

28 July 2022

Quarterly Activities Report and 5B Cashflow June 2022

Completion of maiden drilling program at the Mallina Lithium Project

Fish Lake Valley Project area expanded with key drilling targets identified

Nevada lithium portfolio expansion through the North Big Smoky project

Lithium demand and pricing environment remains at record highs

Overview

Morella Corporation Limited (**ASX: 1MC** “Morella” or “the Company”) is pleased to report on activities conducted during the June 2022 Quarter.

The Company’s primary focus for the quarter was directed towards the drilling program at the Mallina Lithium Project in Western Australia and the expansion of the Company’s lithium position in the United States.

Exploration and Project Development

Western Australia Hardrock Lithium

The June quarter saw significant progress at the Mallina Lithium Project, in Western Australia’s Pilbara region, with the completion of a targeted deep drilling program. The reverse circulation (RC) drill contractor mobilised to the Mallina Project in the second week of April, with drilling commencing on 18 April. In total, three RC holes (430m) and four diamond core holes (831.4 m), including two core tail extensions were completed. The drilling program concluded in late May, with demobilisation of personnel and equipment occurring during June. *(Refer to ASX Announcement Mallina Drilling Program Complete released 6 June 2022)*

Fine grained spodumene quartz intergrowths within aplite intrusive intervals were observed in the drill core. RC chips and drill core were logged on site and samples were prepared for mineralogical studies and geochemical assay work being completed at an independent laboratory in Perth. Adverse weather meant that access to site was restricted, and core/chips were only able to be collected for transport to Perth in late June. Subsequent to the quarter, Morella has confirmed all chips and core arrived at the Perth laboratory in the first half of July and is scheduled for mineralogical and geochemical analysis, results are expected to take two-three months.

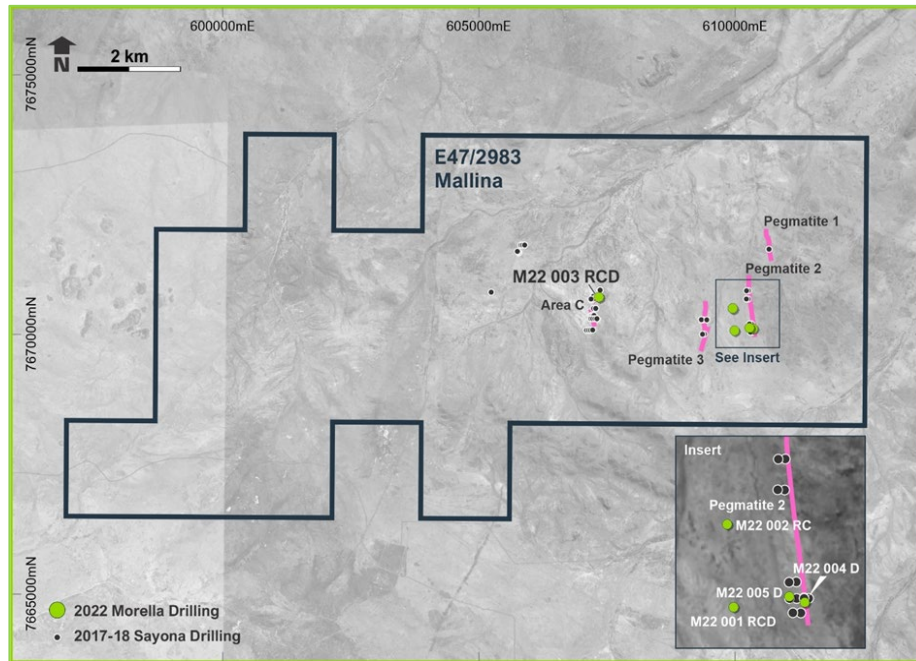


Figure 1 - Location of 2022 Malina Drill Hole Collars

During the reporting period, Morella successfully completed a surface mapping and sampling program at Mt Edon (E59/2092) and Mt Edon West (E59/2055), with a total of 53 pegmatite outcrops mapped. Rock chip assay results indicate the potential of the area for future lithium exploration, with some of the pegmatites indicating potential lithium mineralisation. (*Refer to ASX Announcement Lithium targets Identified at Mt Edon released on 23 June 2022*).

Several of the pegmatites were mapped as being narrow and discontinuous, but some were mapped as having a substantial apparent thickness and continuity that may evolve into a commercially viable mining opportunity, subject to adequate mineral endowment.

Morella is now reviewing geophysical techniques to support developing a better understanding of the subsurface potential of the Project area to quantify potential drilling targets.

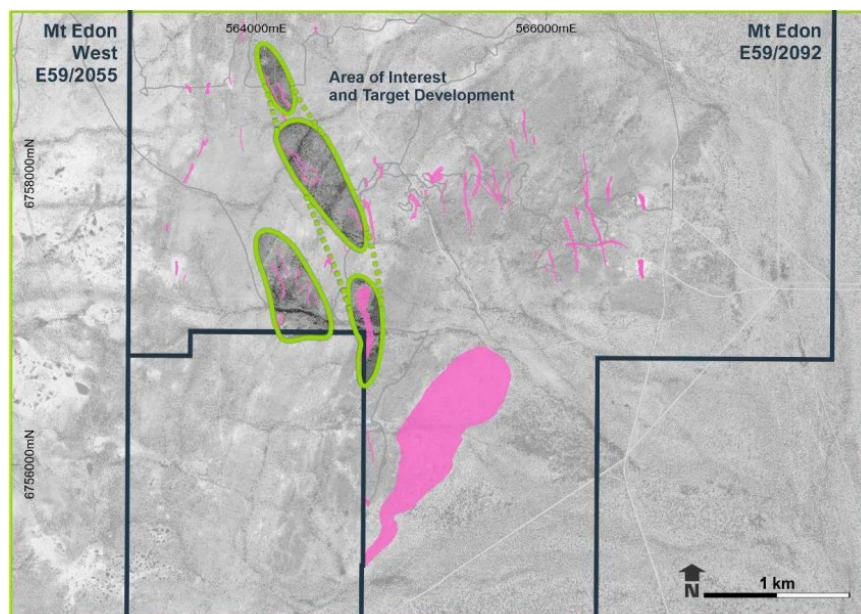


Figure 2 - Map of mapped pegmatites and priority areas for further exploration at Mt Edon

Fish Lake Valley Lithium Project

During the June quarter, Morella undertook analysis and interpretation of data from the passive seismic survey (PSS) and a magnetotelluric (MT) survey completed over the period December 2021 to March 2022. The combination of sub-surface structural understanding and resistivity profiling from the combined survey data sets, allowed for the identification of a number of key drilling targets.

The identification of drilling targets is currently constrained to the southern area where the integration of PSS and MT surveys has been completed and modelled. Further updates will be provided on the northern area of the Project as exploration and analysis activities are completed.

Three initial drill targets were identified, with initial exploration drilling to be aimed at confirming the lithology in high-conductivity horizons and underlying and overlying geological units. The Company also intends to collect brine samples from the target horizon for assays of lithium concentration. *(Refer to ASX Announcement Drilling Targets Identified at Fish Lake Valley released on 26 April 2022)*

During the quarter, Morella also increased the Fish Lake Valley Lithium Project area by roughly 60%, forming an undisrupted total claim area for the Project encompassing approximately 44.4 sq. km. The increased project footprint secures the entire Fish Lake Valley land area, supporting the Company's focus on developing size and scale at the Project.

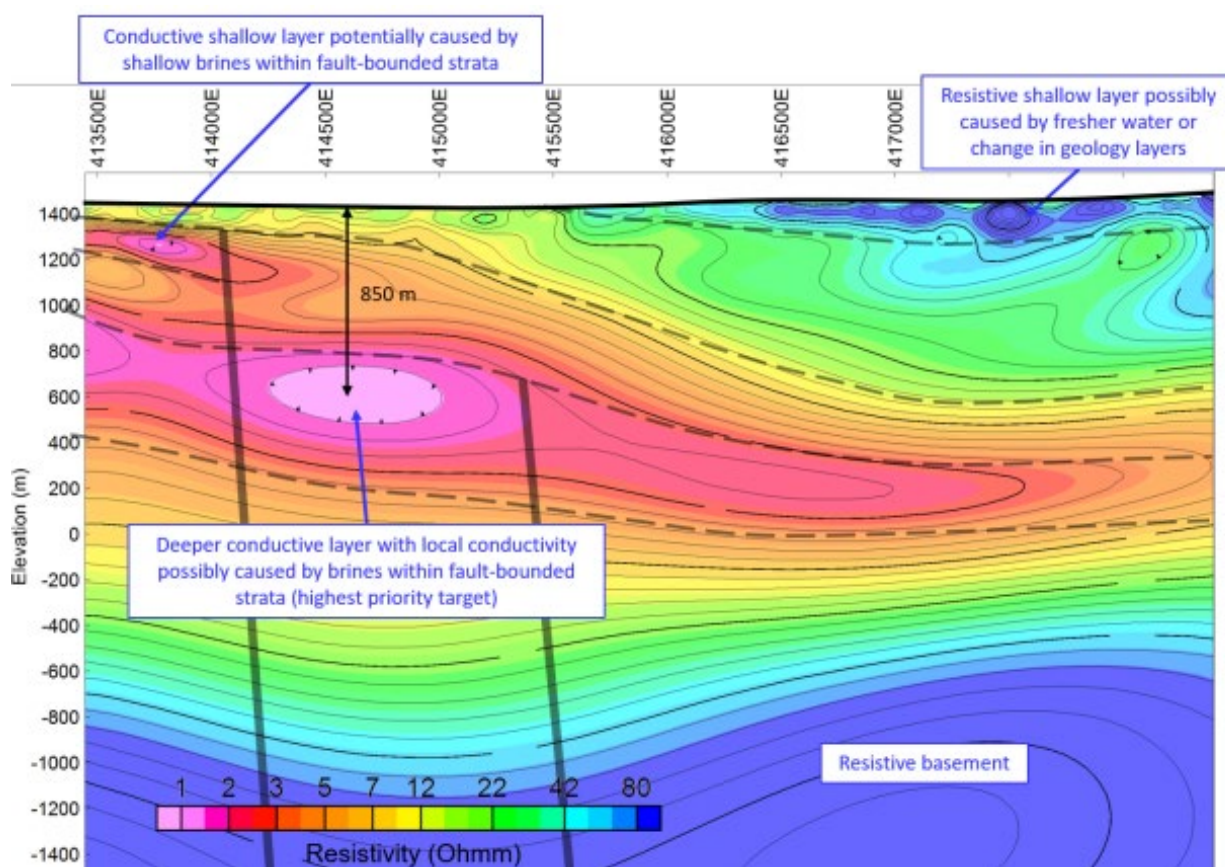


Figure 3 – MT 2D resistivity inversion model cross section with interpreted layers and faults

In addition to exploration efforts, Morella also took its first steps to assess the suitability of brine material from Fish Lake Valley for a direct lithium extraction (DLE) processing flowsheet. A DLE study was commissioned to provide a preliminary economic assessment of lithium extraction with a proprietary technology solution from Recion Technologies ("Recion"). Recion has leveraged several

years of DLE study work to establish a bench top processing system to test the Fish Lake Valley material and have presented staged development options for pilot scale and commercial scale.

North Big Smoky Lithium Project

The June quarter saw an increase in the Nevada lithium position, with the execution of a Letter of Intent (LOI) to enter an Earn-in Option Agreement for a 60% project interest in Lithium Corporation's North Big Smoky (NBS) Project in central-west Nevada. Morella can earn a 60% position in the project by investing at least US\$1,000,000 in aggregate, over a four-year period, on exploration and development activities.

The project area consists of 178 claims and covers an area approximately 13.7 sq. km, in a highly prospective lithium region, within a Tier 1 exploration and mining jurisdiction.

NBS lies in the Big Smoky Valley, which hosts several well know mining operations, there is existing infrastructure, access to mining-centric labour, energy and supplies.



Figure 4 – North Big Smoky Claim outline

Lithium Market

The Australian Government's latest *Resources and Energy Quarterly: June 2022* forecasts lithium demand to remain bullish, anticipating demand to reach 677,000 tonnes of lithium carbonate equivalent (LCE) in 2022, followed by a 40% rise in demand over the next two years, to reach 947,000 tonnes in 2024. The growth in demand is principally centred on Asia given it accounts for over 90% of the current global cathode production capacity. However, towards the end of the decade, cathode and battery manufacturing capacity planned for Europe and North America/Canada is scheduled to come on line.

While global production of lithium precursor material (spodumene) and lithium chemicals is expected to continue to rise, a forecast supply gap remains persistent over the coming years. As the report highlights: "tight supply conditions and ongoing concerns about supply chain bottlenecks are forcing lithium processors and battery makers to pay record prices to secure supply".

Sustainability

Health and Safety

There were no injuries or safety incidents during the quarter.

Environment

There were no environmental issues or breaches during the quarter.

In accordance with the requirements of Morella's approved Program of Works for the Mallina drill program, the Company oversaw the rehabilitation of the Mallina drill pads during the month of June. Rehabilitation reporting was completed and submitted to the Western Australia Department of Mines, Industry Regulation and Safety after the end of the reporting period.

Community

During the reporting period, and as a part of the Mallina drilling Program, the Company undertook an effort to support the local and broader community by leveraging the *Containers for Change* program. Throughout the duration of the Mallina drilling campaign, all site-based plastic and glass containers were split from general waste, aggregated, and then deposited to the Containers for Change depot in Wedgefield (Port Hedland). On both occasions that a container deposit was made, all proceeds were donated to the nominated Group of the Month, Morella were proud to be able to contribute to the community and also reduce the amount of general waste generated from field activities.



Figure 5 – Morella contractors/staff donating at Containers for Change Wedgefield

Financial Commentary

During the quarter, Morella continued expenditure against its two earn in projects as well as corporate and administrative actions to support expansion of the Nevada lithium portfolio, marketing and general administrative functions. Approximately \$826,000 was invested into exploration activities,

principally the Mallina drilling program. Full details and disclosure for the quarter can be found in the attached Appendix 5B.

At 30 June 2022, Morella had available cash and cash equivalents of \$4.2 million.

Other Disclosure

As disclosed under item 6 in the Appendix 5B, the Company made payments to related parties being for a total consideration of \$119,000. This consideration relates to payments to a Company wholly owned by the Directors of Morella for interest payments against the loan facility used to support the deed of company arrangement and restructure of the Company as well as to the Directors' for normal monthly fees.

Corporate

In May 2022 the Company's CEO provided investor presentations at the RIU Resources Round Up conference in Sydney and also presented to industry delegates at the Fastmarkets Lithium Supply Conference in Phoenix Arizona USA in June 2022.

Subsequent to the end of the June Quarter, on 25 July 2022, the Company announced it had received applications for a \$7.5 M capital raising from institutional and sophisticated investors in Australia and the United States at an issue price of \$0.015 per share. The Company also issued a Compliance prospectus on 25 July 2022, the Prospectus was prepared for the purposes of section 708A(11) of the Corporations Act to remove any trading restrictions on the sale of Shares issued by the Company prior to the Closing Date (30 September 2022) without disclosure under Part 6D of the Corporations Act. This includes the shares to be issued pursuant to the \$7.5 M capital raise.

Also, in July 2022 the Company entered into a terms sheet to binding terms for a royalty on lithium products produced from both the Mt Edon lithium project (tenements E59/2092 and E59/2055 ("Mt Edon")) and the Tabbatabba lithium project (tenement E45/4703 ("Tabbatabba")). Key terms of the agreement can be seen in ASX Announcement *\$7.5M Placement to Support Lithium Growth Strategy* released 25 July 2022).

Following completion of the capital raise and receipt of first round Royalty payments, Morella will have a cash balance of approximately \$11.5M.

Outlook

The September 2022 Quarter sees the Company undertake a capital raise (completed) and continue geophysical survey at Fish Lake Valley. Morella anticipates receiving the independent analysis results from the Mallina drilling program and undertaking additional exploration efforts in Western Australia aimed at identifying targets for a future drilling program. Morella personnel are scheduled to conduct site visits at Fish Lake Valley and North Big Smoky as well as receive formal updates from Reicon Technologies on the direct lithium extraction studies underway with brine material from Fish Lake Valley.

This announcement has been authorised for release by the Board of Morella Corporation Limited.

Contacts for further information

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Competent Persons Statement The information in this report that relates to Exploration Results for West Australian hard-rock projects is based on information compiled by Mr Stephen Barber. Mr Barber is a Member of the Australasian Institute of Mining and Metallurgy. Mr Barber was the Exploration Manager at Morella Corporation Limited during the reporting period and has sufficient experience that is relevant to the style of mineralisation under consideration and to the activity of mineral resource estimation to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Barber consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

The information in this report that relates to Exploration Results for Nevada brine projects is based on information compiled by Mr Duncan Storey, who is a Chartered Geologist with the Geological Society of London (an RPO defined by JORC 2012). Mr Storey is an independent consultant engaged by Morella Corporation and has sufficient experience with the exploration and development of mineralised brine deposits qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Storey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

About Morella Corporation Limited Morella is an ASX listed exploration and resource development company focused on lithium and battery minerals. Morella is currently engaged in exploration, resource definition and development activities with lithium projects strategically located, in Tier 1 mining jurisdictions in both Australia and the United States of America. Morella will secure and develop lithium raw materials to support the surging demand for battery minerals, critical in enabling the global transition to green energy.

Appendix 5B

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

Name of entity

Morella Corporation Limited

ABN

39 093 391 774

Quarter ended ("current quarter")

30 June 2022

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	83	1,539
1.2	Payments for		
	(a) exploration & evaluation	(28)	(77)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(548)	(1,999)
	(e) administration and corporate costs	(301)	(2,978)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(60)	(262)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)		
	• Refund of prepayments	-	620
	• Sundry income	2	7
1.9	Net cash from / (used in) operating activities	(852)	(3,150)
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(1)	(30)
	(d) exploration & evaluation	(828)	(1,556)
	(e) investments	-	-
	(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments – Sale of shares on market	-	437
	(e) other non-current assets	-	87
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – Term deposit facility	-	(29)
2.6	Net cash from / (used in) investing activities	(829)	(1,091)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	8,525
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	200
3.6	Repayment of borrowings	-	(700)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)		
	• Payments of lease liabilities	-	-
3.10	Net cash from / (used in) financing activities	-	8,025

4.	Net increase / (decrease) in cash and cash equivalents for the period	(1,681)	3,784
4.1	Cash and cash equivalents at beginning of period	5,885	381
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(852)	(3,150)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(829)	(1,091)

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)	-	8,025
4.5	Effect of movement in exchange rates on cash held	58	97
4.6	Cash and cash equivalents at end of period	4,262	4,262

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	4,262	5,885
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)	4,262	5,885

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- Directors Fees paid in the Qtr
 - Interest paid on funding facility in the Qtr.
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

59
60

-

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

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 ⁽ⁱ⁾	2,983	2,983
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	2,983	2,983
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.		
(i)	Morella has executed an unsecured facility with related entities to fund the Deed of Company Arrangement and initial working capital requirements. The facility maturity date is March 2023 with an interest rate of 8% pa. The facility can be converted into shares at the option of the lender whilst meeting the appropriate regulatory approvals.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(852)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(828)
8.3	Total relevant incoming / (outgoings) (item 8.1 + item 8.2)	(1,680)
8.4	Cash and cash equivalents at quarter end (item 4.6)	4,262
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	4,262
8.7	Estimated quarters of funding available (item 8.6 divided by item 8.3)	2.5

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.

8.8

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

- 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

- 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

- 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

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: 28 June 2022

Authorised by: Morella Board of Directors

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.