



WINCHESTER

ENERGY LIMITED
ACN 168 586 445

QUARTERLY REPORT

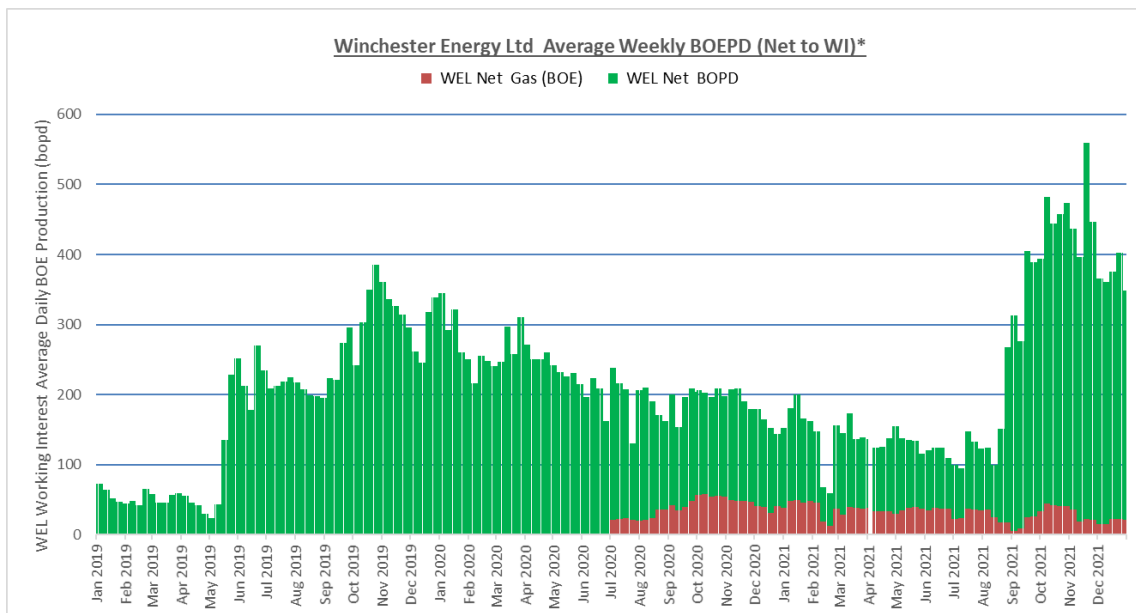
For the period ending 31 December 2021

HIGHLIGHTS

- **Positive cash flow of US\$473,000 for the December 2021 quarter** driven by vastly improved oil and gas production coupled with cost reductions
- **Outstanding oil price exposure** - Winchester fully leveraged to oil and gas prices with January 2022 oil prices at a level not seen since 2014
- **Net revenue was AUD\$3,122,214¹ - 430% increase from the September 2021 quarter**
- Production during the December 2021 quarter averaged 465 barrels of oil equivalent per day² (boepd) net to Winchester's Working Interest (WI) - **126% increase from Sept quarter.**
- Oil and gas production anticipated to increase with drilling activity to commence in the current quarter at the newly acquired Varn Oil Field

Acquisition and Work Completed

- Winchester acquired a 100% WI in the Varn Oil Field which comprises **Proven and Probable Reserves (2P) of 1.068 million barrels of oil equivalent (mmboe) – comprised of over 93% oil**
- Payment of US\$415,000 and drilling of all required wells constitute an **up-front gross acquisition and development cost of US\$5.61/boe funded from existing cashflow**
- MoU signed with CryptoTherm for a feasibility study to supply natural gas from Varn for a range of power-intensive computational applications including cryptocurrency mining
- Following the success in the Ellenburger Formation at White Hat 2106, a recompletion was performed at White Hat 3902 which is now producing 92 boepd for a total cost of US\$100,000



¹ Using exchange rate 1 AUD = 0.72 USD.

² boe (barrels of oil equivalent) - gas quantities are converted to boe using 6,000 cubic feet of gas to one barrel of oil. Conversion ratio is based on energy equivalency and does not represent value equivalency. Rounded to the nearest boe.

PRODUCTION SUMMARY

Winchester Energy Limited's (ASX:WEL) ("Winchester", "the Company") gross and net Working Interest (WI) oil and gas production for the quarter ended 31 December 2021 is shown below:

| Oil Production (boe) | December Quarter 2021 (boe) | September Quarter 2021 (boe) | June Quarter 2021 (boe) | March Quarter 2021 (boe) | December Quarter 2020 (boe) |
|----------------------|-----------------------------|------------------------------|-------------------------|--------------------------|-----------------------------|
| Gross Oil Production | 46,911 | 22,245 | 15,933 | 17,661 | 23,206 |
| WEL WI Share* | 42,713 | 18,784 | 11,857 | 13,055 | 17,184 |

*Winchester is entitled to its Working Interest share of revenue after royalty payments to the oil and gas mineral rights owners.

Winchester's average daily WI production in the December 2021 quarter was 465 barrels of oil equivalent per day (boepd)³, comprising 88% liquids (oil).

To the end of the December 2021 quarter, Winchester's Permian Basin wells in Nolan County, Texas have produced a total gross 623,403 barrels of oil and 344 million cubic feet of gas.

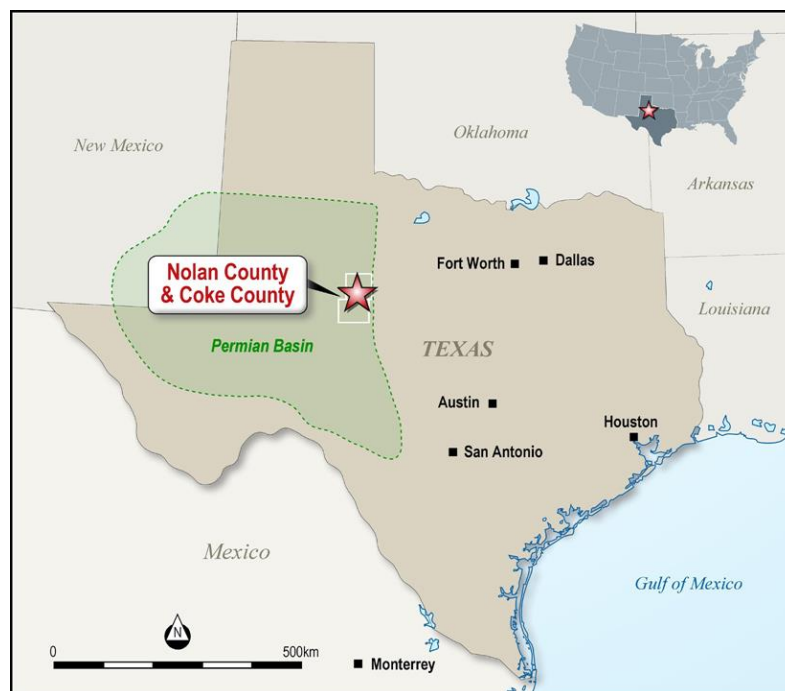


Figure 1: Location of the Company's acreage position in Nolan and Coke Counties, Texas, USA

³ boe (barrels of oil equivalent) - gas quantities are converted to boe using 6,000 cubic feet of gas to one barrel of oil. The 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency. Estimates are rounded to the nearest boe.

REVENUE SUMMARY

Total WI oil and gas sales revenue for the December 2021 quarter was A\$3,122,214⁴ (US\$2,247,925). The average sale price per barrel of oil was US\$76.34, a 10% increase from the September 2021 quarter.

During the quarter, West Texas Intermediate (WTI) oil prices continued to rise appreciably, with WTI oil currently selling at over US\$88 per barrel, a level not seen since 2014.

STRATEGIC ACQUISITION

Varn Oil Field (100% WI)

During the December 2021 quarter Winchester announced the acquisition of a 100% working interest in the Varn Oil Field, located 18 miles to the east of Winchester's existing producing assets in Nolan County, Texas.

Winchester will be the operator at Varn, with 11 wells – six oil and gas producers and five water injectors –comprising the waterflood operation. The majority of these wells are planned for the central area where the Upper and Lower Fry Sand overlap while the rest of the wells capture oil from the more widespread Upper Fry Sand.

The total cost for the Varn Oil Field waterflood is estimated at approximately US\$5.5M spread out over a period of six months giving a highly attractive acquisition and development cost of US\$5.61 per boe. Operations will commence upon the successful "unitisation" of the requisite land packages into one lease. This process is over 90% complete with drilling expected to commence in early 2022.

Calculated Varn Oil Field Reserves - Mire Petroleum Consultants

| Reserves | Product | 1P – Proved Reserve | 2P – Proved + Probable Reserve | 3P – Proved + Probable + Possible Reserve |
|----------------------------------|---------|---------------------|--------------------------------|---|
| Upper and Lower Fry Sands | BO | 415,000 | 994,000 | 1,680,000 |
| | MCF | 169,000 | 442,000 | 894,000 |
| | BOE | 443,000 | 1,068,000 | 1,829,000 |

BO – barrels of oil

BOE – barrel of oil equivalent¹

MCF – thousand cubic feet of gas

Calculated Reserves incorporate WEL's net revenue interest of 77%

Further ASX Listing Rule 5.31 Information (Notes to Reserves) related to these reserves is provided in the ASX release of 3 December 2021

Development of Varn will be exclusively funded from existing cashflow, Varn represents a significant advancement in Winchester's strategy of acquiring high-impact oil and gas projects that add substantial value.

⁴ Using exchange rate 1 AUD = 0.72 USD. Unlike previous reporting, Winchester is now quoting oil and gas revenue net of severance tax

The Varn Oil Field contains existing Proven and Probable (2P) Resources of 1,068,000 barrels of oil (boe) comprised of 994,000 barrels of oil and 442 thousand cubic feet of gas (mmcf). Production is derived from the Fry Sands (a sub-unit of the Strawn Sands) which, together with the Ellenburger Formation, is currently producing oil and gas at Winchester’s existing Nolan County operations.

Background

The Varn Oil Field is made up of nine leases comprising a total of 1,145 acres. The nine leases are in the very advanced stages of being converted to one single oil and gas unit which, in its entirety, will be held by production (HBP) following the drilling of one well.

The Upper and Lower Fry Sands were discovered in the Varn Oil Field in 1957 with 20 wells drilled to 1962. The field produced oil until 1985 with total oil production of 1,424,060 barrels of oil from both sands together with 208 million cubic feet of gas. The initial flow rate on the early wells was 164-422 bopd at 200-300 psi with little initial water and only moderate water at the end of production.

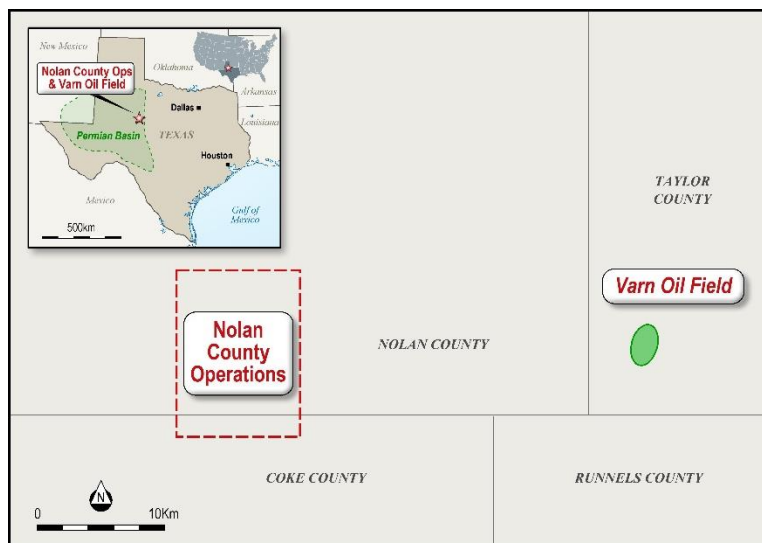


Figure 2 – Varn Oil Field and Nolan County Operations

Secondary Recovery - Waterflood

Waterflooding is a secondary recovery technique which injects water into an oil reservoir in a downdip position. The water repressurizes the field and provides energy to move unswept oil updip to crestal oil well producers.

Secondary oil recovery is extremely common, particularly in the US. In any given oil field, primary production accounts for the removal of 10-20% of all original oil in place (OOIP), secondary recovery (waterflooding) accounts for a further 10-20% recovery of OOIP whilst further oil is often recovered through tertiary recovery (enhanced oil recovery such as CO₂ injection)⁵.

⁵ Energy and Environmental Research Centre (EERC) - Primary, secondary, and tertiary oil recovery (using pressure, water, and CO₂). North Dakota University.

Importantly, secondary recovery operations are encouraged by the Texas State Government, exemplified by the fact that they are exempt from the usual 4.6% severance tax that primary plays attract.

Numerous waterfloods have been carried out in Pennsylvanian-age Strawn sands throughout North Central Texas. In the local south-east Taylor area, three fields have been water flooded in the Fry Sand, providing direct analogues to the Varn Project.

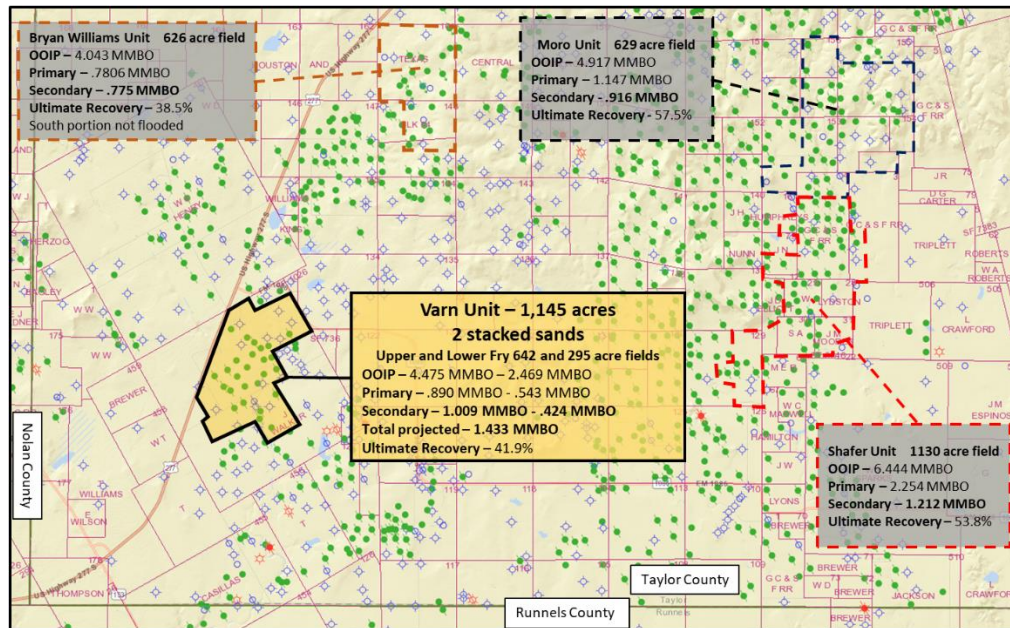


Figure 3 – Varn Oil Field and surrounding analogue fields with successful waterflood secondary recovery

MoU with CryptoTherm (“CT”)

In addition to the acquisition of Varn, Winchester has signed a memorandum of understanding (MoU) with US-based technology company CryptoTherm (“CT”) to conduct a feasibility study that contemplates Winchester supplying natural gas from the field for a range of power-intensive computational applications including cryptocurrency mining, artificial intelligence and deep learning.

CT produces “plug-and-play” self-contained immersion-cooled hardware to harness power from well-head gas to facilitate various activities and applications demanding high computational bandwidth.

The initial focus of the feasibility study will be determining the suitability of utilizing the 442 mmcf (million cubic feet) Proven 2P Reserve of gas at Varn to generate in-situ power using state-of-the-art low emission power generators. The next step will be the economic modelling of the viability of power-intensive computing applications, which will be variable according to scale and specific returns on the individual applications/activities.

Winchester has committed to funding the feasibility study to a maximum of US\$100,000. Thereafter, Winchester and CT have agreed to use best endeavors to enter into a full-form Heads of Agreement (HoA) to govern the partnership. The arrangement contemplates Winchester as the gas supplier only.

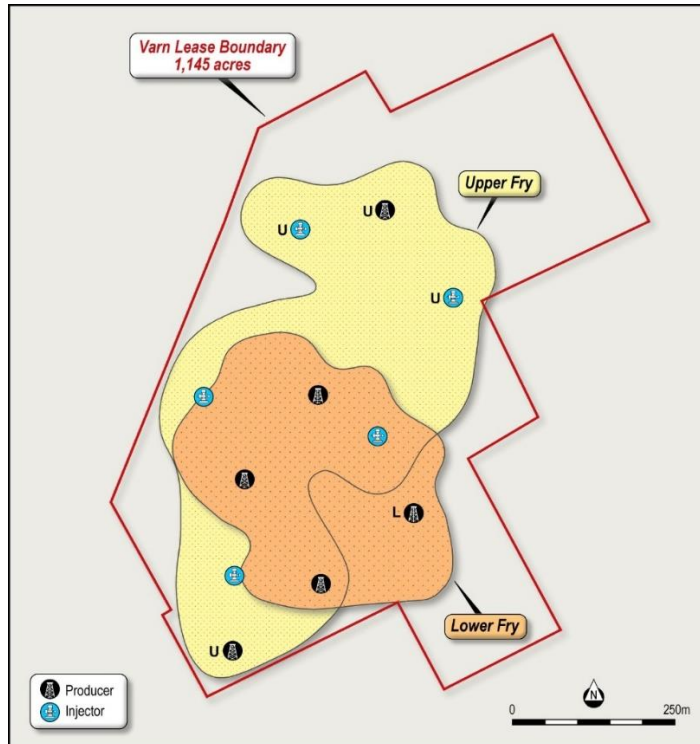


Figure 4 – Configuration of producer and injector wells at Varn

Varn Oil Field Acquisition Terms

The terms for the acquisition of a 100% working interest in the 1,145 acre lease (incorporating the Varn Oil Field) from Andress Oil & Gas Consulting, LLC and Alpha & Omega Exploration Co., Inc. (vendors) are as follows:

- US\$415,000 cash payment⁶
- A 3% overriding royalty interest over all future oil and gas production from Varn

As is typically the case with all leases on freehold land in the US, a 20% royalty is payable to the landowner taking Winchester's net revenue interest in Varn to 77%.

⁶ Should the vendors be unable to place 100% of the working interest for Varn by 1st day of September, 2022, or if there is an unresolvable title failure that would keep the unit from ever being formed, then the vendors agree to refund all monies within 10 business days of the date stated in this paragraph.

EXPLORATION & DEVELOPMENT OPERATIONS

Well Summary

| Well ID | Drilled | Formation | Oil Field | WEL WI | Status |
|----------------|-----------|-------------|-----------|--------|-----------|
| White Hat 2002 | Apr 2017 | Strawn | Mustang | 50% | Producing |
| White Hat 2003 | Mar 2019 | Strawn | Mustang | 75% | Producing |
| White Hat 2005 | Aug 2019 | Strawn | Mustang | 75% | Producing |
| White Hat 3902 | Dec 2019 | Ellenburger | - | 100% | Producing |
| White Hat 2006 | Jan 2020 | Strawn | Mustang | 75% | Producing |
| Arledge 1602 | Jul 2019 | Cisco Sands | Lightning | 100% | Producing |
| McLeod 1703 | Dec 2019 | Cisco Sands | Lightning | 100% | Producing |
| Bast 1 | 1985 | Strawn | Bast | 92% | Producing |
| Bast 2 | 1985 | Strawn | Bast | 94% | Producing |
| Bast A-1 | 1985 | Strawn | Bast | 93% | Producing |
| McLeod 1705 | June 2021 | Strawn | - | 100% | Producing |
| White Hat 2106 | July 2021 | Ellenburger | - | 100% | Producing |

White Hat 3902 (100% WI) – Ellenburger Recompletion

White Hat 3902 was drilled by the Company in December 2019 targeting the Fry Sand, returning a modest initial production rate of 30 bopd before failing to maintain a commercial flow rate. White Hat 3902 penetrated the Ellenburger Formation to a total depth of 7,061 feet with logs run over all prospective formations.

During the December 2021 quarter, in a programme costing less than US\$100,000, the Company successfully perforated 74 feet of the Ellenburger Formation identified as prospective by logs. The interval was then acidised to clean up the annulus and swabbed to remove the spent acid.

White Hat 3902 was placed on production and initially averaged 92 boepd has comprised 73 bopd and 114 thousand cubic feet gas per day (mmcfpd)⁷.

⁷ boe (barrels of oil equivalent) - gas quantities are converted to boe using 6,000 cubic feet of gas to one barrel of oil. The 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency. Estimates are rounded to the nearest boe.

EXPLORATION POTENTIAL

The Eastern Shelf of the Permian contains several vertically-stacked oil productive units (vertical pay). The recent results from the Strawn, Cisco and Ellenburger Formations have proven that the Winchester leases hold significant potential at several formation levels.

As well as the Strawn, Cisco and Ellenburger Formations, other prospective units include the, Wolfcamp 'D' high total organic carbon shale intervals, Three Fingers Shale, Lower Penn Shale and several intervals within the Canyon Sands package as well as the Odom sands and carbonates.

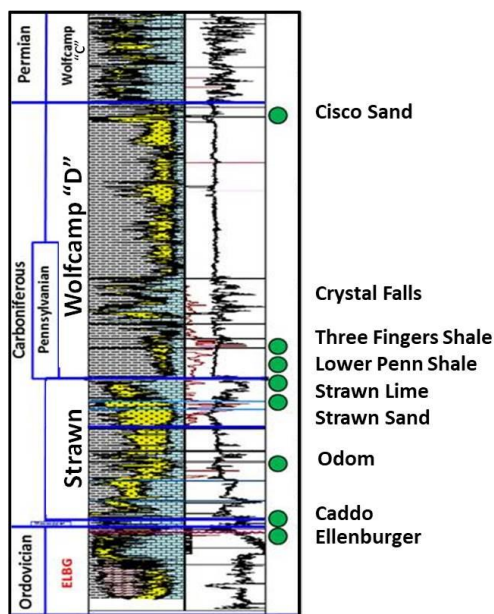


Fig 5: Stratigraphic Column – East Permian Basin

Winchester has identified, from both 3D seismic and well control, the Mustang and Lightning Oil Fields as well as the Spitfire and El Dorado prospects in the Strawn, Ellenburger and Cisco formations. Furthermore, Winchester has numerous additional locations identified for potential future exploration.

The Winchester technical team continues to review and assess new project/play opportunities. Winchester is progressing several discussions and will inform the market if and when any transaction is completed.

CORPORATE

In a significant milestone for the Company, Winchester recorded positive cash flow of US\$473,000 for the December 2021 quarter driven by vastly improved oil and gas production coupled with cost reductions.

As of 31 December 2021, Winchester Energy had 1,008,212,215 ordinary shares on issue and cash reserves of approximately AUD\$3.55 million⁸.

During the December 2021 quarter, USD\$54,000 was paid to related parties and their associated entities which was comprised of directors' fees and salaries.

⁸ Using exchange rate 1 AUD = 0.72 USD

Oil and Gas Leases Held as at 31 December 2021

Winchester's lease holding at the end of the December 2021 quarter was 6,247⁹ acres.

| | WEL Interest | Lease/Prospect | Location |
|---|--------------|-----------------|---------------------|
| Held at end of quarter | | | |
| | 100% | McLeod | Nolan County Texas |
| | 100% | Coke | Coke County Texas |
| | 92% | Bast | Nolan County Texas |
| | 100% | Whiteside | Nolan County Texas |
| Acquired during the quarter | 100% | Varn Oil Field | Taylor County Texas |
| Disposed during the quarter (HBP retained) | 100% | White Hat Ranch | Nolan County Texas |

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements which are identified by words such as "believes", "estimates", "expects", "targets", "intends", "may", "will", "would", "could", or "should" and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this report, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Winchester, the Directors and management of Winchester. These risks, uncertainties and assumptions could cause actual results to differ materially from those expressed in any forward-looking statements. Winchester has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this report, except where required by law. Winchester cannot and does not give assurances that the results, performance or achievements expressed or implied in the forward-looking statements contained in this report will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

COMPETENT PERSON'S STATEMENT

The information in this report is based on information compiled or reviewed by Mr Keith Martens, consulting geologist/geophysicist to Winchester Energy. Mr Martens is a qualified petroleum geologist/geophysicist with over 45 years of Australian, North American and other international executive petroleum experience in both onshore and offshore environments. He has extensive experience of petroleum exploration, appraisal, strategy development and reserve/resource estimation. Mr Martens has a BSc. (Dual Major) in geology and geophysics from The University of British Columbia, Vancouver, Canada.

⁹ The Company's net acreage position varies modestly in accordance with earned interests in drilling units of the current operations.

Appendix 5B

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

Name of entity

WINCHESTER ENERGY LIMITED (ASX CODE: WEL)

ABN

21 168 586 445

Quarter ended ("current quarter")

31 December 2021

| Consolidated statement of cash flows | | Current quarter \$USD'000 | Year to date (..12.months) \$USD'000 |
|--------------------------------------|---|------------------------------|--|
| 1. | Cash flows from operating activities | | |
| 1.1 | Receipts from customers | 1,719 | 3,039 |
| 1.2 | Payments for | | |
| | (a) exploration & evaluation | (501) | (2,617) |
| | (b) development | (66) | (212) |
| | (c) production | (217) | (872) |
| | (d) staff costs | (282) | (1,096) |
| | (e) administration and corporate costs | (216) | (667) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | 39 | 40 |
| 1.5 | Interest and other costs of finance paid | (3) | (7) |
| 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 | 473 | (2,392) |

| | | | |
|-----------|---|---|-------|
| 2. | Cash flows from investing activities | | |
| 2.1 | Payments to acquire or for: | | |
| | (a) entities | - | - |
| | (b) tenements | - | - |
| | (c) property, plant and equipment | - | (25) |
| | (d) exploration & evaluation | - | - |
| | (e) investments | - | - |
| | (f) other non-current assets (ROU asset) | - | (131) |

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

| Consolidated statement of cash flows | | Current quarter \$USD'000 | Year to date (..12.months) \$USD'000 |
|--------------------------------------|---|------------------------------|--|
| 2.2 | Proceeds from the disposal of: | | |
| | (a) entities | - | - |
| | (b) tenements | - | - |
| | (c) property, plant and equipment | - | - |
| | (d) investments | - | - |
| | (e) other non-current assets | - | - |
| 2.3 | 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 | - | (156) |
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | - | 3,797 |
| 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 | - | (241) |
| 3.5 | Proceeds from borrowings (ROU liability) | - | 131 |
| 3.6 | Repayment of borrowings | (9) | (82) |
| 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 | (9) | 3,605 |
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 2,093 | 1,610 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | 473 | (2,392) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | - | (156) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (9) | 3,605 |

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

| Consolidated statement of cash flows | | Current quarter \$USD'000 | Year to date (..12.months) \$USD'000 |
|---|---|--------------------------------------|---|
| 4.5 | Effect of movement in exchange rates on cash held | 8 | (102) |
| 4.6 | Cash and cash equivalents at end of period \$USD'000 | 2,565 | 2,565 |

| 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 \$USD'000 | Previous quarter \$USD'000 |
|------------|---|--------------------------------------|---------------------------------------|
| 5.1 | Bank balances | 2,565 | 2,093 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 2,565 | 2,093 |

| 6. | Payments to related parties of the entity and their associates | Current quarter \$USD'000 |
|---|---|--------------------------------------|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 54 |
| 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> | | |

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

| 7. Financing facilities | Total facility amount at quarter end \$USD'000 | Amount drawn at quarter end \$USD'000 |
|---|---|--|
| <i>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.</i> | | |
| 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 | \$USD'000 |
|---|------------------|
| 8.1 Net cash from / (used in) operating activities (item 1.9) | 473 |
| 8.2 (Payments for exploration & evaluation classified as investing activities) (item 2.1(d)) | - |
| 8.3 Total relevant outgoings (item 8.1 + item 8.2) | 473 |
| 8.4 Cash and cash equivalents at quarter end (item 4.6) | 2,565 |
| 8.5 Unused finance facilities available at quarter end (item 7.5) | - |
| 8.6 Total available funding (item 8.4 + item 8.5) | 2,565 |
| 8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3) | N/A |
| <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> | |
| 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: N/a | |
| 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: N/a | |
| 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: N/a | |
| <i>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.</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:28 January 2022.....

Authorised by:Board of Directors.....
(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.