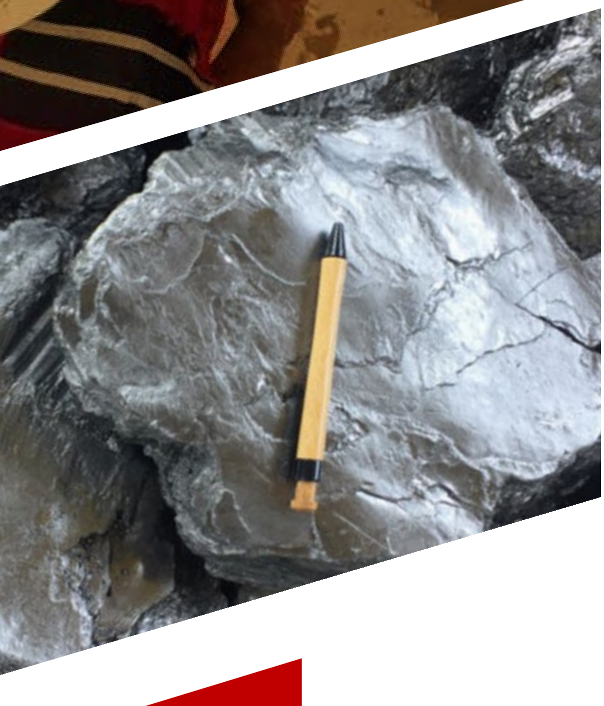
MARGOSA GRAPHITE LIMITED



ANNUAL REPORT

30 JUNE 2022

CHAIRMAN'S LETTER

Dear Fellow Shareholders

The 2021/22 financial year continued to challenge all facets of industry globally. Over the 12 months we have continued to navigate our way through the health, social and economic impacts of the COVID pandemic. This crisis stopped the progression of our Mining License application as the essential face-to-face meetings and mandatory project site inspections ceased. Travel, insurance and health restrictions continued to hamper the return of the expatriate members of our management team to Sri Lanka. Additionally, in-country workforce activities were severely restricted to the Pathakada (EL219) license area. External statutory exploration activity was also restricted due to enforced government agency travel approval and strict curfew restrictions.

However, in line with the Company's tenacity to maintain momentum as best as possible, further infill, extensional and metallurgical drilling both on the Ridee Ganga Project area, and on priority target areas within the Pathakada tenement were completed. Additionally, drilling core bulk samples were shipped to Consultants in Perth, Australia for metallurgical test work for Process plant validation.

On behalf of the Directors, I'd like to thank the Margosa team for remaining diligent, safe and health conscious, during these difficult and challenging times and for maintaining a positive and proactive approach.

We look forward to the next period as we create and deliver value for our investors.

Sincerely

John Shackleton

Executive Chairman

Margosa Graphite Ltd

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Margosa Graphite Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2022.

Directors

The following persons were Directors of Margosa Graphite Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr. John Shackleton (Executive Chairman) – (appointed 7th December 2012)
Mr. Peter Thomas Cunningham (Mining Director) – (appointed 18th January 2017, resigned 31st October 2022)
Mr. Varuna Mallawarachchi (Non-Executive Director) - (appointed 8th February 2017)
Mr. Peter Sullivan (Non-Executive Director) – (appointed 30 November 2021, resigned 23 October 2022)
Mr. Colin Belton (Non-Executive Director) – (appointed 5 October 2022)
Mr. Craig Pentland (Non-Executive Director) – (appointed 5 October 2022)
Mr. Peter Venn (Technical Director) – (appointed 8th February 2017, resigned 26 November 2021)
Mr. Donald James (Non-Executive Director) – (appointed 17th May 2021, resigned 6 July 2022)

Information on Directors

Name:	John Shackleton
Title:	Executive Chairman (appointed 7th December 2012)
Experience and expertise:	John is a professional with over 35 years of experience in the mining industry from construction to management duties in gold and base metal projects. John has Project Management experience in Australia, multiple African countries, the USA, Philippines and Dominican Republic, dealing with both local and government agencies.
Interest in equity:	
Shares	5,729,998
Performance rights	Nil

Name:	Peter Cunningham
Title:	Mining Director (appointed 18th January 2017, resigned 31st October 2022)
Experience and expertise:	Peter is a highly qualified mining engineer with over 39 years of experience in mine development and management in Australia, Asia and Africa. He has extensive prior experience being at Senior Executive and Board levels.
Interest in equity:	
Shares	1,050,000
Performance rights	Nil

Name:	Varuna Mallawarachchi
Title:	Non-Executive Director (appointed 8th February 2017)
Experience and expertise:	Varuna has 20 years legal experience and Senior Partner at Mallawarachchi Associates: A Sri Lankan law firm specializing in corporate advisory services. He is a recognised expert in labour law. He has held board level positions in several local mining companies.
Interest in equity	
Shares	4,722,134
Performance rights	Nil

Name:	Peter Sullivan
Title:	Non-Executive Director (appointed 30 November 2021, resigned 23 October 2022)
Experience and expertise:	Mr Sullivan has over 30 years' experience working with listed and unlisted resource companies and has been closely involved with the strategic development of resource projects and companies with input across technical, financial, regulatory and governance matters. He has valuable insight and experience in engineering and construction, investment banking and capital markets and managing mining operations in Australia and internationally. He holds a Bachelor of Engineering degree from the University of Western Australia and an MBA from the Australian Graduate School of Management. Mr Sullivan is currently a director of Copper Mountain Mining Corporation, Panoramic Resources Limited, GME Resources Ltd, Horizon Gold Limited and was previously Managing Director and CEO of midcap gold miner Resolute Mining Ltd. He is also Non-Executive Chairman of the Company's major shareholder Zeta Resources Limited, an ASX listed resource investment company.
Interest in equity	
Shares	- Nil
Performance rights	- Nil

Name:	Colin Belton
Title:	Non-Executive Director (appointed 5 October 2022)
Experience and expertise:	Mr Belton knows Sri Lanka very well having been one of the founders of the graphite and silica deposits which led to the formation of Margosa as an organisation a number of years ago. He also has extensive experience in-country with the Geological Survey and Mines Bureau and respective Sri Lankan Ministers. Professionally, Mr Belton was a Certified Practising Accountant (CPA) for over 40 years and has been a partner of a number of Accountant and Business Consultancy firms including 4C Advisory for which he is now a consultant advisor. Mr Belton also has deep experience consulting to ASX listed organisations across a multitude of industries
Interest in equity	
Shares	4,288,450
Performance rights	- Nil

Name:	Craig Pentland
Title:	Non-Executive Director (appointed 5 October 2022)
Experience and expertise:	Mr Pentland has extensive knowledge and experience of Sri Lanka having expatriated there as a founding director of Lankan Resources Development Fund (now Margosa). Mr Pentland has over 20 years' experience in Public Practice building compliance and financial framework structures for organisations including several ASX listed mining and exploration companies. He is currently the Chairman of CGS Australia Ltd, a publicly unlisted Silica Quartz Mining Operation in Sri Lanka.
Interest in equity	
Shares	4,288,450
Performance rights	- Nil

Name:	Peter Venn
Title:	Technical Director (appointed 8th February 2017, resigned 26 November 2021)
Experience and expertise:	Peter is a Geologist with over 30 years of experience and achievement in the global resources sector. After commencing his career in the WA Goldfields as a consultant he held senior and executive roles with Resolute Mining Limited in Africa and Australia for more than 20 years. Peter has established and led highly successful teams and has been closely involved in the exploration, acquisition, evaluation and development of more than ten gold mines.
Interest in equity:	
Shares	1,490,298
Performance rights	Nil

Name:	Donald James
Title:	Non-Executive Director (appointed 17th May 2021, resigned 7 July 2022)
Experience and expertise:	Donald is a certified Chartered Accountant with extensive financial and corporate experience in high value private and listed public companies. He has held strategic key management positions and non-executive director roles in developing and operational entities, within which he has demonstrated a strong focus on delivering high return business outcomes. Donald commenced his career with six years at PricewaterhouseCoopers and more recently has been a member of group executive leadership teams in ASX 200 companies, with specific accountability in roles including Chief Executive – Investments, Chief Operating Officer and Chief Financial Officer.

Interest in equity

Shares	-	Nil
Performance rights	-	Nil

Company secretary

Ms Kelly Moore (appointed 20th February 2018, resigned 31st January 2023)

Ms Moore is a qualified Chartered Accountant and Company Secretary with extensive experience in providing accounting and secretarial advice to public companies. Ms Moore holds a Bachelor of Commerce degree from the University of Western Australia, is a member of the Institute of Chartered Accountants Australia and New Zealand, is a graduate of the Australian Institute of Company Directors and an associate member of the Governance Institute of Australia.

Principal activities

The Company, through its subsidiaries is primarily involved in mineral exploration and development at Sri Lanka.

Review of operations

Overview

Margosa is a public unlisted company incorporated in Western Australia. The Company, through its subsidiaries (the Group) is primarily involved in mineral exploration and development in Sri Lanka.

Company Strategy

The Group's vision is to find, develop and mine high-grade vein graphite deposit in Sri Lanka, and become the leading supplier of this rare and superior graphite form.

Company Milestones for the financial year ended 30 June 2022

(1) The Company completed drilling on previously untested geophysical targets within the EL/219 tenement and infill drilling within the Ridee Ganga mining area.

(2) The Company completed drilling core bulk samples on its Ridee Ganga Project and shipped them to Metallurgical Processing Consultants in Perth, Australia for test works on simplifying the process facility presented in the 2020 Feasibility Study.

(3) Remote Exploration activities continued subject to in-country government restrictions and travel curfews.

(4) The Company successfully adopted practices to help protect and keep safe its Sri Lankan employees, consultants, and contractors.

Projects Review

A review of work at Pathakada, and over the Company's other Sri Lankan license areas during the year is set out below:

Pathakada EL 219

Metallurgy

The Company has been unable to advance its AERP shaft sink activities to access the required quantities of sample material needed to begin test works with Australian based Orway Mineral Consultants (OMC). The intent of this test work is to simplify the front-end crushing and grinding section of the current process flowsheet. The Company purchased larger drilling equipment to extract sizable core samples that will be utilized for this testing process. The exploration team completed drilling within the Ridee Ganga Project mining area with the larger drill rods, and the drill core was shipped to Orway for test purpose.

Mining

Mining activities did not commence as scheduled due to the ongoing restrictions. Although every endeavour was made to progress the Mining license application, government agency work conditions/restrictions created an impassable situation for management and alike to navigate the completion of this process.

Exploration

Exploration activities have continued throughout FY21/22 at Pathakada EL/219. Drilling focused on previously untested geophysical targets within the EL/219 tenement and infill drilling within the Ridee Ganga mining area. The Exploration Manager and Drilling Superintendent managed activities remotely due to border closures and travel restrictions

Aluketiya EL218

- Aluketiya is located in the Kalutara district. The Aluketiya area is recognised as one of the richest areas for past graphite production. This area was last surveyed by the GSMB in 1974, with 474 pits at 108 localities described, with depths ranging from 100 to 780 feet.
  .
  Exploration was limited to statutory requirements and government restrictions. The Company will work closely with the local Mines Department, (GSMB), to complete further works in FY23.

Dumbara EL264, EL311, EL312, EL313

- The project is located about 55 km southeast of Colombo and is recorded as the first area to be commercially mined for graphite in Sri Lanka in the 1850s.

  Exploration was limited to statutory requirements and government restrictions. The Company will work closely with the local Mines Department, (GSMB), to complete further works in FY23.

Waharaka EL294

- The Waharaka project is located about 40 km east north east of Colombo and about 15 km southwest of the Graphit Kropfmuhl's Bogala graphite mine, which has operated for nearly 150 years and is currently over 500 m deep.

  Exploration was limited to statutory requirements and government restrictions. The Company will work closely with the local Mines Department, (GSMB), to complete further works in FY23.

Kithulgala EL270

- Kithulgala lies about 60 km east of Colombo and approximately 5 km south of the producing Bogala graphite mine, on the Bogala Antiform. There are several workings operated by Bogala Graphite PLC, of which the Bogala mine is the main location

  Exploration was limited to statutory requirements and government restrictions. The Company will work closely with the local Mines Department, (GSMB), to complete further works in FY23.

Bopitiya EL255

- The Bopitiya project comprises two blocks of ground and is situated about 50 km northeast of Colombo, just south of the Colombo-Kandy road. The Bogala graphite mine is approximately 10 km to the southeast.

  Exploration was limited to statutory requirements and government restrictions. The Company will work closely with the local Mines Department, (GSMB), to complete further works in FY23.

Dehiowita EL319

- The Dehiowita project is situated about 45 km east of Colombo and south of the Waharaka project.

  Exploration was limited to statutory requirements and government restrictions. The Company will work closely with the local Mines Department, (GSMB), to complete further works in FY23.

Yattawatura EL271

- The Yattawatura project is located about 45 km east of Colombo, located between the Dehiowita and Dumbara projects.

  Exploration was limited to statutory requirements and government restrictions. The Company will work closely with the local Mines Department, (GSMB), to complete further works in FY23.

Avissawella & Kukulaga

- These Exploration Licences are new applications awaiting final approval, with delays in the applications due to COVID-19.
- These applications represent strike extensions to the Dehiowita-Waharaka and Dumbara Tier 1 project areas, respectively
- The Avissawella and Kukulaga licences have been paid for and will be issued when the final work program is presented to the GSMB in FY23.

Gabbala

- The Gabbala licence application is located approximately 100 km northeast of Colombo in the Kegalle District in Sabaragamuwa Province.
- The initial field investigations and report highlighted at least 20 graphite pits from historical workings dating back to the 1940s.
- The application has been submitted to GSMB, delays in approval are due to COVID-19.

COVID-19

On 30 January 2020, the World Health Organisation declared the coronavirus outbreak ('COVID-19') a "Public Health Emergency of International Concern" and on March 10, 2020, declared COVID-19 a pandemic. The operations of the Company have been negatively impacted by the regional and global outbreak of COVID-19 and this has impacted the Company's results and its ability to source funding.

As at the date of this report, the full effect of the outbreak remains uncertain. The effects are likely to be significant but cannot be reliably estimated or quantified. The Company will monitor the ongoing developments and be proactive in mitigating the impact on its operations.

Corporate Activities

During the year, the Company has raised $380,200 through the issue of shares.

Financial results and condition

The loss for the Group after providing for income tax amounted to $1,267,246 (2021: $2,634,946). The net assets of the Group as at 30 June 2022 were $5,575,470 (2021: $10,641,877).

For the year ended 30 June 2022, the Group had a working capital surplus of $419,755 (2021: $1,743,767) and net cash outflows of $1,750,481 (2021: inflow $170,335).

Summary of results

	2022 $	2021 $
Revenue from ordinary activities	-	-
Other income	38,303	2,270
Expenditure	(1,305,549)	(2,637,216)
Loss from continuing operations	(1,267,246)	(2,634,946)
Other comprehensive income	(4,212,839)	174,163
Total comprehensive loss	(5,480,085)	(2,460,783)

	2022 $	2021 $
Loss attributable to owners of Margosa Graphite Ltd	(1,267,505)	(2,634,679)
Shares on issue at reporting date	86,037,221	85,210,223
Weighted average number of shares	85,393,334	78,936,200
Loss per share (cents)	(1.48)	(3.34)

The Directors believe the Group is well positioned to continue to deliver significant shareholder value.

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the Group during the financial year.

Dividends
There were no dividends paid, recommended or declared during the current or previous financial year.

Shares under option
There were no unissued ordinary shares of Margosa Graphite Limited under option outstanding at the date of this report.

Shares issued on the exercise of options
There were no ordinary shares of Margosa Graphite Limited issued on the exercise of options during the year ended 30 June 2022 and up to the date of this report.

Shares under performance rights
There were no unissued ordinary shares of Margosa Graphite Limited under performance rights outstanding at the date of this report.

Shares issued on the exercise of performance rights
There were no ordinary shares of Margosa Graphite Limited issued on the exercise of performance rights during the year ended 30 June 2022 and up to the date of this report.

Indemnity and insurance of officers
The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Environmental regulation
The Group is subject to environmental regulation in relation to its exploration activities. It aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware of any breaches during the period covered by this report.

Likely developments and expected results of operations
Likely developments in the operations of the Group are set out in the above review of operations in this annual report. Any future prospects are dependent upon the results of future exploration and evaluation.

Proceedings on behalf of the Company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Matters subsequent to the end of the financial year
Matter or circumstance that have arisen since 30 June 2022 include the completion of Company structure documentation in accordance with foreign ownership law in Sri Lanka, submission of the application for an “A” Class Industrial Mining License and the raising of additional share capital of $478,200.00

Non-audit services
The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor’s expertise and experience with the Group are important.

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor’s own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, BDO Perth, and its related practices for non-audit services provided during the year are set out in note 17 in the financial statements.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

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John Arthur Shackleton
Executive Chairman

29th March 23
Perth

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	Note	2022 $	2021 $
Revenue			
Other income		38,303	2,270
Expenses			
Professional fees	4	(602,498)	(553,550)
Directors fees		(218,809)	(168,813)
Other operating expenses	5	(392,499)	(294,899)
Finance expenses		(6,387)	(27,549)
Lease payments		(9,020)	(35,181)
Acquisition of Kumbuk	21	-	(108,768)
Depreciation and amortisation expense	11,12	(76,339)	(79,707)
Foreign exchange loss		3	(681,249)
Share based payments	20	-	(687,500)
Loss before income tax expense		(1,267,246)	(2,634,946)
Income tax expense	6	-	-
Loss after income tax expense for the year		(1,267,246)	(2,634,946)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(4,212,839)	174,163
Other comprehensive income for the year, net of tax		(4,212,839)	174,163
Total comprehensive income for the year		(5,480,085)	(2,460,783)
Loss for the year is attributable to:			
Non-controlling interest	21	259	(267)
Owners of Margosa Graphite Limited		(1,267,505)	(2,634,679)
		(1,267,246)	(2,634,946)
Total comprehensive income for the year is attributable to:			
Non-controlling interest	21	(40,982)	(5,362)
Owners of Margosa Graphite Limited		(5,439,103)	(2,455,421)
		(5,480,085)	(2,460,783)
		Cents	Cents
Basic earnings per share	7	(1.48)	(3.34)
Diluted earnings per share	7	(1.48)	(3.34)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

	Note	2022 $	2021 $
Assets			
Current assets			
Cash and cash equivalents	8	135,489	1,901,501
Trade and other receivables		51,493	53,263
Inventories		124,522	68,251
Other		45,089	34,951
Total current assets		356,593	2,057,966
Non-current assets			
Exploration and evaluation	10	4,940,425	7,442,590
Property, plant and equipment	11	1,034,289	1,392,966
Right-of-use assets	12	303,249	314,997
Other		17,681	21,593
Total non-current assets		6,295,644	9,172,146
Total assets		6,652,237	11,230,112
Liabilities			
Current liabilities			
Trade and other payables	13	739,151	260,332
Lease liabilities		37,197	53,867
Total current liabilities		776,348	314,199
Non-current liabilities			
Lease liabilities		300,419	274,036
Total non-current liabilities		300,419	274,036
Total liabilities		1,076,767	588,235
Net assets		5,575,470	10,641,877
Equity			
Issued capital	14	19,966,771	19,553,093
Reserves		(3,847,587)	324,011
Accumulated losses		(10,606,171)	(9,338,666)
Equity attributable to the owners of Margosa Graphite Limited		5,513,013	10,538,438
Non-controlling interest	15	62,457	103,439
Total equity		5,575,470	10,641,877

The above statement of financial position should be read in conjunction with the accompanying notes

	Issued capital $	Share based payment reserve $	Foreign currency translation reserve $	Accumulated losses $	Non-controlling interest $	Total equity $
Balance at 1 July 2020	15,405,878	-	144,753	(6,703,987)	-	8,846,644
Loss after income tax expense for the year	-	-	-	(2,634,679)	(267)	(2,634,946)
Other comprehensive income for the year, net of tax	-	-	179,258	-	(5,095)	174,163
Total comprehensive income for the year	-	-	179,258	(2,634,679)	(5,362)	(2,460,783)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs (note 14)	3,378,743	-	-	-	-	3,378,743
Share-based payments (note 20)	768,472	-	-	-	-	768,472
Acquisition of Kumbuk (note 21)	-	-	-	-	108,801	108,801
Balance at 30 June 2021	19,553,093	-	324,011	(9,338,666)	103,439	10,641,877

	Issued capital $	Share based payment reserve $	Foreign currency translation reserve $	Accumulated losses $	Non-controlling interest $	Total equity $
Balance at 1 July 2021	19,553,093	-	324,011	(9,338,666)	103,439	10,641,877
Profit/(loss) after income tax expense for the year	-	-	-	(1,267,505)	259	(1,267,246)
Other comprehensive income for the year, net of tax	-	-	(4,171,598)	-	(41,241)	(4,212,839)
Total comprehensive income for the year	-	-	(4,171,598)	(1,267,505)	(40,982)	(5,480,085)
Transactions with owners in their capacity as owners:						
Share-based payments (note 20)	33,478	-	-	-	-	33,478
Share issue	380,200	-	-	-	-	380,200
Balance at 30 June 2022	19,966,771	-	(3,847,587)	(10,606,171)	62,457	5,575,470

	Note	2022 $	2021 $
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(859,429)	(1,259,444)
Interest received		111,415	2,261
Net cash used in operating activities	9	(748,014)	(1,257,183)
Cash flows from investing activities			
Payments for property, plant and equipment	11	(264,271)	(259,841)
Payments for exploration and evaluation	10	(985,508)	(1,746,509)
Payment for acquisition in Kumbuk	21	-	(216,430)
Net cash used in investing activities		(1,249,779)	(2,222,780)
Cash flows from financing activities			
Proceeds from issue of shares	14	346,722	1,977,700
Proceeds from convertible notes	14	-	1,394,796
Lease payments		(99,410)	(50,368)
Share issue costs paid		-	(12,500)
Net cash from financing activities		247,312	3,309,628
Net decrease in cash and cash equivalents		(1,750,481)	(170,335)
Cash and cash equivalents at the beginning of the financial year		1,901,501	2,070,989
Effects of exchange rate changes on cash and cash equivalents		(15,531)	847
Cash and cash equivalents at the end of the financial year	8	135,489	1,901,501

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover Margosa Graphite Limited as a Group consisting of Margosa Graphite Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Margosa Graphite Limited's functional and presentation currency.

Margosa Graphite Limited is an unlisted public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	Principal place of business
Level 1/100 Havelock Street, West Perth WA 6005	Level 1/100 Havelock Street, West Perth WA 6005

The Group is primarily involved in graphite exploration and development in the Sri Lanka.

The financial statements were authorised for issue, in accordance with a resolution of Directors, 29th March 2023

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Going concern

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

Note 2. Significant accounting policies (continued)

As disclosed in the financial statements, the Group incurred a loss of $1,267,246 and had net cash outflows from operating activities of $748,014 and a working capital deficiency of $419,755. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The ability of the entity to continue as a going concern is dependent on securing additional funding through capital raising activities to continue its operational and exploration activities.

The Directors are satisfied they will be able to raise additional working capital as required and thus it is appropriate to prepare the financial statements on a going concern basis. In arriving at this position the Directors have considered the following matters:

- The Directors have assessed the cash flow requirements for the 12 month period from the date of approval of the financial statements and its impact on the Group and believe there will be sufficient funds to meet the Group's working capital requirements;
- The working capital deficiency contains amounts not currently owing but will be due and settled within the next 12 months. The Directors are satisfied additional funds will be available when these obligations are due;
- Creditors totalling approximately $559,986 have provided confirmation they will extend agreed payment terms until such time as the Group has the ability to settle these obligations;
- The Group is in ongoing discussions with remaining creditors which will be settled upon funding through a debt or equity event. At the date of this report, the Group has not received any demands for payment from creditors;
- Active cost cutting measures have continued;
- Key shareholders have confirmed willingness to financially support the Group via a debt or equity event;
- Cash on hand of $155,014.03as at 31 March 2023; and
- A history of successfully completing capital raisings over the preceding financial period, including via a placement, an entitlement issue and the issue of convertible notes.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment, share based payments and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 22.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Margosa Graphite Limited ('Company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. Margosa Graphite Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Note 2. Significant accounting policies (continued)

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Margosa Graphite Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The Group recognises revenue as follows:

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurable date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

Note 2. Significant accounting policies (continued)

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurable date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors, accruals and employee entitlements have been excluded from the above analysis as their fair values are equal to the carrying values.

Impairment of non-financial assets

Non-financial assets, other than deferred tax assets ("DTAs") are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset exceeds it recoverable amount. Impairment losses are recognised in profit or loss.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2022. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Exploration and evaluation costs

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Control of entities where less than half of voting rights held

Management have determined that the Group controls the subsidiary Kumbuk Investments, even though it holds less than half of the voting rights of this entity. This is because the Group has contributed majority of share capital amount in Kumbuk Investments and hence are significantly exposed to the risks of Kumbuk Investments. The Group has rights, under a shareholder agreement, to direct the activities of Kumbuk Investments and also has rights to the variable returns from its involvement with Kumbuk Investments.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavorably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Note 4. Professional fees

	2022 $	2021 $
Consulting fees	410,568	370,980
Legal fees	42,056	29,165
Accounting fees	82,248	69,000
ASIC fees	4,966	7,405
Audit and taxation fees	44,660	50,000
Company secretarial fees	18,000	27,000
	602,498	553,550

Note 5. Other operating expenses

	2022 $	2021 $
Travel and accommodation	175,759	46,128
Insurance	88,271	70,501
Computer, telephone and IT expenses	38,361	38,065
Employee benefit expense	32,034	17,170
Other expenses	58,074	123,035
	392,499	294,899

Note 6. Income tax

	2022 $	2021 $
Income tax expense		
Current tax	-	-
Deferred tax - origination and reversal of temporary differences	-	-
Aggregate income tax expense	-	-
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(1,267,246)	(2,634,946)
Tax at the statutory tax rate of 25% (2021: 27.5%)	(316,812)	(724,610)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	-	189,063
Other permanent adjustments	121,307	9,675
	(195,505)	(525,872)
Current year tax losses not recognised	195,505	525,872
Income tax expense	-	-

	2022 $	2021 $
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	4,340,562	5,432,478
Potential tax benefit @ 25%	1,085,141	1,358,120
Unused tax losses for which no deferred tax asset has been recognised	1,316,418	1,629,743
Potential tax benefit at statutory tax rates	-	-

These tax losses can only be utilised in the future if future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised, the conditions for deductibility imposed by tax legalisation continue to be complied with, no changes in tax legislation adversely affect the Group in realising the benefit and, the continuity of ownership test is passed, or failing that, the same business test is passed.

The Group is not a tax consolidated group.

Accounting policy for income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Note 6. Income tax (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 7. Earnings per share

	2022 $	2021 $
Loss after income tax	(1,267,246)	(2,634,946)
Non-controlling interest	(259)	267
Loss after income tax attributable to the owners of Margosa Graphite Limited	(1,267,505)	(2,634,679)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	85,393,334	78,936,200
Weighted average number of ordinary shares used in calculating diluted earnings per share	85,393,334	78,936,200

	Cents	Cents
Basic earnings per share	(1.48)	(3.34)
Diluted earnings per share	(1.48)	(3.34)

Accounting policy for earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Margosa Graphite Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 8. Cash and cash equivalents

	2022 $	2021 $
Current assets		
Cash and cash equivalents	135,489	1,901,501

Accounting policy for cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 9. Cash flow information

Reconciliation of loss after income tax to net cash used in operating activities

	2022 $	2021 $
Loss after income tax expense for the year	(1,267,246)	(2,634,946)
Adjustments for:		
Depreciation and amortisation	76,339	79,707
Share-based payments	-	687,500
Foreign exchange differences	-	686,955
Interest expense on convertible note	-	18,748
Interest on leases	6,011	8,892
Lease payments made	42,345	66,158
Foreign exchange gains/losses	51,379	-
Change in operating assets and liabilities:		
Trade and other receivables	(3,005)	15,725
Other assets	(2,407)	115,560
Prepayments	(11,709)	(26,478)
Inventories	(817)	23,702
Right of use assets	(11,748)	(5,578)
Lease liability	(10,468)	24,982
Trade and other payables	383,312	(318,110)
Net cash used in operating activities	(748,014)	(1,257,183)

Non-cash investing and financing activities

	2022 $	2021 $
Additions to the right-of-use assets	-	51,753
Shares issued to directors	-	687,500
Share-based payments	33,478	80,972
	33,478	820,225

Note 10. Exploration and evaluation

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Exploration and evaluation $
Balance at 1 July 2020	5,813,596
Additions	1,909,243
Exchange differences	(280,249)
Balance at 30 June 2021	7,442,590
Additions	1,224,658
Exchange differences	(3,726,823)
Balance at 30 June 2022	4,940,425

For the year ended 30 June 2022, the recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

Accounting policy for exploration and evaluation assets

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

i. the rights to tenure of the area of interest are current; and

ii. at least one of the following conditions is also met:

(a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

(b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Note 11. Property, plant and equipment

	2022 $	2021 $
Non-current assets		
Land - at cost	122,397	192,385
Plant and equipment - at cost	1,370,298	1,594,930
Less: Accumulated depreciation	(480,009)	(415,964)
	890,289	1,178,966
Fixtures and fittings - at cost	4,424	4,424
Less: Accumulated depreciation	(1,622)	(737)
	2,802	3,687
Motor vehicles - at cost	10,990	18,250
Less: Accumulated depreciation	(8,684)	(10,770)
	2,306	7,480
Computer equipment - at cost	21,857	15,127
Less: Accumulated depreciation	(5,362)	(4,679)
	16,495	10,448
	1,034,289	1,392,966

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land $	Plant and equipment $	Office equipment $	Computer equipment $	Motor vehicle $	Total $
Balance at 1 July 2020	-	1,073,230	-	8,970	13,018	1,095,218
Additions	202,216	479,422	4,424	4,967	-	691,029
Exchange differences	(9,831)	(131,220)	-	(1,392)	(1,702)	(144,145)
Depreciation expense	-	(242,467)	(737)	(2,096)	(3,836)	(249,136)
Balance at 30 June 2021	192,385	1,178,965	3,687	10,449	7,480	1,392,966
Additions	9,292	380,680	-	17,552	-	407,524
Exchange differences	(79,280)	(433,888)	-	(7,890)	(2,050)	(523,108)
Depreciation expense	-	(235,469)	(885)	(3,616)	(3,124)	(243,094)
Balance at 30 June 2022	122,397	890,289	2,802	16,495	2,306	1,034,289

Accounting policy for property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Computer equipment	20%
Office equipment	20%
Plant and equipment	15% to 25%

Note 11. Property, plant and equipment (continued)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 12. Right-of-use assets

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land & Building $
Balance at 1 July 2020	320,575
Additions	51,753
Disposals	(1,163)
Exchange differences	(22,138)
Depreciation expense	(34,030)
Balance at 30 June 2021	314,997
Exchange differences	3,972
Depreciation expense	(15,720)
Balance at 30 June 2022	303,249

Accounting policy for right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are amortised on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the amortisation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities. The subsequent measurement of the right-of-use assets is at cost less accumulated amortisation and impairment losses.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Note 13. Trade and other payables

	2022 $	2021 $
Current liabilities		
Trade payables	489,544	186,759
Other payables and accrued expenses	249,607	73,573
	739,151	260,332

Refer to note 16 for further information on financial risk management.

Note 13. Trade and other payables (continued)

Accounting policy for trade and other payables
These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

Note 14. Issued capital

	2022 Shares	2021 Shares	2022 $	2021 $
Ordinary shares - fully paid	86,037,581	85,210,223	19,966,771	19,553,093

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 2020	76,772,385		15,405,878
Share issue - share placement at $0.35		130,000	$0.35	40,500
Share issue - share placement at $0.50		3,874,400	$0.50	1,937,200
Share issue - convertible note		2,827,089	$0.50	1,413,543
Share based payments at $0.35 (note 20)		231,349	$0.35	80,972
Share based payments at $0.50 (note 20)		1,375,000	$0.50	687,500
Share issue costs		-	$0.00	(12,500)
Balance	30 June 2021	85,210,223		19,553,093
Share issue - share placement at $0.50		760,400	$0.50	380,200
Share based payments at $0.50 (note 20)		66,958	$0.50	33,478
Balance	30 June 2022	86,037,581		19,966,771

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management
The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 30 June 2021 Annual Report.

Accounting policy for issued capital
Ordinary shares are classified as equity.

Note 14. Issued capital (continued)

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 15. Non-controlling interest

On 3 September 2020, the Group acquired 49% of the shares in Kumbuk Investment (Private) Limited and has determined that they have control. On this basis, the consolidated financial statements incorporate Kumbuk's assets, liabilities and results with non-controlling interest (see note 21).

	2022 $	2021 $
Issued capital	108,802	108,802
Reserves	(46,337)	(5,096)
Accumulated losses	(8)	(267)
	62,457	103,439

Note 16. Financial risk management

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date were as follows:

		Assets		Liabilities
	2022 $	2021 $	2022 $	2021 $
US dollars	17,093	69,973	-	-

The Group is mainly exposed to United States Dollar (USD). The following table details the Group's sensitivity to a 10% (2020: 10%) increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% (2020: 10%) change in foreign currency rates. A positive number indicates an increase in other profit and loss where the Australian dollar strengthens against the respective currency.

Note 16. Financial risk management (continued)

2022	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
	AUD strengthened			AUD weakened		
US Dollar	10%	1,899	1,899	10%	(1,554)	(1,554)

2021	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
	AUD strengthened			AUD weakened		
US Dollar	10%	7,775	7,775	(10%)	(6,361)	(6,361)

Price risk
The Group is not exposed to any significant price risk.

Interest rate risk
The Group only has interest rate risk relating to its funds on deposit with banking institutions. Accordingly, the Group does not hedge its interest rate risk exposure.

At the reporting date the Group hold variable rate financial assets and did not hold any variable rate financial liabilities.

As at the reporting date, the Group had the following variable rate financial assets as reported to management for the Group as follows

	2022 Balance $	2021 Balance $
Cash and cash equivalents	135,489	1,901,501
Net exposure to cash flow interest rate risk	135,489	1,901,501

The Group does not account for any other fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

A change of basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for twelve months ended 30 June 2022.

2022	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
	Basis points increase			Basis points decrease		
Cash and cash equivalents	100	1,408	1,408	100	(1,408)	(1,408)

2021	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
	Basis points increase			Basis points decrease		
Cash and cash equivalents	100	19,015	19,015	(100)	(19,015)	(19,015)

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and investments in debt securities. The carrying amount of financial assets in represents the maximum credit exposure as follows:

Note 16. Financial risk management (continued)

	2021 $	2020 $
Financial assets		
Trade and other receivables	51,493	53,263

Currently, the Group undertakes exploration and evaluation activities exclusively in Sri Lanka, hence the Group is not generating trading revenue and does not have material trade receivables. Hence, the Group is not exposed to credit risk. Trade and other receivables relate to advances made to the director of the Company. There are no financial assets past due as at the reporting date.

Allowance for expected credit losses

The Group has not recognised a loss in profit or loss in respect of the expected credit losses for the year ended 30 June 2021. No allowances have been made for further expected credit losses.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

2022	1 year or less $	Over 1 year $	Remaining contractual maturities $
Non-derivatives			
Non-interest bearing			
Trade payables	739,151	-	739,151
Interest-bearing - variable			
Lease liability	37,197	300,419	337,616
Total non-derivatives	776,348	300,419	1,076,767

2021	1 year or less $	Over 1 year $	Remaining contractual maturities $
Non-derivatives			
Non-interest bearing			
Trade payables	260,332	-	260,332
Interest-bearing - variable			
Lease liability	53,867	274,036	327,903
Total non-derivatives	314,199	274,036	588,235

Note 16. Financial risk management (continued)

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 17. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by the auditor of the Company:

	2022 $	2021 $
Audit services -		
Audit or review of the financial statements	40,609	36,400
Other services -		
Preparation of the tax return	2,809	4,635
Transfer pricing review	14,789	-
Financial modelling	-	33,475
	17,598	38,110
	58,207	74,510

It is the Group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important. It is the Group's policy to seek competitive tenders for all major consulting projects.

Note 18. Related party transactions

Parent entity
Margosa Graphite Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 21.

Key management personnel
Disclosures relating to key management personnel are set out in note 19.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties (other than those relating to key management personnel) at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 19. Key management personnel disclosures

Compensation
The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	2022 $	2021 $
Short-term employee benefits	190,503	144,950
Post-employment benefits	2,667	470
Share-based payments (note 20)	-	687,500
	193,170	832,920

Other key management personnel transactions
A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over the financial or operating policies of those entities.

Some of these companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions to non-key management personnel related companies on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

	2022 $	2021 $
Noralee Pty Ltd[1]	271,176	281,193
Venn Family Trust[2]	9,303	129,510
Allbeach Nominees Pty Ltd[3]	6,957	175,653
Varuan Mallawarachchi[4]	140	63,374
Donald James[5]	-	5,416
Peter Sullivan[6]	-	-
	287,576	655,146

The following balances are outstanding at the reporting date in relation to transactions with key management personnel:

	2022	2021
Noralee Pty Ltd[1]	183,806	4,584
Venn Family Trust[2]	-	20,365
Allbeach Nominees Pty Ltd[3]	12,500	20,924
Varuna Mallawarachchi[4]	12,500	2,535
Donald James[5]	14,165	2,453
Peter Sullivan[6]	10,000	-
	232,971	50,861

Note 19. Key management personnel disclosures (continued)

[1] Noralee Pty Ltd, a company associated with John Shackleton, has charged the Company for director fees, consulting fees, travel and disbursements in relation to his role as Chairman of the Company.
[2] Venn Family Trust, an entity associated with Peter Venn, has charged the Company for director fees, consulting fees and disbursements in relation to his role as a Director of the Company.
[3] Allbeach Nominees Pty Ltd, a company associated with Peter Cunningham, has charged the Company for director fees, consulting fees and other disbursements in relation to his role as a Director of the Company.
[4] Varuna Mallawarachchi, in relation to his role as a Director of the Company, has charged the Company for director fees, consulting fees and other disbursements.
[5] Donald James has been paid director fees and superannuation in relation to his role as a Non-executive Director of the Company.
[6] Peter Sullivan has been paid director fees in relation to his role as a Non-executive Director of the Company.

Note 20. Share-based payments

Share based payments
During the year, the Company has issued share based payments as follows:

- On 30 April 2022, 66,958 shares at $0.50 in lieu of cash payments were issued to consultants as part payment for their geological consulting fee as part of the exploration activities. This amounts to $33,478 of share-based payments capitalised as exploration and evaluation assets on the statement of financial position.

Performance rights to directors
In previous financial years, the Company has issued performance rights with the following on issue during the year:

Class	Performance conditions	Expiry date	Number issued
Class E Performance Right	On or before 31 March 2022, the Company announces or reports to its shareholders a new JORC Code 2012 compliant Indicated Mineral Resource Estimate of at least 100,000 tonnes with a minimum grading of 75% TGC outside of the Ridee Ganga Vein Graphite Deposit.	31 March 2022	1,275,000

The Performance Rights only vest when the Performance Conditions have been satisfied, and the holder of the Performance Rights has 6 months after the vesting date to exercise the Performance Rights.

At 30 June 2022, the Directors noted the vesting conditions for Class E have not been met given the deadlines for the respective rights have passed.

No performance rights have been expensed as share based payments for the year.

Accounting policy for share-based payments
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Note 20. Share-based payments (continued)

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 21. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following entities

		Ownership interest	
Name	Principal place of business / Country of incorporation	2022 %	2021 %
Margosa Holdings (Australia) Pty Ltd	Australia	100%	100%
Margosa Investments Pvt Ltd	Sri Lanka	100%	100%
Lankan Resources & Mining Pvt Ltd	Sri Lanka	100%	100%
Kumbuk Investments (Private) Limited	Sri Lanka	49%	49%

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests in accordance with the accounting policy described in note 2:

		Parent		Non-controlling interest	
Name	Principal place of business / Country of incorporation	Ownership interest 2022 %	Ownership interest 2021 %	Ownership interest 2022 %	Ownership interest 2021 %
Kumbuk Investment (Private) Limited	Sri Lanka	49%	49%	51%	51%

Note 21. Interests in subsidiaries (continued)

Transactions with non-controlling interests

	2022 $	2021 $
Consideration paid to non-controlling interests	-	213,273
Carrying amount of non-controlling interest acquired	-	(104,505)
Excess of consideration paid recognised in non-controlling interest and loss on acquisition of Kumbuk	-	108,768

Note 22. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

		Parent
	2022 $	2021 $
Loss after income tax	(2,766,619)	(2,351,986)
Total comprehensive income	(2,766,619)	(2,351,986)

Statement of financial position

		Parent
	2022 $	2021 $
Total current assets	209,897	832,363
Total non-current assets	1,341,399	10,056,533
Total assets	1,551,296	10,888,896
Total current liabilities	646,496	217,182
Total non-current liabilities	-	29,839
Total liabilities	646,496	247,021
Equity		
Issued capital	19,966,771	19,553,093
Accumulated losses	(19,061,971)	(8,911,218)
Total equity	904,800	10,641,875

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries.
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2022 and 30 June 2021.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

Note 22. Parent entity information (continued)

Capital commitments - Property, plant and equipment.
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

Impairment of Inter-entity Loans
The parent entities assets need to be reviewed by the directors subsequent to the accounts for the year ended 30th June 2022 to consider if the assets are required to be impaired. The company will book the necessary impairment (if any) into the following periods accounts.

Note 23. Events after the reporting period

Matter or circumstance that have arisen since 30 June 2022 include the completion of Company structure documentation in accordance with foreign ownership law in Sri Lanka, submission of the application for an “A” Class Industrial Mining License and the raising of additional share capital of $478,200.00

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

____
John Arthur Shackleton
Executive Chairman

29 March 2023
Perth

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DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF MARGOSA GRAPHITE LIMITED

As lead auditor of Margosa Graphite Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Margosa Graphite Limited and the entities it controlled during the period.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth

31 March 2023

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INDEPENDENT AUDITOR'S REPORT

To the members of Margosa Graphite Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Margosa Graphite Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of Margosa Graphite Limited, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our auditor's report.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 31 March 2023

BDO Audit (WA) Pty Ltd
Level 9 Mia Yellagonga Tower
5 Spring Street
Perth WA 6000

31 March 2023

Dear Sir

AUDIT FOR YEAR ENDED 30 JUNE 2022 OF MARGOSA GRAPHITE LIMITED

This representation letter is provided in connection with your audit of the financial report of Margosa Graphite Limited for the year ended 30 June 2022, for the purpose of expressing an opinion as to whether the financial report gives a true and fair view in accordance with the Australian Accounting Standards and the *Corporations Act 2001*.

We confirm that to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves:

Financial report

1. We have fulfilled our responsibilities, as set out in your engagement letter dated 16 January 2020, for the preparation for the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*; in particular that the financial report gives a true and fair view in accordance therewith.
2. We have established and maintained adequate internal controls to facilitate the preparation of a reliable financial report and adequate records have been maintained. Any and all deficiencies in internal control of which we are aware have been communicated to you.
3. We confirm that the selection and application of accounting policies remains appropriate, and that there have been no changes to the accounting policies applied in the previous annual financial statements or the methods used in applying them.
4. We have no plans or intentions that may materially affect the carrying values, or classification, of assets and liabilities.
5. The entity has satisfactory title to all assets, and there are no liens or encumbrances on such assets that have not been disclosed, nor has any asset been pledged as collateral.
6. All significant judgments related to accounting estimates have taken into account all relevant information of which management is aware and the selection or application of the methods, assumptions and data used by management in making the accounting estimates are consistent and appropriate.

7. The assumptions used in determining accounting estimates and related disclosures appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity.
8. Disclosures related to accounting estimates, including disclosures describing estimation uncertainty, are complete and reasonable within the context of the applicable financial reporting framework.
9. The appropriate specialised skills or expertise has been applied in making the accounting estimates as applicable.

Books, records and documentation

10. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial report such as records, documentation and other matters;
    - All minutes of meetings held by the Board of Directors, Committees and shareholders since the end of the previous reporting period have been given to you for your inspection;
    - Additional information that you have requested from us for the purpose of the audit;
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
11. All transactions have been recorded in the accounting records and are reflected in the financial report.

Capitalised Exploration and Evaluation Expenditure

12. A total of AUD 4.94 million of exploration and evaluation expenditure was capitalised as at 30 June 2022. The capitalised exploration and evaluation asset in the statement of financial position for the Group is expected to be recovered through the successful development of a resource within an area of interest or through the sale of rights to the tenements in the future.
13. In assessing the exploration activity, the Directors believe that the projects are not at a stage where they can determine if there are economically viable reserves. As such, activity in relation to the area of interest is continuing to determine this fact.
14. All projects are still considered to be in the exploration phase as no JORC compliant resource has been determined.
15. In accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*, the type of costs capitalised in the statement of financial position relate only to the initial acquisition costs to obtain the right to explore the area of interest and additional exploration and evaluation expenditure incurred as a result of exploration. The Directors represent that no general and administrative expenditure has been capitalised in the statement of financial position.
16. We confirm the Group has the rights to tenure and maintains the tenements or licences in good standing or have been applied for renewal.
17. There is nothing to suggest the renewals will not be granted.
18. The exploration work performed to date has not given rise to restoration provision in respect to restoring the area of interest.
19. We have performed an assessment of the Group's ability to carry forward exploration and expenditure assets under AASB 6 *Exploration for and Evaluation of Mineral*

Resources and have found that no facts and circumstances suggest that an impairment test is required.

Impairment of Assets

20. We have reviewed the requirements of AASB 136 *Impairment of Assets* and have determined that there have been no impairment indicators in the period which would require the performance of impairment testing.

Rehabilitation

21. We have carefully considered our responsibilities to rehabilitate surface disruption under the laws of Sri Lanka and the terms of the licences we are subject to, and we have assessed that we have not performed surface disruption that we have any obligation to rehabilitate, and therefore we have not included a rehabilitation liability in the financial statements.

Share-based payments

22. We confirm that all share-based payment transactions have been appropriately accounted for in accordance with the requirement of AASB 2 *Share-based Payment*.

Leases

23. We confirm that we have appropriately accounted for all leases under AASB 16: Leases.

Property, Buildings, Plant & Equipment

24. Rates of depreciation applied to reduce book values of individual assets to their estimated residual values, reflect the probable useful lives of those assets to the Group.
25. Allowances for depreciation have been adjusted for all items of property, plant and equipment that have been abandoned or are otherwise unusable.
26. The Group has no 'make good' obligations in respect of its property, plant and equipment for which it would be required to make a restoration provision under AASB 137 Provisions, Contingent Liabilities and Contingent Assets.
27. Property, plant and equipment is appropriately recorded at the lower of amortised cost or its recoverable amount.
28. Only those items allowed to be capitalised under AASB 116 Property, Plant and Equipment have been recorded as additions during the period.

Impact of COVID-19

29. We believe that the consequences of the COVID-19 pandemic, based on information known at the time of preparing these financial statements, have been adequately assessed and that these consequences have been properly measured and disclosed in the financial statements.
30. Regarding our going concern assessment, we have incorporated our best estimate of the likely impact of the COVID-19 pandemic in our analysis. We confirm that we intend to follow through on all management intentions incorporated into our analysis and that such actions are feasible.

    To the extent our normal procedures and controls related to our financial close process at any of our consolidated locations were adversely impacted by the COVID-19 pandemic, we took appropriate actions and safeguards to reasonably ensure the fair presentation of the financial statements in accordance with Australian Accounting Standards and Corporations Act 2001.

31. Other than as disclosed in the consolidated financial statements, no other impacts from the COVID-19 pandemic are necessary to be reflected in the financial statements.

32. Disclosures included in the consolidated financial statements regarding the relevant significant business, financial, and reporting impacts of the COVID-19 pandemic accurately reflect management's full consideration of such impacts.

Going concern

33. The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the financial statements, the Group incurred a loss of $1,267,246 and had net cash outflows from operating activities of $748,014 and a working capital deficiency of $419,755. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The ability of the entity to continue as a going concern is dependent on securing additional funding through capital raising activities to continue its operational and exploration activities.

- The Directors are satisfied they will be able to raise additional working capital as required and thus it is appropriate to prepare the financial statements on a going concern basis. In arriving at this position the Directors have considered the following matters:
- The Directors have assessed the cash flow requirements for the 12 month period from the date of approval of the financial statements and its impact on the Group and believe there will be sufficient funds to meet the Group's working capital requirements;
- The working capital deficiency contains amounts not currently owing but will be due and settled within the next 12 months. The Directors are satisfied additional funds will be available when these obligations are due;
- Creditors totalling approximately $559,986 have provided confirmation they will extend agreed payment terms until such time as the Group has the ability to settle these obligations;
- The Group is in ongoing discussions with remaining creditors which will be settled upon funding through a debt or equity event. At the date of this report, the Group has not received any demands for payment from creditors;
- Active cost cutting measures have continued;
- Key shareholders have confirmed willingness to financially support the Group via a debt or equity event;
- Cash on hand of $155,014.03 as at 31 March 2023; and
- A history of successfully completing capital raisings over the preceding financial period, including via a placement, an entitlement issue and the issue of convertible notes.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

Related parties

34. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions.
35. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with Australian Accounting Standards in the financial report.

Fraud

36. We acknowledge our responsibility for the design, implementation and maintenance of accounting and internal control systems that are designed to prevent and detect fraud.
37. We have disclosed to you the results of our assessment of the risk that the financial report may be materially misstated as a result of fraud.
38. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
    - Management;
    - Employees who have significant roles in internal control; or
    - Others where fraud could have a material impact on the financial report.
39. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial report communicated by employees, former employees, analysts, regulators or others.

Litigation and claims

40. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered in the financial report; and accounted for and disclosed in accordance with Australian Accounting Standards.

Compliance with laws and regulations

41. We have disclosed to you all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing the financial report.
42. There have been no instances of non-compliance of laws and regulations involving management or employees who have a significant role in internal control.
43. There have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial report.

Subsequent events

44. All events occurring subsequent to the date of the financial report and for which adjustment or disclosure are required, including but not limited to accounting estimates, have been adjusted or disclosed.

Other information

45. We have informed you of all the documents that we expect to issue which may comprise other information accompanying the financial report.

46. The financial report and any other information obtained by you prior to the date of the auditor's report are consistent with one another, and the other information does not contain any material misstatements.

Electronic presentation of Financial Report

47. We are responsible for the electronic presentation of the financial report.
48. We will ensure that the electronic version of the audited financial report and the auditor's report on the web site will be identical to the final signed hard copy version.
49. We will clearly differentiate between audited and unaudited information in the construction of the entity's web site as we understand the risk of potential misrepresentation.
50. We have assessed the controls over the security and integrity of data on the web site and that adequate procedures are in place to ensure the integrity of the information published.
51. We will not present the auditor's report on the full financial statements with extracts only of the full financial statements.
52. Where applicable, we have complied with the requirements of the *Corporations Act 2001* with respect to the electronic presentation of the audited financial reports.

Yours faithfully

John Shackleton
Executive Chairman
Margosa Graphite Limited

Craig Pentland
Company Secretary
Margosa Graphite Limited