

31 July 2020

QUARTERLY ACTIVITIES REPORT AND APPENDIX 5B FOR THE QUARTER ENDING 30 JUNE 2020

The Board of European Lithium Limited (ASX: **EUR**, FRA: **PF8**, VSE: **ELI**, NEX: **EUR**) (the **Company**) is pleased to present its activities report and Appendix 5B for the three months ending 30 June 2020.

SUMMARY OF KEY UPDATES

- COVID-19 pandemic and government enforced rules, related to international travel in particular, continues to force EUR to temporarily suspend operational activities.
- Dorfner/Anzaplan lock cycle tests remain pending and delays due to COVID-19 continue, the final report will be published when results are completed.
- Receipt of the decree for drill holes with more than 300m of depth covering phase 2 of the drilling program in Zone 1 is still pending.

CORPORATE MATTERS

Talaxis Engagement

On 27 May 2020, the Company announced that it had entered into a strategic engagement agreement with Talaxis Limited (**Talaxis**). Talaxis, a wholly-owned subsidiary of Noble Holdings, is a global leader in EV technology metals project development. Talaxis invests and develops projects that are related to nickel, cobalt, lithium, rare earths and other metals and materials that are key to the energy transition. Talaxis will assist the Company in managing and establishing commercial relationships and contract negotiations.

Winance Financing Facility

The Company previously announced that it had secured a A\$10m finance facility with Winance Investment LLC (**Winance**) (refer ASX Announcement 31 July 2019).

On 5 March 2020, the Company announced that it had agreed to draw down A\$2.0m (2,000 convertible notes) under the Winance facility (**Tranche 2**). During the quarter, the Company received Tranche 2 funding of A\$1.0m (before expenses) and subsequently 1,000 convertible notes were released from escrow. Subsequent to the quarter end, the Company has received the final Tranche 2 funding of A\$1.0m and released the remaining 1,000 convertible notes from escrow.

During the quarter, Winance converted 300 convertible notes from Tranche 2. As at the date of this announcement, there were 1,700 convertible notes remaining from the Tranche 2 drawdown.

Short Term Loan Facility

On 20 January 2020, the Company entered into a short-term loan agreement for \$400k, secured by way of a fixed and floating charge over the Company's assets (**Loan**). Under the terms of the Loan, interest of \$40k is payable at the repayment date of 20 February 2020 with penalty interest applying for the late repayment of funds.

During the quarter, the Company agreed with the lender to convert \$370k of the Loan into equity (**Loan Conversion**). The Loan Conversion was converted based on a share price of 4.5c with a free attaching 1 for 1 unlisted option with an exercise price of 5c expiring on 31 July 2022.

In addition to the Loan Conversion, the remaining Loan balance was paid in cash on 4 June 2020. At 30 June 2020, the Loan had been fully extinguished, and the associated security released.

Conversion of Debt

During the quarter, the Company announced that it had come to an agreement with various creditors to convert approximately \$360k of debt into equity (**Creditor Conversion**).

Debts have been converted based on a share price of 4.5c with a free attaching 1 for 1 unlisted option with an exercise price of 5c expiring on 31 July 2022. The Creditor Conversion includes a portion of amounts owing to Directors of the Company. The issue of 1,643,288 Shares and 1,643,288 unlisted options with an exercise price of 5c expiring on 31 July 2022 to Directors will be subject to shareholder approval at the Company's next general meeting.

Capital Movements

During the quarter, the Company issued the following securities:

- 22 May 2020 – Cancellation of 38,000,000 listed options exercisable at \$0.10 each on or before 30 June 2020 to Helvetican (refer ASX announcement 22 May 2020)
- 29 May 2020 – 10,609,401 shares and 10,609,401 unlisted options with an exercise price of 5c expiring on 31 July 2022 issued upon the conversion of debt
- 29 May 2020 – 2,000,000 shares and 2,000,000 unlisted options with an exercise price of 5c expiring on 31 July 2022 issued to Empire Capital pursuant to a corporate advisory mandate (refer ASX announcement 25 May 2020)
- 3 June 2020 – 5,626,183 shares and 5,626,183 unlisted options with an exercise price of 5c expiring on 31 July 2022 issued upon the conversion of debt
- 5 June 2020 – 5,454,544 shares issued to Winance upon the conversion of 300 convertible notes and 3,712,122 shares issued to Winance for the conversion of debt in relation to the Winance shortfall amount payable (refer to the 2019 AGM notice of meeting for further details)
- 30 June 2020 – Expiry of 225,440,000 listed options exercisable at \$0.10 each

Appendix 5B Quarterly Report and Statement of Cash Flows

The ASX Appendix 5B quarterly report is attached to and lodged with this report. The Company's Appendix 5B Quarterly Report covers the 3-month period from 1 April 2020 to 30 June 2020.

Payments to Related Parties and their Associates

In accordance with ASX Listing Rule 5.3.5, there were no payments to related parties of the Company and their associates during the quarter. As outlined in the Appendix 5B, Directors have agreed to defer the payment of their Director fees until it completes a capital raising.

EXPLORATION AND DEVELOPMENT ACTIVITIES**Wolfsberg Lithium Project****COVID-19**

Q2/2020 has continued to see a high number of challenges for commodity markets due to the impact of the coronavirus pandemic. The situation is still highly uncertain with governments, companies and individuals required to follow recommendations to help in controlling the rate of infection at a global scale. Although circumstances have changed during the quarter with some evidence of easing restrictions, continued restriction on travel specifically is impacting the Company directly. These challenges have forced the Company's to temporarily suspend the Wolfsberg Lithium project operational activities.

Drilling

The Company anticipated receipt of the decree for the deep holes with more than 300m of depth covering phase 2 of the drilling program in Zone 1 during Q2/2020. Due to the foreseeable reduction of activities by the Austrian Government related to the COVID-19 pandemic, the timeline to issue the final decree by the mining authority is uncertain and it remains pending. The Company is in close contact with the mining authority to assist with a fast track where applicable.

Definitive Feasibility Study (DFS)

The Company reported in Q4/2019 and Q1/2020 that Dorfner/Anzaplan completed the metallurgical test work to assess and optimize the process lines, flowsheets and layouts. The results and scope of work have been reviewed and the remaining lock cycle tests were pending during Q2/2020 to assess sufficiently the process to produce reliable results for the Lithium Hydroxide product. It is expected that the lock cycle tests will be conducted in Q3/2020. This metallurgic test work will also take place at the pilot plant for the Wolfsberg Lithium Project at Dorfner/Anzaplan's testing facility in Hirschau, Germany. When this work is completed and reviewed, and should the Company be able to return to full operations once government restrictions are withdrawn, the detailed technical report will be published.

DRA Global are committed and on standby to provide an independent assessment of the metallurgical work at the Dorfner/Anzaplan testing facility.

Hydrogeology

The Company continues at its best efforts the hydrogeology monitoring program.

All hydrogeological data continues to be stored and secured into the Company's database.

The preparation work by SRK, and the geological consultant, GEO Unterweissacher, continues to ensure in-hole hydrogeological test work has been completed appropriately and can continue in the future.

Data from the above activities is fed into a water measuring database from which an annual report is produced.

Environmental

No environmental work has been carried out in Q2/2020.

Monitoring of water flows and quality from the mine is continuous.

Product Marketing

The strategy for the Company remains unchanged and focuses on the supply of lithium hydroxide to the nascent lithium battery plants of Europe. The Company is in discussion with a number of industry players regarding future off-take contracts and good progress has already been made in the advanced discussions with potential off-take partners.

Horizon 2020

In Q2/2020, the Company's 100% owned subsidiary ECM Lithium AT GmbH (ECM) commenced participation in the European Union funded Horizon 2020 - GREENPEG programme.

The Company continued to work proactively in the already approved and funded Horizon 2020 LithRef programme.

Continued participation shows the Company's abilities and eligibility to contribute with EU-level support to the sustainable supply of battery grade lithium, sourced and produced in Europe.

Tony Sage

Non-Executive Chairman

Competent Person's Statement

The information in this announcement pertaining to the Wolfsberg Lithium Project, and to which this statement is attached, relates to Project Development and Metallurgical Studies and is based on and fairly represents information and supporting documentation provided by the Company and its Consultants and summarized by Dietrich Wanke who is a Qualified Person and is a Member of the Australian Institution of Mining and Metallurgy (AusIMM) since 2006 with about 30 years' experience in the mining and resource development industry. Dietrich Wanke has sufficient experience, as to qualify as a Competent Person as defined in the 2012 edition of the "Australian Code for Reporting of Mineral Resources and Ore reserves". Dietrich Wanke consents to the inclusion in the report of the matters based on information in the form and context in which it appears. The company is reporting progress on project development and metallurgical results under the 2012 edition of the Australasian Code for the Reporting of Results, Minerals Resources and Ore reserves (JORC code 2012).

Tenement Status

The mining tenements held at the end of the quarter, acquired and disposed of during the quarter and their location:

Tenement reference	Location	Acquired interest during the quarter	Disposed interest during the quarter	Interest at the end of the quarter
104/96	Wolfsberg Project, Austria	-	-	100%
105/96	Wolfsberg Project, Austria	-	-	100%
106/96	Wolfsberg Project, Austria	-	-	100%
107/96	Wolfsberg Project, Austria	-	-	100%
108/96	Wolfsberg Project, Austria	-	-	100%
109/96	Wolfsberg Project, Austria	-	-	100%
110/96	Wolfsberg Project, Austria	-	-	100%
111/96	Wolfsberg Project, Austria	-	-	100%
112/96	Wolfsberg Project, Austria	-	-	100%
113/96	Wolfsberg Project, Austria	-	-	100%
114/96	Wolfsberg Project, Austria	-	-	100%
115/96	Wolfsberg Project, Austria	-	-	100%
116/96	Wolfsberg Project, Austria	-	-	100%
117/96	Wolfsberg Project, Austria	-	-	100%
118/96	Wolfsberg Project, Austria	-	-	100%
119/96	Wolfsberg Project, Austria	-	-	100%
120/96	Wolfsberg Project, Austria	-	-	100%
121/96	Wolfsberg Project, Austria	-	-	100%
122/96	Wolfsberg Project, Austria	-	-	100%
123/96	Wolfsberg Project, Austria	-	-	100%
124/96	Wolfsberg Project, Austria	-	-	100%
125/96	Wolfsberg Project, Austria	-	-	100%
370/11(611/11)	Wolfsberg Project, Austria	-	-	100%
371/11(612/11)	Wolfsberg Project, Austria	-	-	100%
372/11(613/11)	Wolfsberg Project, Austria	-	-	100%
373/11(614/11)	Wolfsberg Project, Austria	-	-	100%
374/11(615/11)	Wolfsberg Project, Austria	-	-	100%
375/11(616/11)	Wolfsberg Project, Austria	-	-	100%
378/11(619/11)	Wolfsberg Project, Austria	-	-	100%
379/11(620/11)	Wolfsberg Project, Austria	-	-	100%
380/11(621/11)	Wolfsberg Project, Austria	-	-	100%
381/11(622/11)	Wolfsberg Project, Austria	-	-	100%
382/11(623/11)	Wolfsberg Project, Austria	-	-	100%
383/11(624/11)	Wolfsberg Project, Austria	-	-	100%
384/11(625/11)	Wolfsberg Project, Austria	-	-	100%
386/11(627/11)	Wolfsberg Project, Austria	-	-	100%
387/11(628/11)	Wolfsberg Project, Austria	-	-	100%

388/11(629/11)	Wolfsberg Project, Austria	-	-	100%
389/11(630/11)	Wolfsberg Project, Austria	-	-	100%
390/11(631/11)	Wolfsberg Project, Austria	-	-	100%
391/11(632/11)	Wolfsberg Project, Austria	-	-	100%
392/11(633/11)	Wolfsberg Project, Austria	-	-	100%
394/11(636/11)	Wolfsberg Project, Austria	-	-	100%
395/11(637/11)	Wolfsberg Project, Austria	-	-	100%
396/11(638/11)	Wolfsberg Project, Austria	-	-	100%
397/11(639/11)	Wolfsberg Project, Austria	-	-	100%
398/11(640/11)	Wolfsberg Project, Austria	-	-	100%
400/11(645/11)	Wolfsberg Project, Austria	-	-	100%
401/11(646/11)	Wolfsberg Project, Austria	-	-	100%
402/11(647/11)	Wolfsberg Project, Austria	-	-	100%
403/11(648/11)	Wolfsberg Project, Austria	-	-	100%
408/11(648/11)	Wolfsberg Project, Austria	-	-	100%
409/11(641/11)	Wolfsberg Project, Austria	-	-	100%
412/11(649/11)	Wolfsberg Project, Austria	-	-	100%
Andreas 1	Wolfsberg Project, Austria	-	-	100%
Andreas 2	Wolfsberg Project, Austria	-	-	100%
Andreas 3	Wolfsberg Project, Austria	-	-	100%
Andreas 4	Wolfsberg Project, Austria	-	-	100%
Andreas 5	Wolfsberg Project, Austria	-	-	100%
Andreas 6	Wolfsberg Project, Austria	-	-	100%
Andreas 7	Wolfsberg Project, Austria	-	-	100%
Andreas 8	Wolfsberg Project, Austria	-	-	100%
Andreas 9	Wolfsberg Project, Austria	-	-	100%

Appendix 5B

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

Name of entity

European Lithium Limited

ABN

45 141 450 624

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(277)	(2,874)
(b) development	-	-
(c) production	-	-
(d) staff costs	-	-
(e) administration and corporate costs	(247)	(992)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	207	207
1.8 Other (promotion and marketing expenses)	(27)	(179)
Other (overseas listing fees)	(21)	(51)
Other (overseas VAT refund)	26	271
Other (fines)	(112)	(112)
1.9 Net cash from / (used in) operating activities	(451)	(3,727)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation	-	-

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 (12 months) \$A'000
	(e) investments	-	-
	(f) other non-current assets	-	-
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	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	902
3.2	Proceeds from issue of convertible debt securities	1,000	3,000
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(90)	(421)
3.5	Proceeds from borrowings	-	400
3.6	Repayment of borrowings	(200)	(1,012)
3.7	Transaction costs related to loans and borrowings	-	(22)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	710	2,847

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	58	1,200
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(451)	(3,727)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

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 (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	710	2,847
4.5	Effect of movement in exchange rates on cash held	(17)	(20)
4.6	Cash and cash equivalents at end of period	300	300

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	300	58
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)	300	58

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	-
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 <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	10,000,000	4,000,000
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	10,000,000	4,000,000
7.5	Unused financing facilities available at quarter end		6,000,000
7.6	<p>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> <p>Winance Facility</p> <p>On 31 July 2019, the Company entered into a Convertible Note Agreement with Winance Investment LLC (Winance) of which A\$2.0m (2,000 convertible notes) was drawn down on 20 September 2019 (Tranche 1). As at 30 June 2020, there were nil convertible notes remaining from the Tranche 1 drawdown.</p> <p>The face value of each convertible note is AU\$1,000 and are non-interest bearing. The notes are convertible to a variable number of ordinary shares at the option of the holder of the notes any time after issue. If not converted the notes mature and are repayable twenty-four (24) months after the issue date. The conversion price for each convertible note is the lower of an 8% discount from the lowest VWAP over ten (10) days prior to the conversion date, provided that the conversion price shall not in any case be lower than \$0.055 (floor price).</p> <p>Refer to ASX announcement dated 31 July 2019 and notice of meeting dated 28 October 2019 for material terms and conditions.</p> <p>On 5 March 2020, the Company announced that it had agreed to draw down a further A\$2.0m (2,000 convertible notes) under the Winance facility (Tranche 2). During the quarter, the Company received Tranche 2 funding of A\$1.0m (before expenses) and subsequently 1,000 convertible notes were released from escrow. Subsequent to the quarter end, the Company has received the final Tranche 2 funding of A\$1.0m and released the remaining 1,000 convertible notes from escrow.</p> <p>Further drawdowns of A\$6m (in addition to the A\$3m received and \$1m received by the Company subsequent to 30 June 2020) are at the Company's election available in tranches of A\$1m each upon full conversion of the notes from the previous drawdown, subject to a cooling off period calculated based on the value of the tranche and average trading volumes during the preceding 60-day period and prior approval by EUR's shareholders.</p>		

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

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(451)**
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)	(451)
8.4 Cash and cash equivalents at quarter end (item 4.6)	300
8.5 Unused finance facilities available at quarter end (item 7.5)	1,000
8.6 Total available funding (item 8.4 + item 8.5)	1,300
8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3)	2.88***
<p><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></p> <p>* As outlined above in section 7, further drawdown on the Winance facility is subject to full conversion of the notes from the previous drawdown. Also as outlined above in section 7, on 5 March 2020, the Company announced that it had agreed to draw down a further A\$2.0m (2,000 convertible notes) under the Winance facility (Tranche 2). During the quarter, the Company received Tranche 2 funding of A\$1.0m (before expenses) and subsequently 1,000 convertible notes were released from escrow. Subsequent to the quarter end, the Company has received the final Tranche 2 funding of A\$1.0m and released the remaining 1,000 convertible notes from escrow.</p> <p>** As outlined, the Company was awaiting the remaining funding under Tranche 2 of the Winance facility during the June quarter. As such, net cash used in operating activities of (\$451k) in the June 2020 quarter is not representative of the Company's current level of net operating cash flows.</p> <p>*** Taking the above into consideration, the Company's <i>Estimated quarters of funding available (Item 8.7)</i> is less than 2 quarters, which is more a representative estimate.</p>	
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?	<p>No. Expenditure in the current quarter reported under net cash used in operating activities is not representative of the Company's current level of net operating cash flows. This figure is expected to be higher in subsequent quarters as a result of the payment to creditors for debts incurred.</p>
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?	<p>Yes. On 5 March 2020, the Company announced that it had agreed to draw down a further A\$2.0m (2,000 convertible notes) under the Winance facility (Tranche 2). During the quarter, the Company received Tranche 2 funding of A\$1.0m (before expenses) and subsequently 1,000 convertible notes were released from escrow. Subsequent to the quarter end, the Company has received the final Tranche 2 funding of A\$1.0m and released the remaining 1,000 convertible notes from escrow. The Company also continues to seek alternative funding options.</p>

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?

Yes. The Directors believe that it is reasonably foreseeable that the Company will continue as a going concern based on the following factors:

- Raising additional funds (as outlined above)
- Directors have agreed to defer the payment of their Director fees until it completes a capital raising
- Continued support from certain external creditors allowing for the deferred payment of certain liabilities
- Continued support from current debt holders of the Company

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: 31 July 2020.....

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.