

28 October 2022

Quarterly Activities Report and 5B Cashflow September 2022

Second Nevada lithium project secured

Further drilling targets identified at Fish Lake Valley Lithium Project

First year earn-in milestone at Fish Lake Valley achieved ahead of schedule

Maiden on-ground exploration works completed at North Big Smoky Lithium Project

Overview

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

Beyond continued exploration on the Company’s existing lithium brine and hard rock projects, a primary focus for the quarter was directed towards increasing Morella’s lithium position in the United States, through executing the formal earn-in agreement with US-based Lithium Corporation (LTUM) for the North Big Smoky Project and immediately commencing on-ground works.

Exploration and Project Development

Fish Lake Valley Lithium Project

Morella met the first-year expenditure requirement for the Fish Lake Valley Lithium Project (Project) ahead of schedule. Under the terms of the Earn-in Agreement, Morella was required to undertake exploration and development work to a total value of US\$200,000 by no later than 17 August 2022. Morella notified LTUM that the Company had met its first-year expenditure requirement with effect 13 July 2022.

A second phase of magnetotelluric (“MT”) surveys over the northern part of the Project area was undertaken, to complement the previous MT survey conducted in the southern portion of the Project completed between December 2021 and April 2022. The MT survey was completed along two east-west trending survey transects of the Project. The survey was undertaken to identify electrically conductive anomalies at depth, which are assessed as having potential to be caused by brine accumulations which may host lithium solution. The MT survey lines in relation to the Project are shown in Figure 1, along with a composite cross section (looking north-east) of the four MT survey lines completed to date. Results from geophysical survey work in the northern section of the Project confirmed additional shallow and at depth target zones for future drilling programs.

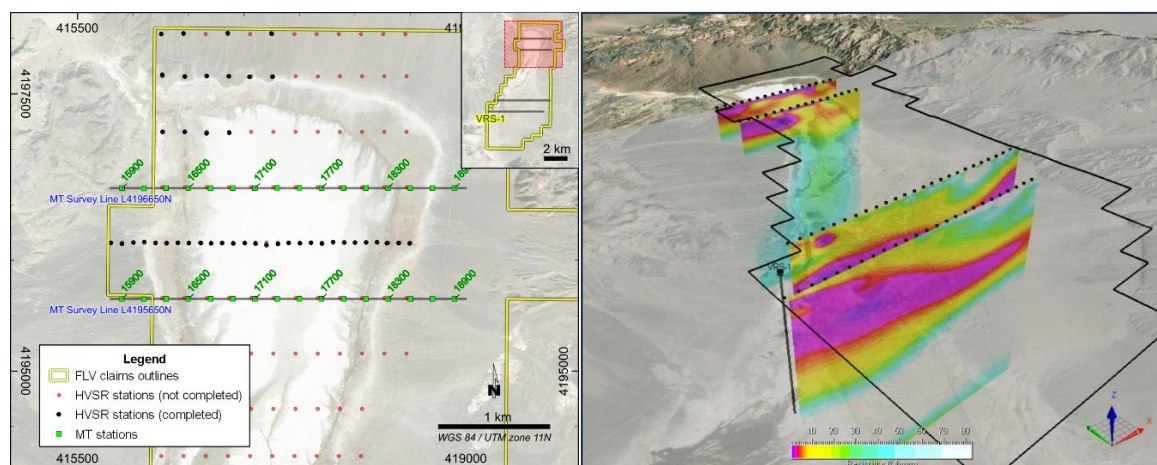


Figure 1 – MT survey lines completed in July 2022 (left) and modelled resistivity cross sections at the Fish Lake Valley Lithium Project (right)

MT survey data was acquired by US-based Zonge International, Inc. (“Zonge”) using the ‘Zen’ EMAP system, with 2D resistivity inversion modelling of the MT survey data using CGG Geotools, completed by Perth-based Resource Potentials in August 2022.

2D resistivity inversion modelling of the MT survey data produced a distinct, very high conductivity (<20hmm) anomaly in the west, within a broader high conductivity (<4 Ohmm) anomaly zone, which may be caused by lithium bearing brines at 300m depth and near a vertical fault (it is also possible the high conductivities are in part, associated with increased clay content).

The MT inversion modelling results also showed a shallow, very high conductivity (<1 Ohmm) layer is present from surface and extending to approximately 30m below surface, which may be caused by a shallow layer of lithium sediments with saline groundwater at or just beneath the ground surface.

North Big Smoky Lithium Project

Morella executed a formal earn-in agreement with LTUM and immediately commenced fieldwork under the earn-in requirements for the North Big Smoky (“NBS”) Project, located in central-west Nevada, USA. The earn-in agreement provides Morella with two lithium project interests in Nevada (NBS and the Fish Lake Valley Lithium Project) outlined below in Figure 2.

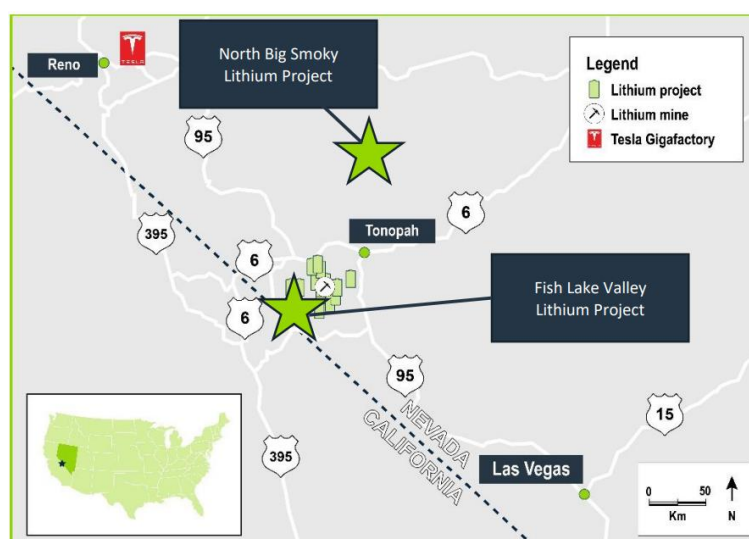


Figure 2 - Morella's Nevada Lithium Project Interests

North Big Smoky is located in Nye County, approximately 110km to the north of the regional centre of Tonopah and 240km south-east of the major centre of Reno.

The NBS Project area consists of 178 claims covering approximately 3,400 acres (1,376 hectares) in a well-known, highly prospective lithium region. The Project straddles structural features that can be traced on the surface and have been assessed to be a potential conduit for lithium mineralisation in sediments and brines. Under the Agreement, Morella can earn a 60% interest in NBS by investing at least US\$1,000,000 in aggregate over a four-year period on exploration and development activities, along with making a total of US\$500,000 payments in Morella Lithium shares to LTUM in stages over the four year earn-in.

The first on-ground works at NBS, being a detailed soils program, was completed in September. The program sourced 272 samples using a powered auger to allow sampling at a depth of up to 1.37m below surface. All sampling and sample preparation was supervised by a Certified Professional Geologist. Subsequent to the end of the quarter, Morella advised a geophysics survey was also being conducted at NBS to compliment the soils program. Results from both programs are expected in the December quarter.

Western Australia Hardrock Lithium

A broad Pilbara-wide airborne geophysics survey commenced in September. The survey was designed to capture high-resolution data to build on historical data available to Morella. The survey covered several tenements included in the Morella-Sayona Mining Limited ("Sayona") earn-in agreement, where Morella is well advanced towards achieving the earn-in obligation milestone.

Of particular focus for the survey and recent site visit was the Tabba Tabba East (E45/4703) tenement. Assessment of open-source regional geology and geophysical information suggests that the tenement is within a Mesoarchean magmatic-metallogenic province of Northern Australia, which is prospective for lithium.

The tenement overlies fertile Monzogranitic rocks which have been transected by the NE-SW-trending Wodgina Fault. The tenement is located approximately 25 kilometres north of Pilgangoora, one of the largest hard rock lithium deposits in the world.

The airborne survey was conducted over a five-day period, with a total of 1,155 lines flown for 5,181 kilometres. The survey was conducted using a Cessna 210 light aircraft, equipped with a magnetometer sensor in the tail boom and spectrometer mounted in the aircraft. The survey aircraft, over the Tabba Tabba East tenement can be seen in Figure 3.



Figure 3 – Cessna 210 conducting a survey over the Tabba Tabba East tenement

ESG and Sustainability

Health and Safety

There were no injuries or safety incidents during the quarter.

Environment

There were no environmental issues or breeches during the quarter.

Community

During July, Company representatives visited the Town of Port Hedland and met with the town CEO and provided an update of Morella's Pilbara activities and exploration plans. The Company also engaged with the Station Manager at Mallina, where discussion centred on rehabilitation of drill and camp sites. Company representatives also met with the Station owner at Wallareena Station, where plans for works and effort around the Tabba Tabba East tenement was discussed. Relationships with the local community and pastoralists remain very positive.

During a Site visit conducted in September, Company staff along with Traditional Owners attending the visit as official monitors, discovered what has been assessed as a previously unknown/un-registered site of interest for the Traditional Owners (Nyamal). The presence of extensive rock art on granite outcrops was not previously known to the monitors nor the Nyamal Aboriginal Corporation and Nyamal Heritage key contacts that Morella had previously communicated with.

Morella has provided detailed coordinates and imagery to the Nyamal Aboriginal Corporation and is supportive of any process to have the sites registered as formal heritage sites. (Figure 4) Morella notes that such actions will preclude any further exploration near the sites, geological consultants have confirmed that the immediate area near the sites is not prospective for lithium.



Figure 4 – Rock art discovered by Morella and Njamal monitors during a site visit

Morella made a donation of much needed goods consisting of toiletries and food items to the Perth Homeless Support Group (PHSG). The PHSG has created a new 'Community Model' for working with the displaced, homeless and those in transitional housing, creating a safe community for those in need. It's estimated that each night 9,000 people in WA experience homelessness. The Outreach Events conducted by PHSG each Sunday morning distributes care packs of basic toiletries and food items to people in Perth experiencing homelessness.

Financial Commentary

In July, Morella received firm commitments for a placement of 500 million new fully paid ordinary shares ("New Shares") to new and existing institutional and sophisticated investors in Australia and internationally, at an issue price of \$0.015 to raise \$7.5 million ("Placement"). Waratah Capital Advisors ("Waratah"), through its subsidiary, Waratah Electrification and Decarbonization Fund ("Waratah E&D Fund") provided a cornerstone investment in the Placement for A\$3 million. Waratah is the sponsor and general partner of Waratah E&D Fund and Lithium Royalty Corp. ("LRC"), a North American royalty corporation.

In addition to the equity investment, LRC, Morella and Sayona agreed 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 Tabba Tabba Lithium Project, tenement E45/4703 ("Tabba Tabba"). Sayona has previously executed a similar royalty arrangement over the Mallina Lithium Project with LRC.

At the end of the period the Company was in a strong financial position with a cash balance of \$11.3M.

Other Disclosure

As disclosed under item 6 in the Appendix 5B, the Company made payments to related parties being for a total consideration of \$130,000. 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

The Company issued a Cleansing Prospectus on 25 July 2022 and extended the offer period on 30 September 2022 until 30 November 2022. The primary purpose of the Cleansing Prospectus is not to raise capital but to facilitate secondary trading of any Shares that may be issued by the Company before the closing date of the Offer under the Cleansing Prospectus.

During the Quarter the Morella Board approved an incentive package to reward the Company's Directors and Executive Management for their efforts during the 2022 Financial Year which were initially focussed on restructuring the Company and satisfying the requirements of the ASX for re-quoting on the Official List. Following the successful re-quotation in December 2021 there has been significant progress made on all of Morella's projects both in Australia and North America.

The Company announced Performance Rights to two specific groups based on a differing approval process.

- The initial performance rights issue of 111,241,800 rights exercisable prior to 31 December 2022 were issued to Executives and did not require shareholder approval.
- The second tranche of performance rights in the amount of 147,024,658 will be issued to Directors after shareholder approval.

The Performance Rights will immediately vest upon issue and will be exercisable by the holder on or before 31 December 2022 for Executives and up to 6 months after shareholder approval for Directors. Each Performance Right is convertible into one fully paid ordinary share.

On September 16, 2022, the Company cancelled 19,812,140 Warrants which were exercisable at \$0.1260 each and which expired without being exercised. The warrants were originally issued to debt

facility loan note holders following shareholder approval at the 2017 AGM. Two of the original three loan note holders had previously exercised their warrants.

During the Quarter the Company's Chief Executive Officer (CEO) Mr Alex Cheeseman tendered his resignation. Under Mr Cheeseman's employment contract, he was required to give the Company 6 (six) months' notice when tendering his resignation, however, due to circumstances the Company decided to release Mr. Cheeseman with a reduced notice period effective 7 October 2022.

The Company issued its Annual Report and Corporate Governance Statement on 23 September 2022.

Outlook

In the December Quarter, Morella has a scheduled MT survey at NBS, which is intended to identify sub-surface areas of mineral concentration. The combination of a MT survey and soils program will shape and guide future exploration efforts at NBS. The results of both soils and the MT survey are expected in the December quarter.

Morella is actively engaging the market to secure drilling services in order to test lithium-brine targets at Fish Lake Valley. The availability of drilling contractors continues to be challenging due to unprecedented exploration activity in Nevada however the Company believes the drilling program could commence in the December quarter.

To support resource modelling at Fish Lake Valley, the Company is investigating options for further infill MT surveys to fully map the distribution of high conductivity areas and 2D high resolution and seismic reflection surveys to provide geological control to the basin geometry.

Morella expects the results from the Mallina drilling program to be released in the December quarter.

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

Contacts for further information

Investors | Shareholders

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Media

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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 Chris Grove, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Principal Geologist employed by Measured Group Pty Ltd. Mr Chris Grove has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Mineral Resources'. Mr Chris Grove consents to the inclusion in the report of the matters based on his 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.

Schedule of Tenements

The schedule below discloses the exploration tenements held by the Company at the end of the Quarter, no new licences were acquired nor were any sold or cancelled.

Location	Tenement Number	Interest beginning of Quarter	Interest end of Quarter
Tabalong, South Kalimantan	PT Suryaraya Permata Khatulistiwa	70%	70%
	PT Suryaraya Cahaya Cemerlang	70%	70%
	PT Suryaraya Pusaka	70%	70%
	PT Kodio Multicom	56%	56%
	PT Marangkayu Bara Makarti	56%	56%
Catanduanes, Philippines	COC 182 (Area 3) – Catanduanes	100%	100%
Albay Region, Philippines	COC 200 (Area 4) – Rapu-Rapu	100%	100%
Bislig Region, Philippines	COC 202 (Area 17) – Surigao del Sur	100%	100%

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 September 2022

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	1,645	1,645
1.2	Payments for		
	(a) exploration & evaluation	(31)	(31)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(470)	(470)
	(e) administration and corporate costs	(721)	(721)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(70)	(70)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	132	132
1.8	Other (provide details if material)		
	• Sundry income	1	1
1.9	Net cash from / (used in) operating activities	486	486
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	(732)	(732)
	(e) investments	-	-
	(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – Term deposit facility	-	-
2.6	Net cash from / (used in) investing activities	(732)	(732)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	7,500	7,500
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	(413)	(413)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)		
	• Payments of lease liabilities	-	-
3.10	Net cash from / (used in) financing activities	7,087	7,087

4.	Net increase / (decrease) in cash and cash equivalents for the period	6,841	6,841
4.1	Cash and cash equivalents at beginning of period	4,262	4,262
4.2	Net cash from / (used in) operating activities (item 1.9 above)	486	486
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(732)	(732)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	7,087	7,087
4.5	Effect of movement in exchange rates on cash held	176	176
4.6	Cash and cash equivalents at end of period	11,279	11,279

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	11,279	4,262
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)	11,279	4,262

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**

60

70

-

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	Total facility amount 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.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
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)	486
8.2 (Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(732)
8.3 Total relevant incoming / (outgoings) (item 8.1 + item 8.2)	(246)
8.4 Cash and cash equivalents at quarter end (item 4.6)	11,279
8.5 Unused finance facilities available at quarter end (item 7.5)	-
8.6 Total available funding (item 8.4 + item 8.5)	11,279
8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3)	45.8

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:

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

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

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

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 October 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.