30 holes (1,800m) of HQ diamond drilling. The core will be assayed and will also provide additional samples for metallurgical testing to develop the beneficiation and metallurgical processes for Stage 2. Assay results are expected next quarter.

Definitive Offtake Agreement

Vital Metals executed a definitive Offtake Agreement with REEtec AS ("REEtec") on 2 February 2021, the material terms of which were announced on 21 December 2020.

Under the definitive Offtake Agreement Vital Metals will provide REEtec mixed rare earth carbonate product containing an annual volume of 1,000 REO (ex-Cerium) over 5 years. Both parties have an option to increase this offtake volume by up to 5,000 tonnes REO per annum over 10 years (subject to a corresponding supply agreement).

The rights and obligations under the definitive Offtake Agreement are subject to both Vital Metals and REEtec proceeding with a final investment decision ("FID") for the development of their respective commercial plants (with raw material sourced from Vital Metals) and completion of the agreed stages as set out in the announcement dated 21 December 2020.

12kg Bulk Sample Produced

In early March, Vital Metals announced it had produced a 12kg sample of rare earth carbonate as part of a bulk sampling program at Nechalacho. The sample was shipped to Vital Metal's offtake partner REEtec AS in Norway in accordance with customer acceptance protocols.

Vital Metals has prepared additional samples of carbonate which it will make available to other prospective customers.

³ Refer ASX announcement dated 13 December 2019. The Company is not aware of any new information or data that materially affects the information included in the original announcement and that all material assumptions and technical parameters underpinning the resource estimate in the announcement continue to apply and have not materially changed.

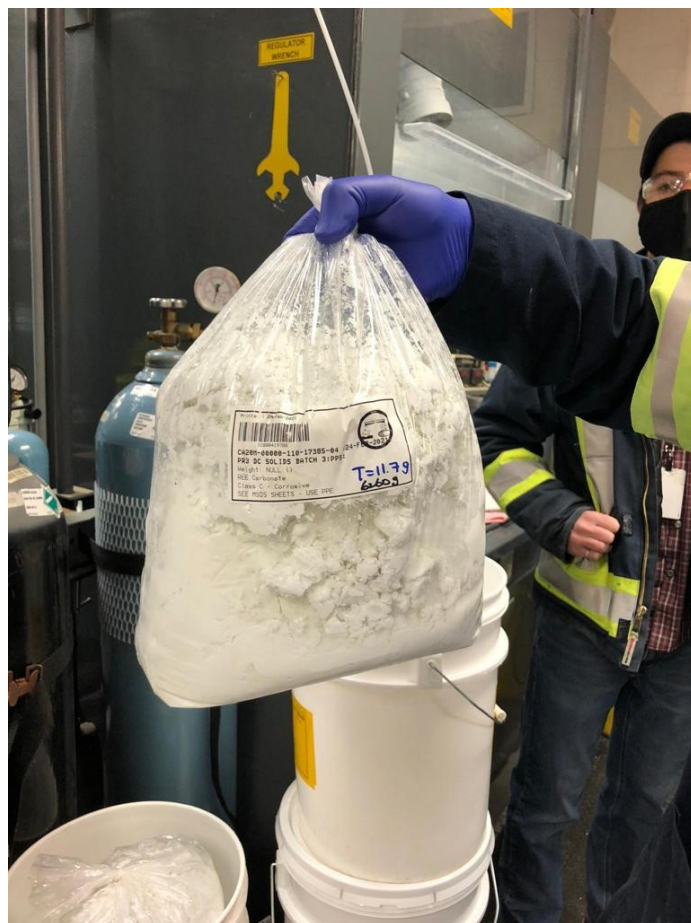


Figure 2: Mixed rare earth carbonate sample prepared for offtake partner REEtec

The 12kg bulk sample followed an earlier carbonate sample produced in February to satisfy target impurity levels agreed with REEtec.

In accordance with the off-take agreement, Vital Metals worked with REEtec to finalise the rare earth carbonate specification and associated process flowsheet which will minimise the combined Vital Metals and REEtec operating costs to produce separated rare earth oxides.

WIGU HILL PROJECT, TANZANIA

During the March quarter the Company has continued discussions with the Tanzanian Government regarding the issuance of a Mining Licence for the Wigu Hill rare earth project. The Company is working towards a meeting with Government in Tanzania however, this is currently impacted by COVID-19 travel restrictions.

NAHOURI GOLD PROJECT, BURKINA FASO

Vital Metals has suspended all exploration activity in Burkina Faso.

AUE COBALT PROJECT, GERMANY

There were no exploration activities on the Aue project in the March quarter.



CORPORATE

As of 31 March 2021, the Company held approximately \$44.4 million in cash and cash equivalents.

During the quarter, the Company made payments of \$85k to related parties and their associates. These payments relate to existing remuneration agreements for the Managing Director, Executive and Non-Executive Directors.

During the quarter, Vital Metals spent \$2.1 million on exploration and evaluation expenditure. Details of activities carried out during the quarter are set out in this report.

A\$43 million Placement completed

Vital Metals completed a A\$43 million share placement to institutional, sophisticated and professional investors in March which will fund construction, mining and operations for production at Nechalacho, allowing production to commence on schedule in Q2 CY21.

The Placement was undertaken at A\$0.065 per share with approximately 661.5 million new fully paid ordinary shares issued ("Placement").

Vital Metals received strong support in the Placement, adding new institutional investors to its register while several existing investors increased their holdings.

Performance Shares

In 2019, Vital Metals issued 800 million Performance Shares in accordance with the terms of the acquisition by Vital Metals of Cheetah Resources Pty Ltd (Cheetah Resources) (see ASX announcement dated 25 June 2019). The purpose of the Performance Shares, which were issued to the original Cheetah Resources' shareholders, was to link part of the consideration for the acquisition of Cheetah Resources to certain key performance criteria.

The commencement of commercial mining operations at the Nechalacho⁴ or Wigu Hill projects is a key performance criterion for the conversion of all Performance Shares into fully paid ordinary shares in the capital of the Company (Shares). Therefore, all Performance Shares converted to Shares on a 1:1 basis on commencement of mining operations.

Vital Metals Directors and key shareholders holding ~70% of the Performance Shares have agreed to voluntarily escrow the converted Shares for a period of 6 months.

⁴ Previously referred to as "Thor Lake Project"



TENEMENT SCHEDULE

Location	Tenement	Status	Interest at beginning of quarter	Interest acquired or disposed	Interest at end of quarter
Canada	Nechalacho	100%*	100%	0%	100%
Burkina Faso	Nahouri	100%	100%	0%	100%
	Kampala	100%	100%	0%	100%
	Zeko	100%	100%	0%	100%
Germany	Aue	100%	100%	0%	100%
Tanzania	Wigu Hill	0%**	0%	0%	0%

* Vital owns 100% of the mineral rights of the Nechalacho Project above the 150 m elevation level.

** Vital has entered into an agreement to acquire this licence. The Company is awaiting the issuance of the licence by the Tanzanian Government.

- ENDS-

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This announcement has been authorised for release by the Board of Vital Metals.

ABOUT VITAL

Vital Metals Limited (ASX:VML) is an explorer and developer focussing on rare earths, technology metals and gold projects. Our projects are located across a range of jurisdictions in Canada, Africa and Germany.

Nechalacho Rare Earth Project

The Nechalacho project is a high grade, light rare earth (bastnaesite) project located at Nechalacho in the Northwest Territories of Canada and has potential for a start-up operation exploiting high-grade, easily accessible near surface mineralisation. The Nechalacho Rare Earth Project hosts within the Upper Zone, a measured, indicated and inferred JORC Resource of **94MT at 1.46% TREO**.

Wigu Hill Project

The Company has signed a project development and option agreement with Montero Mining & Exploration Ltd, to acquire and develop the Wigu Hill Project located near Kisi in Tanzania. The Wigu Hill project is a light rare earth element deposit and consists of a large carbonatite complex with bastnaesite mineralisation with a NI 43-101 Inferred resource estimate of **3.3Mt at 2.6% LREO5 including 510,000t @ 4.4% LREO5** on 2 of 10 possible drill targets.

Nahouri Gold Project – Burkina Faso

The Nahouri Gold Project (100% Vital) is located in southern Burkina Faso. The Project is made up of three contiguous permits; the Nahouri, Kampala and Zeko exploration permits. The Project is located in highly prospective Birimian Greenstone terrain with 400 sq km of contiguous tenements lying on the trend of the Markoye Fault Corridor.



Aue Project – Germany

The Aue Project (100% Vital) is located in the western Erzgebirge area of the German state of Saxony. The permit, comprising an area of 78 sq km is located in the heart of one of Europe's most famous mining regions surrounded by several world class mineral fields. Historical mining and intensive exploration work carried out between from the 1940s and 1980s showed high prospectivity of the Aue permit area for cobalt, tungsten, tin, uranium and silver mineralisation.

ASX Listing Rule Information

Nechalacho Rare Earth Project

The Nechalacho Rare Earth Project hosts within the Upper Zone, a measured, indicated and inferred JORC Resource of **94.7MT at 1.46% TREO** at 0.7% Nd2O3 cut-off grade (25.2% NdPr), comprised of a Measured Resource of 286,563T at 2.7% TREO (24.2% NdPr), an Indicated Resource of 1.6MT at 2.4% TREO (24.2% NdPr), and an Inferred Resource of 1.3Mt at 2.2% TREO (24.2% NdPr). The Company originally announced this resource on 13 December 2019 and released an update on 15 April 2020 and confirms that it is not aware of any new information or data that materially affects the information included in the Announcements. All material assumptions and technical parameters disclosed in the Announcement that underpin the estimates continue to apply and have not materially changed.

Wigu Hill Project

The Company has previously disclosed the foreign estimates in compliance with ASX Listing Rule 5.12 in the announcement dated 25 June 2019 titled "Vital to Transform into Rare Earth Oxide Developer" ("Announcement"). The Company is not in possession of any new information or data relating the foreign estimates that materially impacts on the reliability of the estimates or the Company's ability to verify the foreign estimates in accordance with Appendix 5A (JORC Code). The Company confirms that the supporting information provided in the Announcement continues to apply and has not materially changed.

Investors should note that the Mineral Resource estimate for the Wigu Hill Rare Earth Project is a foreign estimate and is not reported in accordance with the JORC Code. A competent person has not done sufficient work to classify this foreign estimate as a mineral resource in accordance with the JORC Code and it is uncertain that following further exploration or evaluation work that this foreign estimate will be able to be reported as a mineral resource in accordance with the JORC Code.

Forward Looking Statements

This release includes forward looking statements. Often, but not always, forward looking statements can generally be identified by the use of forward-looking words such as "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "continue", and "guidance", or other similar words and may include, without limitation statements regarding plans, strategies and objectives of management, anticipated production or construction commencement dates and expected costs or production output.

Forward looking statements inherently involve known and unknown risks, uncertainties and other factors that may cause the company's actual results, performance and achievements to differ materially from any future results, performance or achievements. Relevant factors may include, but are not limited to, changes in commodity prices, foreign exchange fluctuations and general economic conditions, increased costs and demand for production inputs, the speculative nature of exploration and project development, including the risks of obtaining necessary licences and permits and diminishing quantities or grades of resources or reserves, political and social risks, changes to the regulatory framework within which the company operates or may in the future operate, environmental conditions including extreme weather conditions, recruitment and retention of personnel, industrial relations issues and litigation.

Forward looking statements are based on the company and its management's good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect the company's business and operations in the future. The company does not give any assurance that the assumptions on which forward looking statements are based will prove to be correct, or that the company's business or operations will not be affected in any material manner by these or other factors not foreseen or foreseeable by the company or management or beyond the company's control.

Although the company attempts to identify factors that would cause actual actions, events or results to differ materially from those disclosed in forward looking statements, there may be other factors that could cause actual results, performance, achievements or events not to be anticipated, estimated or intended, and many events are beyond the reasonable control of the company. Accordingly, readers are cautioned not to place undue reliance on forward looking statements.



Forward looking statements in this release are given as at the date of issue only. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, in providing this information the company does not undertake any obligation to publicly update or revise any of the forward-looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based.

Appendix 5B

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

Name of entity

VITAL METALS LIMITED

ABN

32 112 032 596

Quarter ended ("current quarter")

31 MARCH 2021

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	(21)	(110)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(405)	(1,001)
	(e) administration and corporate costs	(759)	(1,396)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	2	4
1.5	Interest and other costs of finance paid	(1)	(6)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	219
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(1,184)	(2,290)
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(858)	(1,539)
	(d) exploration & evaluation	(2,147)	(3,863)
	(e) investments	-	-
	(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	45
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(3,005)	(5,357)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	43,000	51,000
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	934	1,272
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(1,443)	(1,965)
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 (repayment of lease liabilities)	(21)	(60)
3.10	Net cash from / (used in) financing activities	42,470	50,247

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	6,076	1,757
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,184)	(2,290)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3,005)	(5,357)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	42,470	50,247

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	44,357	44,357

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	43,445	6,026
5.2	Call deposits	912	50
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)	44,357	6,076

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	85
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.	Financing facilities <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>	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.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,184)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(3,005)
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(4,189)
8.4	Cash and cash equivalents at quarter end (item 4.6)	44,357
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	44,357
8.7	Estimated quarters of funding available (item 8.6 divided by item 8.3) <i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	10.6
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:	
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:	

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:

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

Compliance statement

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

Date: 30 April 2021

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 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.