

QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2020

Highlights

- **The process to advance the Mining Concession and other key permits is progressing with no new material matters raised:**
 - **Administrative authorisations for the high voltage power supply granted.** The Government of Navarra granted the administrative authorisation for construction of the high voltage electrical supply from Sangüesa to the planned portal substation on site
 - **Public exposition of the Mining Concession ended 29 August 2020.** The public review period for the presentation of the Mining Concession documentation concluded at the end of August as per the expected permitting timeline, with relatively few questions and requests made and no new material matters raised
 - **Answers submitted by the Company to the authorities with regards to the public exposition.** Authorities are now reviewing the reports submitted by the Company regarding to the questions and submissions that resulted from the public exposition
- **The engineering and design of the Muga Project** is advancing in line with our internal plan and the Company expects to be ready to issue all documentation to our construction partner by year end
- To date the Company has already signed non-binding MOUs representing more than its full Phase-1 production capacity for potash and salt and it is confident the Project is **ready to proceed from the sales and marketing readiness** perspective
- **The Company has started to re-engage with brokers, financial advisors, banks and investors to prepare for the financing of the Project**
- **The Company is undertaking several initiatives to preserve cash while prioritising efforts to advance the Project:**
 - Contract for the purchase of a Joy miner bolter signed with Komatsu. This represents a significant contract award and a critical step in developing the Muga Project towards production
 - A review of all consultants working for the Group together with a general review of corporate costs and, for certain low impact procurement items, negotiation of vendor delivery of engineering drawings averting the immediate commitment and initial payment of the equipment or detailed design progressing internally
- **Minimal impact of Covid-19 on Group to date.** All staff have returned to the office on a rotation basis. However, the Government of Navarra has just advised that a new 14-day Covid-19 related regional lockdown will be implemented as of the 22 October 2020
- Cash at bank as at 30 September 2020: A\$25.5m

Highfield Resources Limited
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ASX: HFR

Issued Capital
329.6 million shares
34.99 million options

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Muga Project

Overview

Spanish potash developer Highfield Resources (ASX: HFR) (“Highfield” or “the Company”) is pleased to provide the following quarterly activities update, for its activities and those of its wholly owned Spanish subsidiary Geoalcali S.L.U. (“Geoalcali”, together the “Group”), for the period ended 30 September 2020.

The Company’s flagship Muga Project (“Muga” or “the Project”) is targeting relatively shallow sylvinite beds, across approximately 60km² located in the Provinces of Navarra and Aragón. Once operational, the Muga Mine is planned to commence mining at a depth of approximately 350 metres from surface and is therefore ideal for a relatively low-cost conventional mine.

The Vipasca Permit Area (“Vipasca”) (see Figure 4) is located adjacent to Muga and covers approximately 27km². Some areas of the tenement are highly prospective for economic potash mineralisation, with a primary focus on the deeper, higher grade potash horizons.

Muga Project: Approvals Process

On 11 September 2020 (refer ASX release 17 September 2020, “*Muga Project Permitting Update*”), the Industry Department of the Government of Navarra granted the administrative authorisation for construction of the high voltage electrical supply from Sangüesa to the planned principal substation on site, including the substation. On 15 September 2020 (refer ASX release 17 September 2020, “*Muga Project Permitting Update*”), the Industry Department of Spain’s central government granted the complementary authorisation for the continuation of the high voltage connection from the principal substation up to and including the planned portal substation.

Notwithstanding the normal local construction licences, and subject to the issue of the mining concession, these authorisations are the essential approvals necessary to proceed with the construction of the overhead lines and substations that will provide grid power to the Muga Mine.

Following extensive engagement with the relevant mining authorities in Madrid, Aragón and Navarra after the submission of the Mining Concession documentation on 13 March 2020 (refer ASX release 16 March 2020, “*Muga Project – Mining Concession Documentation Submitted*”) the public exposition process started on the 4 July 2020 soon after the end of the Covid-19 state of alarm was lifted in Spain.

On 29 August 2020 (refer ASX release 1 September 2020, “*Muga Project Permitting Update*”) the public review period process ended as per the expected permitting timeline. In the quarter the Company has submitted answers to questions raised during the public exposition process, the authorities are now focusing on reviewing reports submitted by the Company.

The granting of the Mining Concession is a key step in the critical path to construction.

Muga Project: Engineering and Design Update

During the quarter, the Company signed a purchase contract with Komatsu for a Joy miner bolter on 29 September 2020 (refer ASX release 30 September 2020, “*Purchase Contract Signed for a Joy Miner Bolter from Komatsu*”). Entering into the contract with Komatsu now will allow the miner bolter to be delivered, assembled and ready to excavate and construct decline portals following the completion of site preparation activities. A deposit payment will be made subsequent to contract signing.

The Company’s decision to buy a Joy miner bolter and lease two roadheaders will provide operational flexibility, reduce decline construction risk. In addition leasing machinery will support the pre-financing cash preservation exercise the Company is currently undertaking.

The engineering and design of the Muga Project is advancing in line with our internal plan and the Company expects to be ready to issue all documentation to our construction partner by year end.

The key areas covered by engineering are the:

- a) design of the plant islands, earthworks and urbanization;
- b) tailings dewatering and backfilling system; and the
- c) access ramps.

In the quarter, the detailed design of the plant islands, earthworks and urbanization has continued towards substantial completion of the design stage which is planned for the next quarter. Work to optimise the cost effectiveness of the design where possible is ongoing. The principal equipment suppliers are providing engineering details to enable design to proceed in anticipation of instructions to proceed with manufacture which will be issued closer to the start of construction.

K-Utec Salt Technologies AG have completed the basic engineering for the tailings dewatering and backfilling system, and the contract for the detailed engineering has been awarded to IDOM Consulting, ensuring continuity.

The detailed design of the access ramps is proceeding and experienced Spanish mining consultants, Igan Ingeniería s.l., have been appointed during the quarter to consult on the detailed mine design and infrastructure design.

The geotechnical drilling and other site investigation work which commenced in June 2020, is progressing well. The investigation works have been extended to the location of the proposed off-site electrical substation and consist of a series of shallow drill holes and inspection pits to provide confirmation of specific ground conditions for the final detailed design of foundations and bulk earthmoving. The programme was substantially complete by the end of the quarter.

Muga Project Sales and Marketing Update

Geoalcali continues to engage in ongoing offtake discussions with other potential wholesale customers, distributors and global traders for the entire production capacity of muriate of potash and salt from the Muga Mine.

The Company has already signed non-binding MOUs representing more than its full Phase 1 capacity for potash and salt and is confident the Project is ready to proceed from a sales and marketing readiness perspective.

Muga Project Financing

Highfield remains confident of securing the necessary debt and equity financing for Muga, which will support a final investment decision and the commencement of construction at the Company's flagship project.

The Company has started to re-engage with brokers, financial advisors, banks and investors to prepare for the financing of the Project.

P.I. Muga Tenement Area Exploration Update

Site preparation for drill hole J14-09 at P.I. Muga, a tenement abutting the Muga Project area (see Figure 5) commenced at the end of the quarter, drilling started in early October and is expected to be completed in the December quarter.

Corporate

All staff members have returned to the office in the months of July and August on a rotation basis respecting all the Covid-19 requirements from the World Health Organization and the Spanish Government. On the 19 October 2020, the Government of Navarra advised that a new 14-day Covid-19 related regional lockdown will be implemented as of the 22 October 2020. The Company expects to continue office

presence on a rotation basis. The Company continues to monitor the situation closely as its primary aim is the safety and wellbeing of all employees and stakeholders.

The Company would also like to advise that on the 31 October 2020 Mr John Claverley Project Director and Head of Project Delivery will retire from his role. Mr Claverley brought over 30 years of in-depth Spanish and international construction and infrastructure project management and design experience to the Project. Over the past seven years, his wide experience of business operations in Spain and strategic corporate management have been valuable in progressing many aspects of the Project, and particularly the engineering of the Muga Mine. Mr Claverley's retirement coincides with the completion of large parts of the engineering with any outstanding work passing on to the Company's Construction Director, Mr Leonardo Torres-Quevedo.

The Company is undertaking a cash preservation exercise, especially important in the pre-financing period, including the new strategy to the miner bolter as already explained, Directors receiving 25% of their remuneration in shares, a review of all consultants working for the Group, a general review of corporate costs and, for certain low impact procurement items, the negotiation of vendor delivery of engineering drawings averting the immediate commitment and initial payment of the equipment or detailed design progressing.

Pintanos Tenement Area

Geoalcali's 100% owned Pintanos tenement area, comprising the three permits of Molineras 1, Molineras 2 and Puntarrón (see Figure 1) is adjacent to the Muga Project covers an area of 65km². Depths from surface to mineralisation commence at around 500 metres. Geoalcali is building on a substantial database of historical potash exploration information that includes seven drill holes and ten seismic profiles completed in the late 1980s.

Geoalcali has re-initiated the application process for the drilling permit at Molineras 2, following the conclusion of the public consultation period. During 2019 Geoalcali responded to all comments received during the consultation period and continues to await the award of the permit.

The current priority for the Company is the development of Muga.

Sierra del Perdón Tenement Area

Geoalcali's 100% owned Sierra del Perdón tenement area ("SdP") comprising the three permits of Quiñones, Adiós and Ampliación de Adiós (see Figure 1 and Figure 3) is located south east of Pamplona and covers approximately 120km². SdP is a brownfield target which previously hosted two potash mines operating from the 1960s until the late 1990s, producing nearly 500,000 tonnes of potash per annum.

There is potential for potash exploitation in new, unmined areas in the SdP area.

Geoalcali was advised in the fourth quarter of 2018 that the second three-year extension application for the Adiós and Quiñones permits had been rejected by the mining department of the Government of Navarra. The Company appealed this decision in 2019 and has so far not obtained a resolution. Based on local Spanish legal advice, the continued lack of a resolution to the appeal is not seen as a reflection on the merits of the appeal, nor does it represent a significant change with an adverse effect on the entity.

Drill hole AA-02 that was planned for this quarter has been delayed with Highfield focusing efforts on the Muga project.

Cash Position

The Company continues to prioritise work and purchase of equipment that are in the critical path to advance the Muga Project. As part of this process it signed a purchase agreement for a Joy miner bolter and will make an initial deposit payment during the fourth quarter 2020. Other commitments being made by the Company are presently limited to those where no payments are required to be made until the receipt

of the Mining Concession. In addition the Company is working to minimise overheads and consultant spend.

As at 30 September 2020, the Company had A\$25.5 million in cash.

Payments to Related Parties

As outlined in section 6 of the attached Appendix 5B, payments to related parties of the entity and their associates, totalling A\$132,000, relate to fees and salaries paid to Directors during the quarter.

Outlook and Strategy - Plans for December Quarter 2020

- Increase engagement and dialogue with all relevant authorities throughout the Mining Concession approval process.
- Ramp up discussions with brokers, investors, banks and other financial parties in preparation for the debt and equity financing for Muga.
- Finalise Project optimisation work and detailed design.
- Finalise preparation of sales and marketing work appropriate for financing requirements.
- Continued focus on cash preservation and cash management to maintain a strong financial position.
- Progress planning for construction and operational readiness.

This announcement has been authorised for release by the Directors of Highfield Resources Limited

For more information:

Highfield Resources Limited

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Figure 2: Artist impression of the Muga project

COMPETENT PERSONS STATEMENT FOR MUGA POTASH PROJECT

This report was approved by Mr Ignacio Salazar, CEO of Highfield Resources. The information in this report that relates to Ore Reserves is based on information prepared by Dr Mike Armitage, the Chairman of SRK Consulting (UK) Limited. Dr Mike Armitage is the Competent Person who assumes overall professional responsibility for the Compliance Opinion. The information in this report that relates to Mineral Resources, Exploration Results and Exploration Targets is based on information prepared by Ms Anna Fardell, Senior Consultant at SRK Consulting (UK) Limited, and Mr Tim Lucks Principal Consultant at SRK Consulting (UK) Limited.

Dr. Mike Armitage is employed by SRK Consulting (UK) Limited. The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled under the direction of Dr. Mike Armitage, who is a Member the Institute of Materials, Metals and Mining ("IMMM") which is a 'Recognised Overseas Professional Organisation' ("ROPO") included in a list promulgated by the Australian Securities Exchange ("ASX") from time to time.

Dr. Mike Armitage has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Dr. Mike Armitage consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

Ms. Anna Fardell is a Resource Geologist employed by SRK Consulting (UK) Limited, and has at least five years' experience in estimating and reporting Mineral Resources relevant to the style of mineralisation and type of deposit described herein. Ms. Fardell is a registered member of the Australian Institute of Geoscientists (6555) and is considered a Competent Person (CP) under the definitions and standards described in the JORC Code 2012.

Ms. Anna Fardell consents to the inclusion in this report of the matters based on her information in the form and context in which it appears.

COMPETENT PERSONS STATEMENT FOR MINERAL RESOURCES AND EXPLORATION TARGETS OTHER THAN MUGA MINERAL RESOURCES.

This report was approved by Mr Ignacio Salazar, CEO of Highfield Resources. The information in this report that relates to Mineral Resources, Exploration Results and Exploration Targets is based on information prepared by Mr José Antonio Zuazo Osinaga, Technical Director of CRN, S.A. and Mr Manuel Jesús Gonzalez Roldan, Geologist of CRN, S.A.

Mr José Antonio Zuazo Osinaga is a licensed professional geologist in Spain, and is a registered member of the European Federation of Geologists, an accredited organisation to which Competent Persons (CP) under JORC 2012 Code Reporting Standards must belong in order to report Exploration Results, Mineral Resources, Ore Reserves or Exploration Targets through the ASX.

Mr José Antonio Zuazo Osinaga has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as CP as defined in the 2012 edition of the JORC Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Mr José Antonio Zuazo Osinaga and Mr Manuel Jesús Gonzalez Roldan consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

Table 1: Summary of Mineral Interests as of 30 September 2020

Tenement area/Project	Region	Permit Name	Permit Type	Applied	Granted	First Extension Granted	Second Extension Granted	Ref #	Area Km2	Holder	Structure
Sierra del Perdón	Navarra	Quilones	Investigation	19/07/2011	Application in process	--	--	35760	22.88	Geoalcali SL	100%
Sierra del Perdón	Navarra	Adiós	Investigation	19/07/2011	Application in process	--	--	35770	59.40	Geoalcali SL	100%
Sierra del Perdón	Navarra	Ampliación de Adiós	Investigation	26/10/2012	14/02/2014	16/06/2017	--	35880	40.90	Geoalcali SL	100%
									123.18		
Vipasca	Navarra	Vipasca	Investigation	06/11/2013	11/12/2014	09/04/2018	--	35900	27.3	Geoalcali SL	100%
									27.3		
Muga	Navarra	Goyo (area under concession process)	Investigation	19/07/2011	24/12/2012	--	--	35780	14.79	Geoalcali SL	100%
Muga	Navarra	Goyo Sur	Investigation	25/07/2014	13/12/2019	--	--	35920	8.96	Geoalcali SL	100%
Muga	Aragón	Fronterizo (area under concession process)	Investigation	21/06/2012	05/02/2014	--	--	Z-3502/N-3585	8.7	Geoalcali SL	100%
Muga	Aragón	Muga (area under concession process)	Investigation	29/05/2013	07/04/2014	--	--	3500	15.08	Geoalcali SL	100%
Muga	Aragón	P.I. Muga (area outside concession process)	Investigation	29/05/2013	07/04/2014	25/09/2019	--	3500	5.32	Geoalcali SL	100%
Muga	Aragón	Muga Sur	Investigation	25/09/2014	30/06/2020	--	--	3524	7.28	Geoalcali SL	100%
									60.13		
Pintanos	Aragón	Molineras 10	Investigation	20/11/2012	06/03/2014	08/06/2020	--	3495/10	18.2	Geoalcali SL	100%
Pintanos	Aragón	Molineras 20	Investigation	19/02/2013	Pending	--	--	3495/20	16.8	Geoalcali SL	100%
Pintanos	Aragón	Puntarrón	Investigation	08/05/2014	Pending	--	--	3510	30.24	Geoalcali SL	100%
									65.24		
								Total	275.85		

Location: All permits are located in Spain.

Holder: All permits are held by Geoalcali S.L.U., a 100% owned Spanish subsidiary of Highfield Resources Limited.

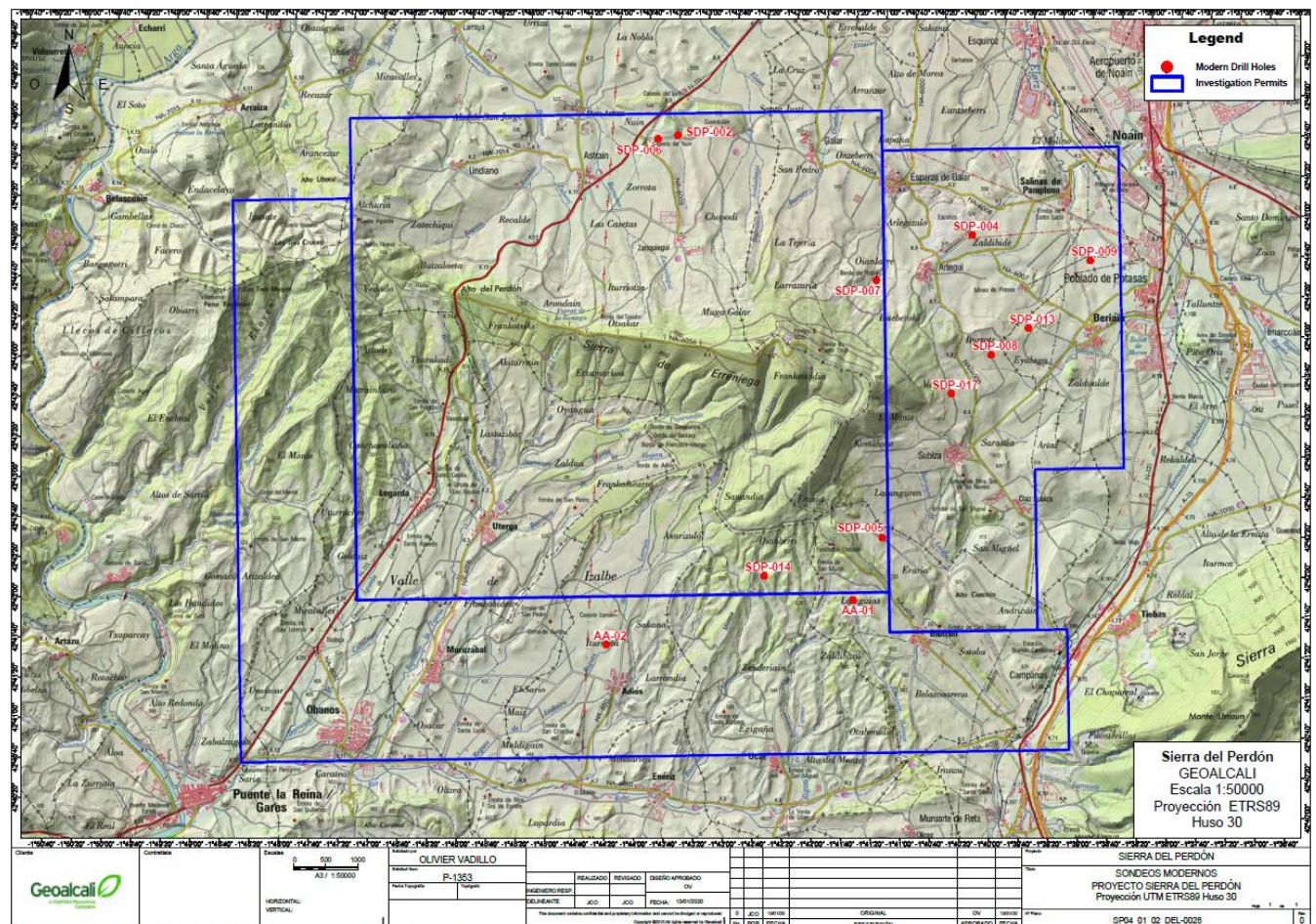
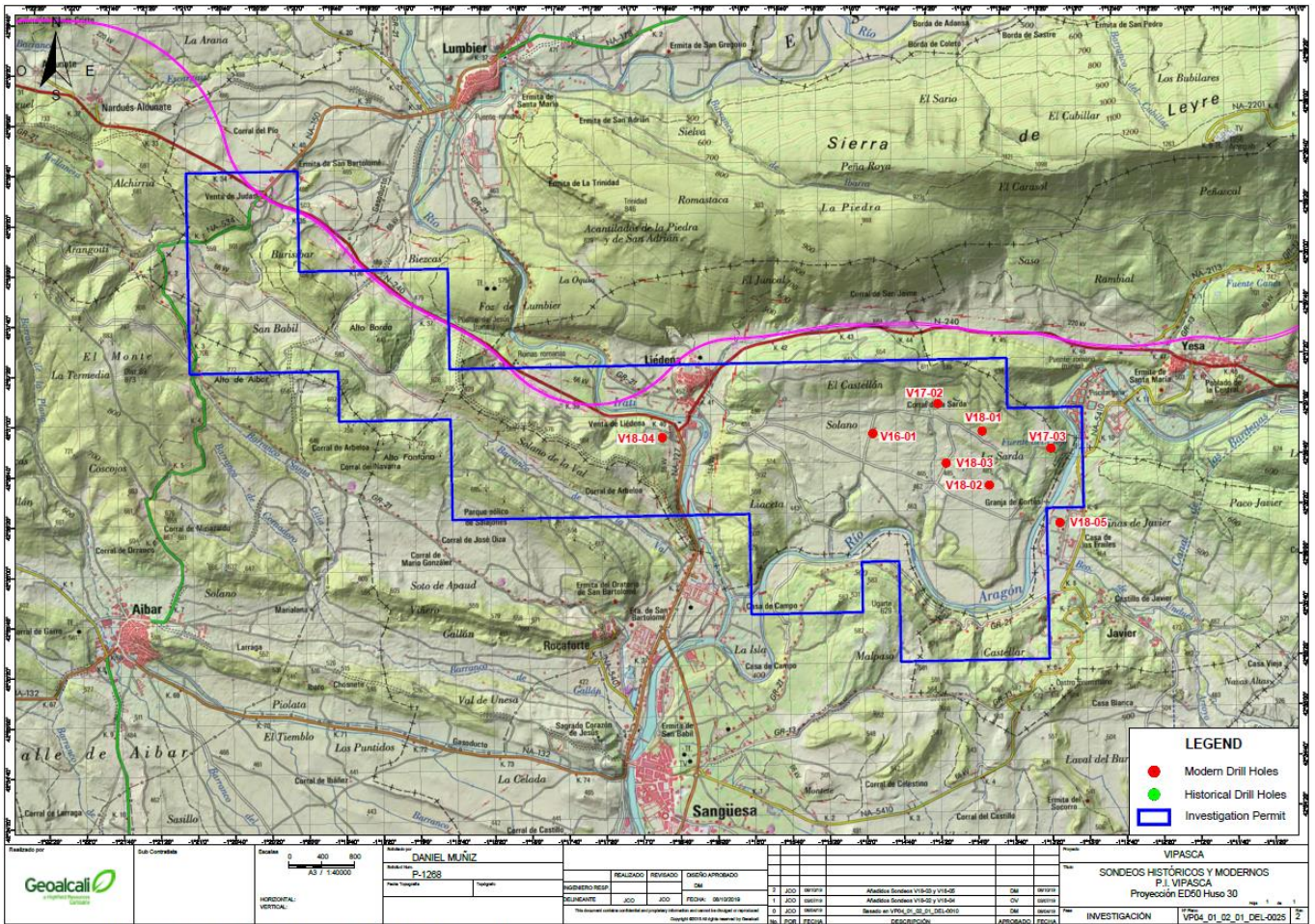


Figure 3: Location of Sierra del Perdón drill holes



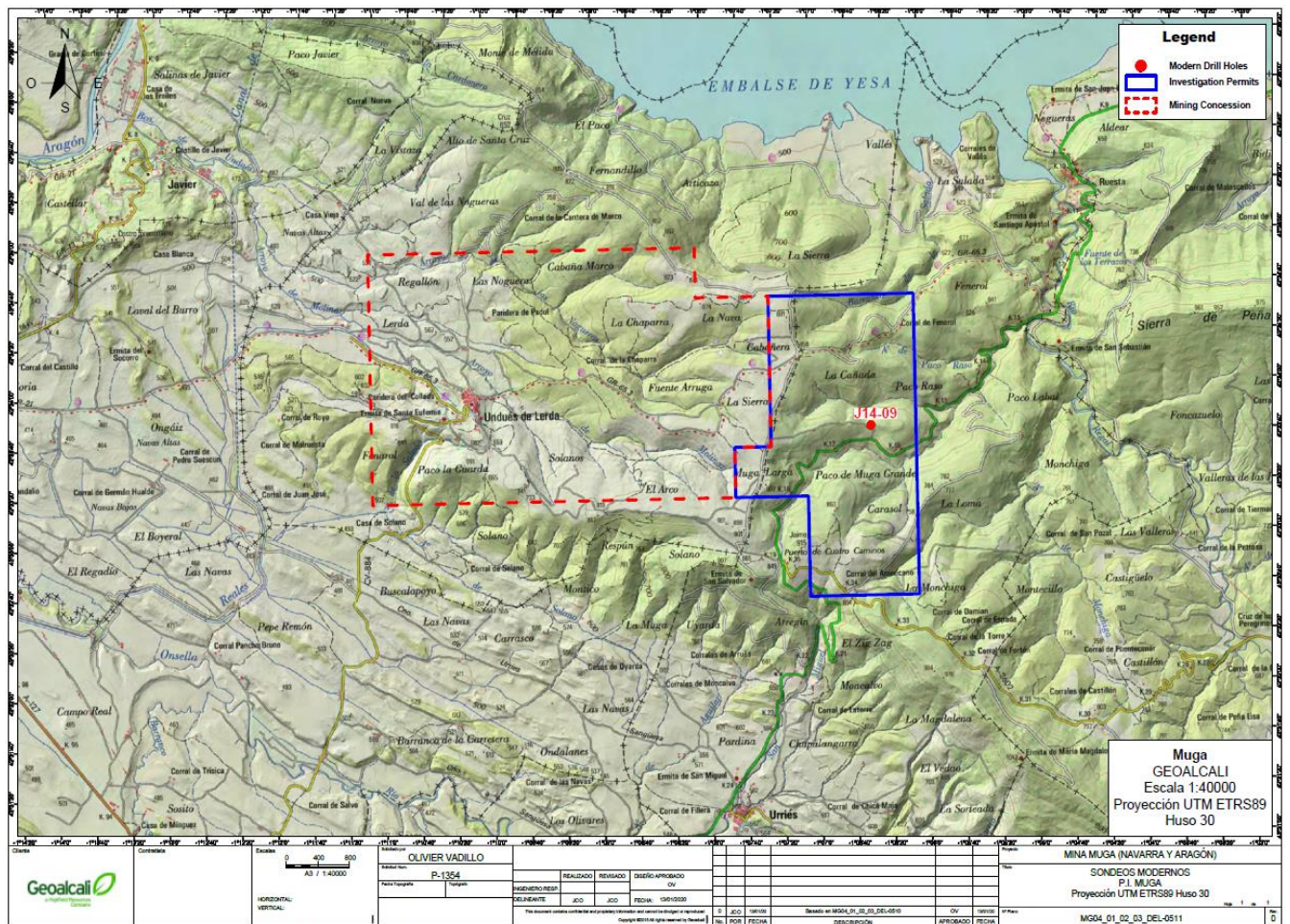


Figure 5: Location of P.I. Muga drill hole

Appendix 5B

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

Name of entity

HIGHFIELD RESOURCES LIMITED

ABN

51 153 918 257

Quarter ended ("current quarter")

30 September 2020

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers		
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	(16)	(529)
	(b) development		
	(c) production		
	(d) staff costs	(700)	(2,750)
	(e) administration and corporate costs	(307)	(1,469)
1.3	Dividends received (see note 3)		
1.4	Interest received		
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Government grants and tax incentives		
1.8	Other (GST/VAT refunded)	492	1,916
1.9	Net cash from / (used in) operating activities	(531)	(2,832)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment		(8)
	(d) exploration & evaluation (if capitalised)	(2,875)	(12,956)
	(e) investments		
	(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment		
	(d) investments		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(2,875)	(12,964)

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

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	28,719	39,980
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(531)	(2,832)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,875)	(12,964)
4.4	Net cash from / (used in) financing activities (item 3.10 above)		

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	161	1,290
4.6	Cash and cash equivalents at end of period	25,474	25,474

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	25,474	28,719
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	25,474	28,719

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

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

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Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

The above payments relate to fees and salaries paid to Directors during the quarter.

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

7. Financing facilities		Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>			
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>			
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities		
7.5	Unused financing facilities available at quarter end		
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(531)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(2,875)
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(3,406)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	25,474
8.5	Unused finance facilities available at quarter end (Item 7.5)	
8.6	Total available funding (Item 8.4 + Item 8.5)	25,474
8.7	Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	7.48
8.8	If Item 8.7 is less than 2 quarters, please provide answers to the following questions:	
1.	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer:	
2.	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer:	
3.	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer:	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 22 October 2020

Authorised by: the Board of Highfield Resources Ltd.

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.