



Sacgasco Limited

ABN 83 114 061 433

Unit 14, 210 Bagot Road, Subiaco, WA, 6008.

T +61 8 9388 2654 E info@sacgasco.com

Announcement to ASX

30 July 2021

JUNE 2021 QUARTERLY ACTIVITY REPORT

HIGHLIGHTS

- Milestone quarter in Sacgasco's history
- Improving production and cash flow from Canadian producing assets:
 - 34,815 BOE for A\$2.4 million revenue; A\$796,000 net operating cashflow to SGC
- Testing of Borba 1-7 Kione Formation confirms 3,000 mcfpd production potential
- Post quarter-end, Sacgasco completed the acquisition of 4 Service Contracts covering 1,470,000 hectares including 6 oil discoveries in the Palawan Basin, Philippines

Sacgasco Limited (ASX: SGC) ("Sacgasco", "SGC" or "the Company") is pleased to provide the Quarterly Activities Report for the calendar quarter ending 30 June 2021.

The June Quarter and subsequent events referred to in this report represent a critical turning point for the Company. Sacgasco has rapidly transformed into a significant Exploration & Production (E&P) Company with forward cashflows expected to underpin production and development projects in Canada and California, and to mature development and exploration projects in the Philippines. We now hold a suite of assets with tremendous upside in three stable jurisdictions.

EXPLORATION AND PRODUCTION ACTIVITIES

ONSHORE CANADA

During the March Quarter Sacgasco Limited acquired non-operated oil and gas producing assets in Alberta, Canada. The Red Earth (30% SGC working interest) and Alberta Plain (20% SGC working interest) Assets consist of multiple oilfields and extensive associated infrastructure.

Since Sacgasco acquired the assets, gross production from Red Earth and Alberta Plains has increased by around 25% as a result of production optimization projects including well workovers and restarts.

The assets are currently producing approximately 1400 BOEPD (400 BOEPD net to Sacgasco).

Oil and gas prices have improved significantly since the asset acquisitions were announced and closed.



Location of Sargasco Assets in California and Canada

Canada Oil and Gas Production (BOE) ¹	June 2021 Quarter	March 2021 Quarter ²
SGC Production	34,815	4,021
SGC Production after Royalty	30,516	3,579

Note 1: Gas converted to BOE using 6:1 ratio

Note 2: March Quarter production includes only 7 days of production from the Red Earth Assets following completion of the acquisition on 25 March, and approximately 2 months of production from the Alberta Plains Assets after completion of the acquisition in late January 2021.

Canada Oil and Gas Reserves ^{1,2} (Net to SGC)	Red Earth	Alberta Plains	Canada Total
Proved Reserve (Million BOE)²	1.3	0.7	2.0
Proved plus Probable Reserve (Million BOE)	2.0	1.0	3.0

Note 1: Refer to ASX announcements dated 20 November 2020, and 28 January 2021 for calculation methodology and details.

Note 2: Gas converted to BOE using 6:1 ratio

ONSHORE CALIFORNIA

Borba Natural Gas Prospect Drilling - Sargasco 66.67% Working Interest ("WI")

The Borba 1-7 well was drilled to a Total Depth of 8,827ft. After determining sub-commercial flows in the lower formations, the Company tested a total of 13 feet of perforations at approximately 3,900 feet (1,200 metres) in the Kione Formations. These perforations are within an interval of 92 feet of reported gas pay.

While the calculated flow from the Borba well at 1300 psi tubing pressure (equivalent to 400# of pressure drawdown) is 5,000,000 cubic feet of gas per day (5,000 mcf/gpd)*, the company believes a prudent initial flowrate to be 3,000 mcf/gpd from the Borba 1-7 well. These parameters may be varied following initial production depending on operational pipeline pressures and observed reservoir behaviour.

A detailed review of the downhole pressure gauge data from the Borba 1-7 well test has modelled a theoretical Absolute Open Flow (“AOF”) potential of 7.8 to 9.2 mcf/gpd.

*Note: 1 ‘mcf/gpd’ is 1,000 cubic feet of gas per day- approximately 1 sale unit of gas per day



Borba 1-7 flaring during short period of flow testing

Gas analysis confirmed the Borba gas contains 85.4% Methane and has a Gross heating Value of 856 Btu/mcf.

Borba Gas Pipeline Saccgasco 66.67% WI Operated

After reviewing multiple routes and connection alternatives Saccgasco is in the process of obtaining estimates for installing a direct pipeline connection from Borba to Saccgasco’s owned and operated Dempsey area facilities. The optimum route for the pipeline to provide future access for mapped prospects in the area is being finalized.

Subject to final pipeline cost estimates, a final investment decision on this project is expected in the September quarter.

Integration of recently acquired proprietary and public airborne geophysical data with 2D and 3D seismic data and analysis of well histories over a 1000 square kilometres study area in the northern Sacramento Basin is proceeding. Results are expected to define extensive ‘prospects and leads’ focus areas near Saccgasco’s infrastructure. Potential for natural sources of helium and hydrogen is being examined.

Sacramento Basin

The Company continued to maintain leases in the Sacramento Basin during the quarter. Saccgasco has a working interest (WI) of between 10% and 100% in oil and gas leases which cover natural gas prospects ranging in size from 5-20 Bcf to Tcf recoverable prospective resources of Natural Gas.

California has an unsatiated average 7 Bcf per day gas market. California imports over 90% of this natural gas from other US States and Canada.

Reference Natural Gas prices for Saggasco Gas Sales in Sacramento Basin for the June Quarter were around US\$4/mcf (AUD\$5 /mcf).

This represents a 25% premium to US Benchmark Henry Hub Natural Gas Price, but these prices have risen steadily since the quarter end to a current price in excess of US\$5 /mcf (AUD 6.85 /mcf.). Saggasco's Natural Gas prices in California are currently 140% of the USA benchmark Henry Hub natural gas prices.

California Gas Production (mcf) ¹	June 2021 Quarter ²	March 2021 Quarter
Gross Production	32,737	33,494
SGC Production after Royalty	16,447	17,672
<i>Note 1: mcf = Thousand Cubic feet gas</i>		
<i>Note 2: Overall gas flows were reduced in the quarter by operational interruptions.</i>		

SACGASCO TENEMENT TABLE (as at 30 June, 2021)

PROJECT NAMES	LEASES; RELATED GAS FIELD (HBP LEASES); OR KEY WELL	PROJECT TYPE	WORKING INTEREST (WI)*
Dempsey Area Project	Rancho Capay, Rice Creek, East Gas Fields - HBP Leases; Oil and Gas Mineral Leases	Exploration, Appraisal and Rework	40-60%
Borba Project	Oil and Gas Mineral Leases	Exploration	66.67%
Los Medanos Project	Los Medanos Gas Field HBP Leases	Appraisal and Rework	90%
Malton Project	Malton Gas Field HBP Leases and Oil and Gas Mineral Leases	Exploration, Appraisal and Rework	45-70%
Dutch Slough Gas Project	Dutch Slough Gas Field HBP Leases	Exploration, Appraisal and Rework	70%
Denverton Creek Gas Project	Denverton Creek Gas Field HBP Leases	Gas flow and Rework	70%
Rio Vista Gas Project	Rio Vista Field Wells HBP Leases	Gas flow, development and Rework	100%
Willows Gas Field (Non-operated)	Willows Gas Fields HBP Leases	Gas flow and Rework	10%
Alvares Project	Oil and Gas Mineral Leases; Alvares 1 well (P&A Re-entry)	Exploration and Appraisal	50%
Red Earth Assets (Canada)	Oil and gas Mineral Leases and wells and associated Infrastructure	Production	30%
Alberta Plains Assets (Canada)	Oil and gas Mineral Leases and wells and associated Infrastructure	Production	20%

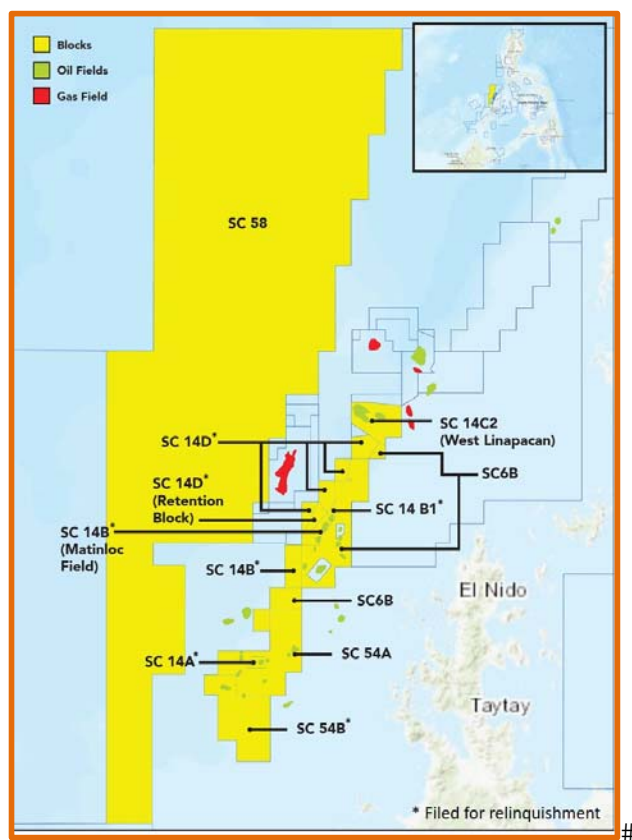
* Approximate WI across the referenced Project

Sagasco is the Operator of all but one of its WI wells and related tenements in California. All assets in Canada are non-operated.

EVENTS SUBSEQUENT TO REPORTING DATE

Philippines Service Contracts Acquisition

The Company completed the purchase of BCP Energy International PTE. LTD. (“BCPE”) from Bangchak Corporation. This includes BCPE’s fully owned subsidiary NIDO Petroleum Pty Ltd (“NIDO”), its associated working interests in 4 Philippine Service Contracts in the Palawan Basin and its local team. This transaction closed on 1 July 2021 for a cash consideration of one dollar. The acquisition includes all rights and obligations of NIDO in the Philippines service contracts that NIDO is a party to either as Operator or Joint Venture Participant. BCPE is to be renamed Sagasco SG PTE. LTD. Sagasco is Operator for 2 of the Service Contracts#



Sagasco’s Acreage in the Palawan Basin, Philippines

Table 1: Sagasco Philippines Service Contracts

Service Contract	Fields / Discoveries	% Interest	Operator
SC 54A	Tindalo, Yakal, Nido 1X1, Nandino Exploration	42.40%	NIDO (SGC)
SC 14C2	West Linapacan A Field; West Linapacan B	22.28%	Philodrill
SC 58	Frontier Exploration	50%	NIDO (SGC)
SC 6B	Cadlao, near field Exploration	2.70%	Philodrill
SC-14A, SC-14B, SC-14D	Filed for relinquishment	22.28% before relinquishment; Nil after	Philodrill

Canada

A multi-spectral satellite imagery study over some 50,000 square kilometres in the areas of Saccasco's Canadian Assets has been initiated and results are expected shortly. The results of study will be integrated with the extensive subsurface well control and other geophysical data including seismic to define additional prospectivity for oil and gas (methane and heavier) along with natural sources of hydrogen and helium in our areas of interest.

ABC Assets

The Company had previously announced (ASX 28 April 2021) agreement with private company Blue Sky Resources Ltd to acquire 25% of BSR's Working Interest ("WI") in oil and gas producing assets in Alberta and British Columbia, Canada (the "ABC Assets"). Following the due diligence revealing more onerous than expected regulator performance bond requirements and the acquisition of the Philippines assets, the Company has decided not to proceed with the acquisition of the ABC assets as contemplated in its announcement of 28 April 2021.

The associated US\$300,000 deposit is being returned to Saccasco.

Shareholders will be advised should acquisition of part of these assets become a future initiative.

CURRENT QUARTER OBJECTIVES

- Increasing production and cash flow from Canadian oil and gas producing properties.
- Progress strategic plan for exploration and development of the Philippines Service Contracts.
- Final investment decision on the connection of the Borba well to the natural gas pipeline system
- Integration of proprietary geophysical data and interpretations with the existing company geological and geophysical databases in California, Canada and Philippines to build o Saccasco's portfolio of opportunities.
- Ongoing review of potential conventional oil and natural gas projects including Hydrogen and Helium that have a strategic fit with Saccasco's current assets and strategy.

CORPORATE

Board Changes

Joanne Kendrick joined the Board of Saccasco Limited on 1 June 2021 as Non-Executive Director replacing David McArthur who resigned as Non-Executive Director but remained in the role of Joint Company Secretary

Joanne has 25 years' experience in the oil, gas and helium industries and has held technical or executive roles with Woodside Petroleum, Newfield Exploration, Gulf Canada, Clyde Petroleum, Nido Petroleum and Blue Star Helium.

Joanne has been directly responsible for managing production operations, exploration drilling and development projects, capital raisings, land acquisition, asset transactions and joint venture interests throughout her career; including as Managing Director at Blue Star Helium (3 years) and Deputy Managing Director at Nido Petroleum (7 years).

Joanne provides consulting services in the oil and gas, helium and hydrogen sectors and is currently a Non-Executive Director of ASX listed Buru Energy.

Annual General Meeting

The Annual General Meeting was held on the 28 May 2021 and all Resolutions presented were passed by a poll.

Share Registry Changed

On 12 April 2021, the Company announced that it had changed its Share Registry Services to Automic Pty Ltd.

SACGASCO CAPITAL STRUCTURE

ISSUED CAPITAL at 31 July 2021	
Ordinary Shares (ASX: SGC) *	477,493,323
Listed Options (ASX: SGCOA)	131,899,719
Unlisted Options exercisable @ 4 cents by 31 December 2021	16,000,000
Unlisted Options exercisable @ 6 cents by 31 December 2022	18,000,000
* Includes 384,616 shares issued in April 2021 as approved by shareholders as part payment of Director's fees	

APPENDIX 5B DISCLOSURES

Further details of selected items from the accompanying June 2021 Appendix 5B:

Appendix 5B Reference		Commentary	
		\$'000	
1.1	Receipts from customers	298	Revenue from California gas sales including late payments of 197k. SGC's share of revenue from Canadian assets was not remitted to SGC during the quarter and therefore is not shown here.
1.2 (a)	Payments for exploration and evaluation	(3,024)	Payments relating to 100% of the cost of Borba drilling and testing which were paid during the quarter.
1.2 (c)	Payments for production	(158)	Production costs associated with California gas sales. SGC's share of production costs from Canadian assets was paid from existing JV funds during the quarter (rather than being cash called from SGC) and therefore is not shown here.
1.8	Other (JV receipts)	1,315	Cash receipts from California JV partners related to Borba drilling and testing cash calls.
2.1 (f)	Payments to acquire other non-current assets	(309)	Deposit paid during due diligence period for potential ABC acquisition. Expected to be refunded shortly.
6.1	Payments to related parties of the entity and their associates	51	Includes directors and company secretary salaries, superannuation, and fees (\$30k), company management fees (\$16k) and office lease costs (\$5k).

For and on behalf of the Board of Sacgasco Limited.

Gary Jeffery
Managing Director
+61 8 9388 2654

Ben Jarvis
Six Degrees Investor Relations
+61 (0) 413 150 448

About Sacgasco Limited (ASX: SGC)

Sacgasco Limited (ASX: SGC) is an Australian-based energy company focused on under-explored, recently over-looked, world class oil and gas opportunities near under-supplied markets.

The current prime focus is on conventional oil and gas exploration and production in the Sacramento Basin, onshore California, Alberta Canada and offshore Philippines. Sacgasco has an extensive portfolio of natural gas and oil producing wells and discoverable and prospects at both exploration and appraisal stages. The Company is targeting supply to the local Californian and Canadian oil and gas markets and burgeoning Asian market. Sacgasco is in the process of acquiring additional undervalued oil and gas producing and exploration assets.

www.sacgasco.com

Twitter: @SacGasCo

Leases:

US and Canadian exploration is conducted on leases granted by Mineral Right owners, including the respective Governments and private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no firm work commitments associated with the leases. Some leases are 'Held By Production' (HBP) and royalties are paid to mineral right owners in lieu of rentals. SGC has not listed all its leases as it is impractical and not meaningful for potential project value assessment in a conventional natural gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to SGC shareholders.

Competent Persons

This document contains forward looking statements that are subject to risk factors associated with the oil and gas industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by many variables which could cause actual results or trends to differ materially. The technical information provided has been reviewed by Mr Gary Jeffery, Managing Director of Sacgasco Limited. He is a qualified geophysicist with almost 50 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas. He is a member of The American Association of Petroleum Geologists. Mr Jeffery consents to the inclusion of the information in the form and context in which it appears.

The timing of future events is subject to the normal industry vagrancies of operational matters and equipment availability which are outside the control of Sacgasco and its suppliers. Facilities depicted in images on the Sacgasco website are not necessarily assets of Sacgasco. Some of the images used represent aspects of the oil and gas industry in which Sacgasco is involved or images of equipment owned by companies providing services to Sacgasco.

Before investing it is recommended that investors conduct their own due diligence and consult financial and technical advisors and form their own opinions on future events and implications.

Appendix 5B

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

Name of entity

Sacgasco Limited

ABN

83 114 061 433

Quarter ended ("current quarter")

30 June 2021

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	298	458
1.2 Payments for		
(a) exploration & evaluation	(3,024)	(5,314)
(b) development	-	-
(c) production	(158)	(1,017)
(d) staff costs	(37)	(715)
(e) administration and corporate costs	(74)	(280)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	(10)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (JV receipts)	1,315	1,694
1.9 Net cash from / (used in) operating activities	(1,680)	(5,184)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation	-	-
(e) investments	-	-
(f) other non-current assets	(309)	(1,313)

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 (6 months) \$A'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	(309)	(1,313)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	5,003
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	1	302
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(20)	(382)
3.5	Proceeds from borrowings	550	550
3.6	Repayment of borrowings	-	(270)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (repayment of JV partner loan)	-	67
3.10	Net cash from / (used in) financing activities	531	5,270

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,982	1,730
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,680)	(5,184)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(309)	(1,313)

Appendix 5B

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 (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	531	5,270
4.5	Effect of movement in exchange rates on cash held	(10)	11
4.6	Cash and cash equivalents at end of period	514	514

5. Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1	Bank balances	1,982
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)	1,982

6. Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amounts of payments to related parties and their associates included in item 1
	51
6.2	Aggregate amounts 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 amounts at quarter end \$A'000	Amount drawn at quarter end \$A'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	550	550
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	550	550
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.		
	<p>Two unsecured loan facilities earning interest at 10% pa, repayable within six months unless extended by mutual agreement:</p> <ul style="list-style-type: none"> - Facility with Dungay Resources Pty Ltd, dated 4 May 2021 for \$300,000, maturing on 3 November 2021, and - Facility with Dungay Resources Pty Ltd, dated 17 May 2021 for \$250,000, maturing on 16 November 2021. 		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,680)
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)	(1,680)
8.4	Cash and cash equivalents at quarter end (item 4.6)	514
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	514
8.7	Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	0.31
	<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>	

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

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:

No. Net operating cashflows are expected to substantially improve.

- a) During the period, payments for exploration substantially represent 100% working interest share of the costs related to Borba 1-7 well drilling and testing activities. This is not a recurring cost.
- b) During the period, Sacgasco's working interest share of JV revenues from Canadian assets were not remitted to Sacgasco and do not appear in Table 1. These funds were directly reinvested into a number of non-recurring costs including one-off acquisition related costs such as prepayments for taxes and lease costs.

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:

Not at the current time.

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:

Yes. The entity expects to be able to continue operations as noted in 8.8.1 above, namely that exploration expenditure in 1.2(a) were largely non-recurring costs and that the Company expects future cash inflows from its Canadian assets.

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 July 2021

Authorised by: Gary Jeffery – Managing Director
(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

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

[*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.