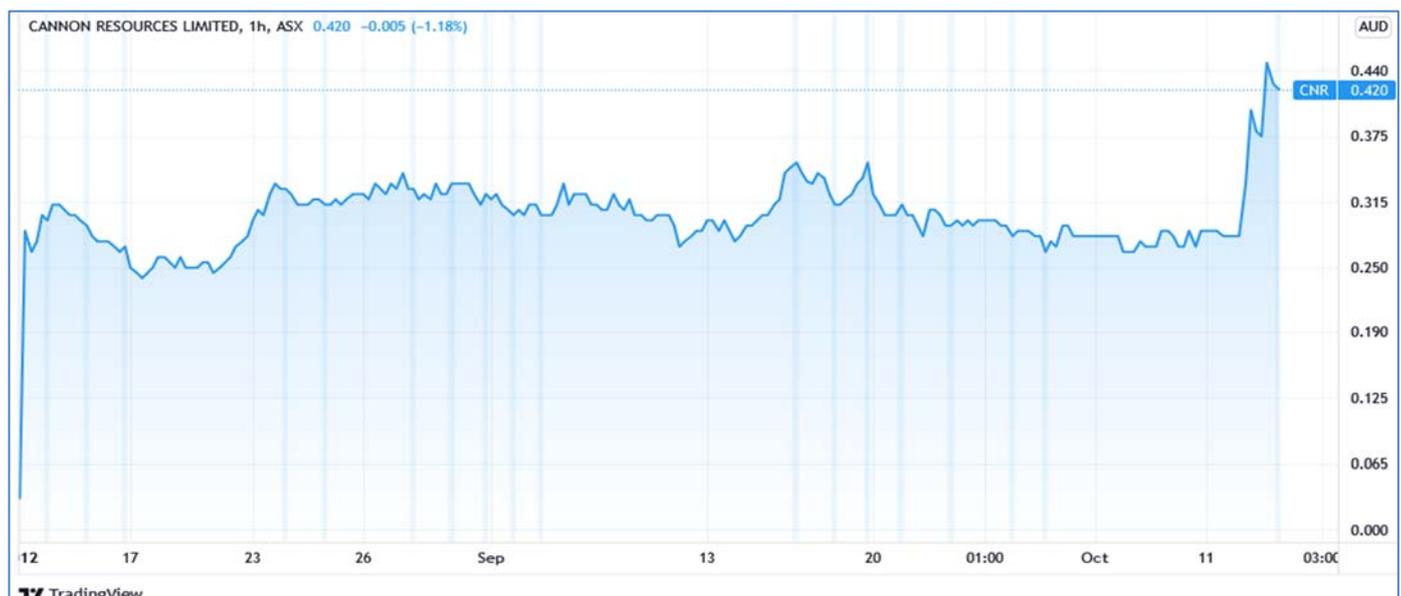


Wednesday 13th October, 2021

Portfolio Stock Developments

Cannon Resources - (ASX: CNR, Share Price: \$0.42, Market Cap: \$28m, coverage initiated @ \$0.20 in August 2021 – *current gain of 110%*)



Key Catalyst

Following successful ASX listing on 12 August, assay results from the first 3 diamond drill-holes at flagship Fisher East Nickel Project return significant zones of high-grade nickel sulphides.

We introduced CNR to our coverage universe in August, following its spin-out from long-time coverage stock, Rox Resources (ASX: RXL). RXL has chosen to solely focus its energies on advancing its Youanmi gold project in Western Australia to production status, which it has managed to do successfully. At the same time, RXL wanted to create a separately-listed ASX vehicle that could house its portfolio of non-gold exploration assets, which is where CNR comes into play. RXL has since managed to successfully spin-out its nickel and base metals assets into CNR by way of a priority offer to RXL shareholders, who were able to take up 1 new Cannon share for every 78.18 RXL shares held (prior to the 1-for-15 share consolidation) at an issue price of \$0.20 per share, with CNR raising a total of \$6 million via its IPO. Our coverage of CNR will follow the fortunes of RXL's former projects in a well-funded and dedicated exploration vehicle.

Latest Activity

Fisher East Nickel Project Update

CNR has provided an update with respect to the maiden exploration activity on its Western Australian nickel assets since their spinout from RXL.

Overview

CNR commenced a diamond drilling campaign upon listing during August 2021 at its Camelwood, Musket and Sabre prospects, all located within its flagship Fisher East Nickel Project in Western Australia.

CNR today released assay results from the first three holes of this maiden diamond drilling campaign, with significant zones of high-grade nickel sulphides identified at the Musket prospect.

Encouraging assay results from the three holes comprise - 14.94m @ 1.90% nickel from 366.15m in hole MFED083, 4.94m @ 1.79% nickel from 559.77m in hole MFED084, and 5.81m @ 2.29% nickel from 584.35m in hole MFED088.

Details

A total of four holes have been drilled at Musket (MFED083, MFED084, MFED088, MFED089), with assay result returned from three. DHEM (down-hole electromagnetics) have been completed on one hole only (MFED089), with the remainder pending survey completion.

Drillhole MFED089 intersected a narrow zone of mineralisation (assays pending) that indicates that the northern margin of the Musket channel continues through this area. A DHEM survey on the same hole has returned significant off-hole anomalies below the drill-hole. EM plate models have been developed and are shown in Figure 1 below. The DHEM plate models indicate that significant exploration upside exists along the northern margin of the Musket mineralisation and future drilling will target these areas.

Technical Significance

The significance of the current diamond drilling program is that it has identified substantial thicknesses of nickel mineralisation on the northern margin of the main channel (hole MFED083 intersected 14.94m @ 1.90% Ni), whilst simultaneously extending the nickel mineralisation to approximately 100 metres below and down-plunge of the existing Musket nickel resource.

The diamond drilling results and DHEM modelling are a significant development at Musket and highlight the company's ability to predict mineralisation trends and grow the orebody. The assay results show that the mineralisation continues down-plunge at better than the average grade of the existing resource. The mineralized system remains totally unconstrained at depth and laterally within the northern mineralisation trend. This current round of drilling confirms that significant resource growth can be expected with well-targeted future drilling.

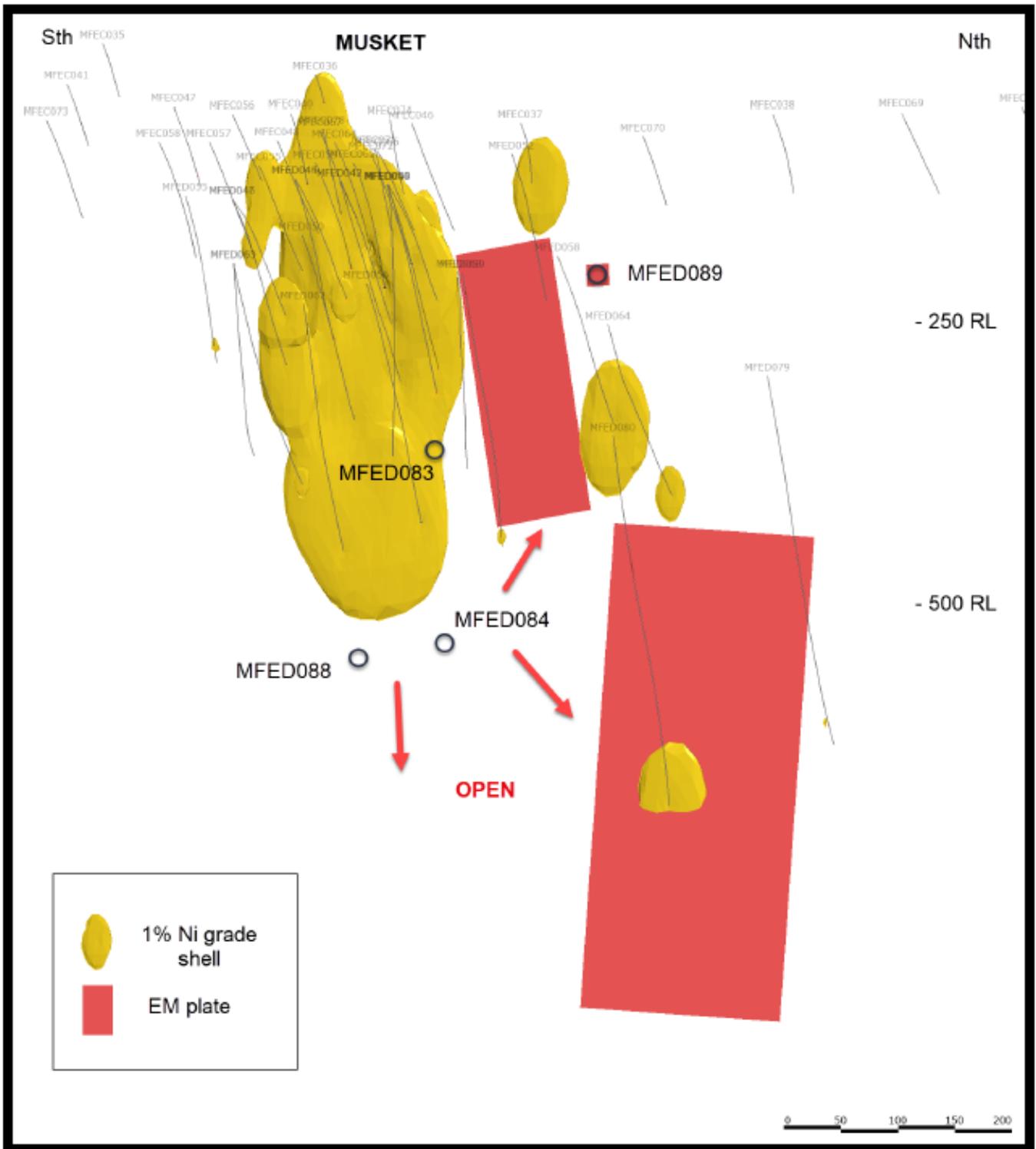


Figure 1: Musket long section showing mineralised intercepts of latest drilling and EM plate models incorporating survey data from holes MFED080, MFED079, MFED062, MFED059 and MFED089

Next Steps

The current diamond drilling program is ongoing and has now been extended from 4,000 metres to 6,300 metres, with assays pending from the Camelwood and Sabre prospects. DHEM surveys are also currently underway on existing holes from this program and are expected to be completed over the next 10 to 15 days.

Successful Listing & Commencement of Trading

Cannon Resources (ASX: CNR) completed a successful ASX listing on 10th August and commenced trading on 12th August. The assets of CNR comprise a spin-out of RXL's nickel and base metal assets, hence we have added CNR to our coverage universe.

The listing comprised a pro-rata priority offer to RXL shareholders of up to 30 million shares at an issue price of \$0.20 each, together with one attaching option for every three shares issued, which raised \$6 million before costs. CNR has total shares on issue of 75 million, giving it a market capitalization of \$19.5 million, and with retained cash reserves of approximately \$5.3 million.

Approximately 36,450,000 CNR were distributed in-specie to RXL shareholders, representing approximately 48% of CNR's total issued Share capital. RXL retains approximately 8.55 million CNR shares, representing an 11.4% stake in CNR.

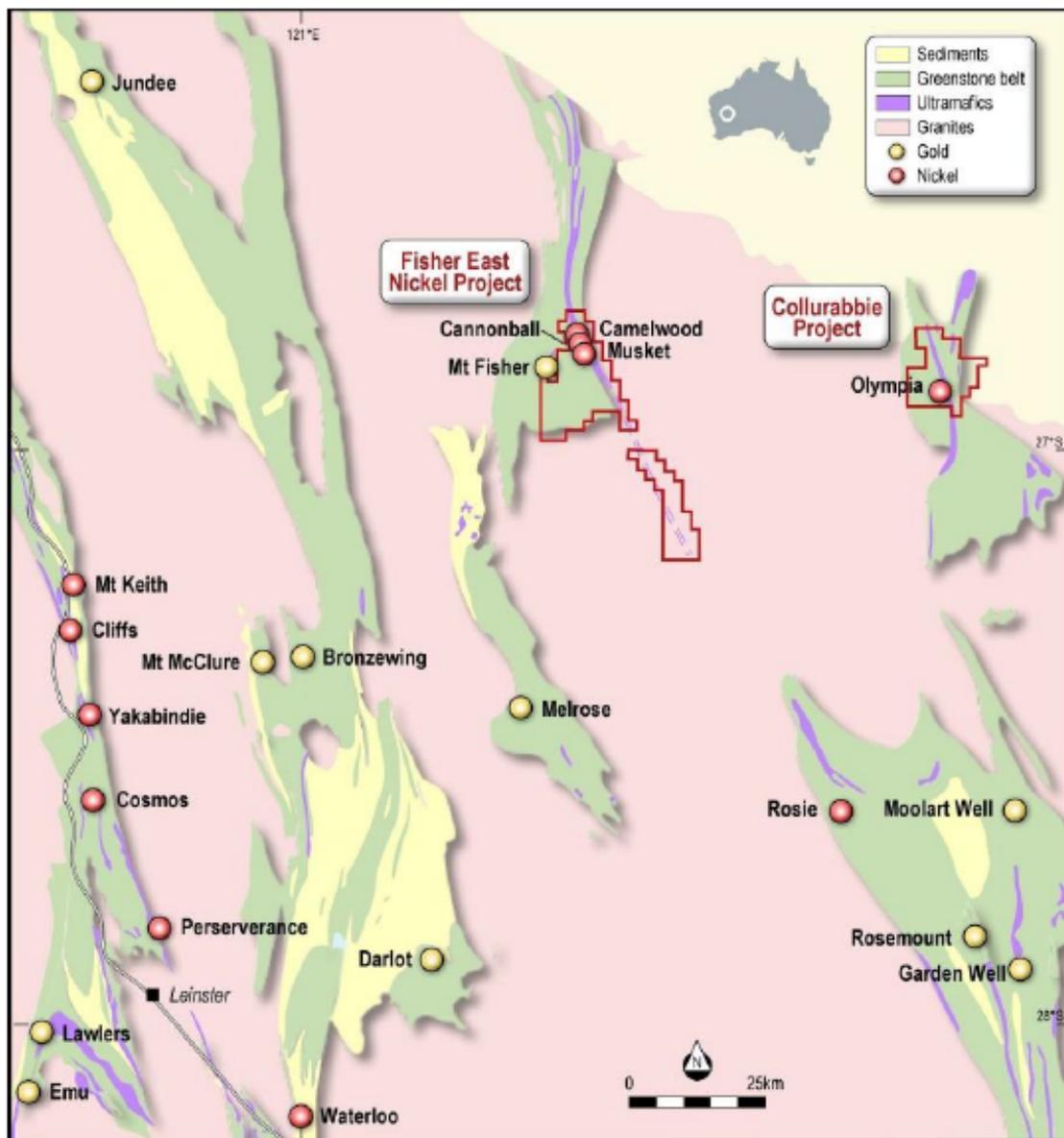


Figure 2: Project locations

Project Overview

CNR is a mineral exploration company that was established to implement the demerger by RXL for the purposes of maximising the value of its Fisher East Nickel Project and its Collurabbie Nickel Project.

Indicative Allocation of Funds	Year 1 post-Admission	Year 2 post-Admission	Total Allocation	Percentage of Funds
Exploration – Fisher East Project ¹	\$1,260,000	\$1,650,000	\$2,910,000	49%
Exploration – Collurabbie Project ¹	\$530,000	\$650,000	\$1,180,000	20%
Working capital ²	\$605,231	\$605,230	\$1,210,461	19%
Repayment of Rox Expenses Loan ^{3, 4}	\$309,539	-	\$309,539	5%
Estimated costs of the Offers, excluding amount paid by Rox ^{3, 4}	\$390,000	-	\$390,000	7%
Total	\$3,094,770	\$2,905,230	\$6,000,000	100%

Fisher East Project

The Fisher East Project is located approximately 430km north of Kalgoorlie and includes 11 granted exploration licences within the north-eastern Goldfields region of Western Australia. Historical exploration at the project has focused on three nickel deposits - Camelwood, Cannonball and Musket - where a combined Mineral Resource estimate of 4.2Mt at 1.9% nickel has been estimated at a 1.0% Ni cut-off (Indicated Mineral Resource: 3.7Mt grading 1.9% Ni, Inferred Mineral Resource: 0.5Mt grading 1.5% Ni) - comprising massive and disseminated nickel sulphide mineralization for a contained 78,000 tonnes of nickel.

The Fisher East Project also hosts significant additional nickel exploration targets at multiple prospects within the basal contact of the greenstone belt, with mineralisation identified to date consisting of massive, matrix and disseminated nickel sulphides. These additional targets include the partly-drilled Sabre prospect, where an exploration target has been defined based on wide-spaced drilling and geophysical surveys.

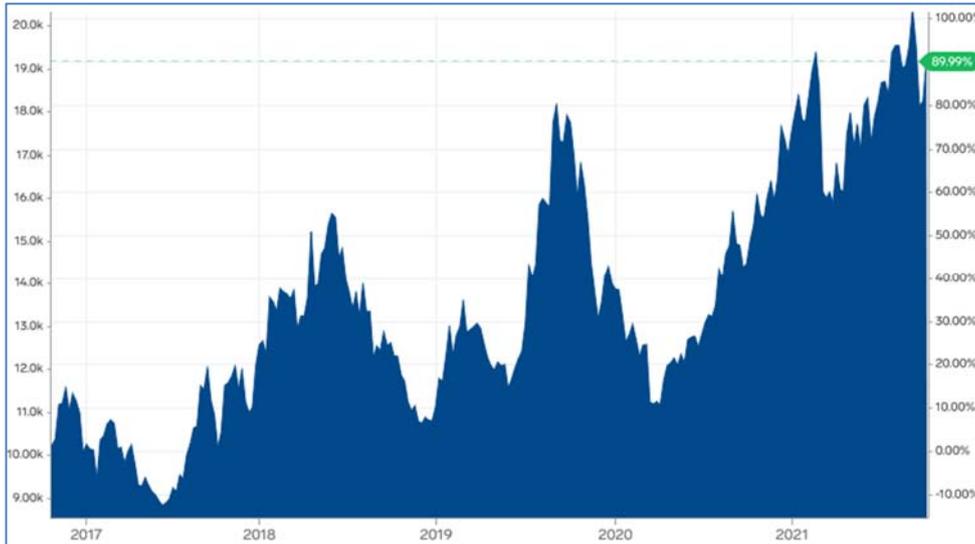
Collurabbie Project

The Collurabbie Project is located approximately 65km to the east of the Fisher East Project and consists of three granted exploration licences. Previous exploration has resulted in a JORC 2012 intrusive nickel copper cobalt PGE Mineral Resource estimate of 0.573Mt at 1.63% nickel, 1.19% copper; 0.082% cobalt, 1.49g/t palladium and 0.85g/t platinum, at Olympia.

The Collurabbie Project presents considerable potential for additional intrusion-related base metal mineralization, along with gold exploration potential.

Nickel Price Overview

The graphic below reflects the spot price of nickel over the past five years – a very positive chart indeed. In fact, nickel prices have reached a seven-year high, with warehouse inventory levels dropping rapidly and demand remaining relatively robust despite China energy issues.



The key driver in all of this is China’s booming stainless steel sector, which has registered year-on-year growth of 37%. At the same time electric vehicle battery demand is starting to gain physical traction in the nickel market, as evidenced by China’s imports of nickel sulphate, which are used in battery manufacturing.

Interestingly, Goldman Sachs projected a 48,000-tonne global supply surplus for 2021 at the start of the year, however it now forecasts a 72,000-tonne deficit thanks mostly to expanded demand expectations.



Summary

Cannon Resources (ASX: CNR) is a useful addition to our coverage Portfolio, given its exposure to base and precious metals, allowing us to keep track of the spun-out exploration assets of RXL. The stand-alone status of these assets within CNR will help facilitate a comprehensive appraisal program, which ideally will be able to build upon the resource base that's already been established at the Fisher East nickel project and the Collurabbie PGE project.

It's only been a matter of a couple of months since CNR's listing and we're already seeing results. The targeted drilling program at Fisher East has been successful in defining the mineralisation trends and will facilitate ongoing drilling to grow the nickel resource beyond its current limits. Importantly the company's Musket nickel resource remains open down-plunge and laterally to the north.

CNR remains firmly within our coverage Portfolio as we await further assay results from the current drilling program.

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