

## **HIGHFIELD SECURES US\$6M TO ADVANCE MUGA POTASH MINE TOWARD CONSTRUCTION**

### **HIGHLIGHTS**

- Highfield Resources (“Highfield” or the “Company”) has secured a US\$6 million investment from existing strategic shareholders funds managed by EMR Capital Management Limited (“EMR Capital”), Tectonic Investment Management (“Tectonic”), and from another institutional investor.
- The investment will be in the form of convertible notes issued on similar terms to the issuance of convertible notes announced by the Company in May 2023.
- Funds will be substantially used to enable Highfield to finalise discussions with potential strategic partners, to fund debt funding costs, pre-construction costs and for working capital.
- The Company remains focused on completing remaining Phase 1 funding to commence construction of the Muga-Vipasca Potash Mine in early CY2024.

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Highfield Resources (ASX: **HFR**) is pleased to announce that it has secured an investment of US\$6 million (which equates to approximately AU\$8.9 million) from existing strategic shareholders, EMR Capital and Tectonic and another institutional investor (together, the “**Lenders**”) under a convertible note deed, entered into between the Company and the Lenders (the “**CND**”). The Company expects that this investment will enable activities associated with advancing the Project (as defined in Annexure A) and to finalise discussions with potential strategic partners.

### **Investment Overview**

The Lenders have agreed to make the investment by way of limited security loan notes, convertible into fully paid ordinary shares in the Company (the “**Convertible Notes**” or “**Notes**”). Key terms for the Notes include:

- EMR Capital to invest US\$3 million, Tectonic AU\$3 million and another institutional investor US\$1 million;
- Maturity date of 22 June 2025;
- The Lenders may choose to convert all or some of the total amount outstanding Convertible Notes into fully paid ordinary shares in the Company (“**Shares**”) at any time;
- However, if the Convertible Notes remain outstanding at the time of first drawdown under the senior debt facility for the Project, the outstanding Convertible Notes amount shall mandatorily convert into Shares of the Company at the conversion price;
- The conversion price for the Convertible Notes is the lower of (i) a 25% discount to the price implied by a change of control transaction relating to the Company, (ii) the volume weighted average price of the Shares as traded on ASX over the 20 trading days prior to the date of the CND (**VWAP**), being A\$0.3147 per Share (“**Base Conversion Price**”), and (iii) a 10% discount to the price of any future equity securities capital raising undertaken by the Company (subject to a floor of AU\$0.1574);



- Each Note will bear interest at the rate of 14% p.a. provided that additional default interest of 4% p.a. will be payable while an Event of Default subsists. Interest on the investment will be paid in kind via addition to the Convertible Notes Amount; and
- The Convertible Notes are secured by the same share pledge that was granted in September 2023 for the previous investment, over all of the shares in and shareholder loans to, the Company's indirect wholly owned subsidiary Geoalcali S.L.U. (which owns the Project).

Further detail on the terms of the Convertible Notes is set out in Annexure A to this announcement. The issuance of the Convertible Notes is subject to the following conditions being satisfied:

- in respect of the Convertible Notes which are proposed to be issued to EMR Capital, the holders of Shares in the Company ("**Shareholders**") approving the issuance of the Convertible Notes to EMR Capital for the purposes of ASX Listing Rule 10.11 ("**Shareholder Approval**"); and
- in respect of all Convertible Notes, each senior secured creditor of the Company providing their written approval to the proposed issuance of the Convertible Notes under the CND ("**Creditor Consent**").

The issuance of the Convertible Notes to Tectonic and the other institutional investor does not require approval of Shareholders as it is being made in accordance with the Company's available placement capacity as a part of ASX Listing Rule 7.1. The issuance of the Convertible Notes to Tectonic is expected to occur on 25 January 2024. The issuance of the Convertible Notes to the other institutional investor is expected to occur on the business day following receipt of the Creditor Consent (which is, in turn expected to occur shortly).

The issuance of the Convertible Notes to EMR Capital remains subject to and conditional upon receipt of Shareholder Approval for the issuance of the Notes under ASX Listing Rule 10.11 at an extraordinary general meeting of the Company to be held in or about late January or early February 2024, pursuant to a notice of meeting to be despatched by the Company as soon as practicable after this announcement. If Shareholder Approval is granted, the Notes will be issued to EMR Capital following that meeting. In addition, the convertibility of the Convertible Notes issued to EMR Capital is subject to EMR Capital receiving approval from the Foreign Investment Review Board.

## Use of Funds

The proceeds of the investment are expected to facilitate the Company to continue to advance the Project and finalise discussions with potential strategic investors. Specifically, the funds will be used to meet costs including:

- Pre-development costs such as long lead-time items, land acquisitions, technical studies, construction taxes and preparation for construction;
- Project finance costs;
- Corporate G&A / working capital costs of the Company;
- Strategic investor due diligence and legal costs; and
- Transaction and financing costs.



**Commenting on the Investment, Highfield CEO, Ignacio Salazar, said:**

*"We are fortunate to have a number of existing strategic shareholders who continue to demonstrate strong support for the Company at a pivotal time as we focus on finalising a number of initiatives that will ultimately see the start of construction of the main facilities at Muga in the early part of 2024.*

*Concurrently, our focus remains on completing the remaining funding for Phase 1 operations, the culmination of which is expected to deliver a major value inflection point for all stakeholders."*

**-ENDS-**

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

For more information, contact:

**Ignacio Salazar**  
**Chief Executive Officer**

+34 948 050 577

[ignacio.salazar@highfieldresources.com.au](mailto:ignacio.salazar@highfieldresources.com.au)

**Olivier Vadillo**  
**Investor Relations – Global**

+34 609 811 257

[olivier.vadillo@highfieldresources.com.au](mailto:olivier.vadillo@highfieldresources.com.au)

**Elvis Jurcevic**  
**Investor Relations – Australia**

+61 408 268 271

[ej@highfieldresources.com.au](mailto:ej@highfieldresources.com.au)



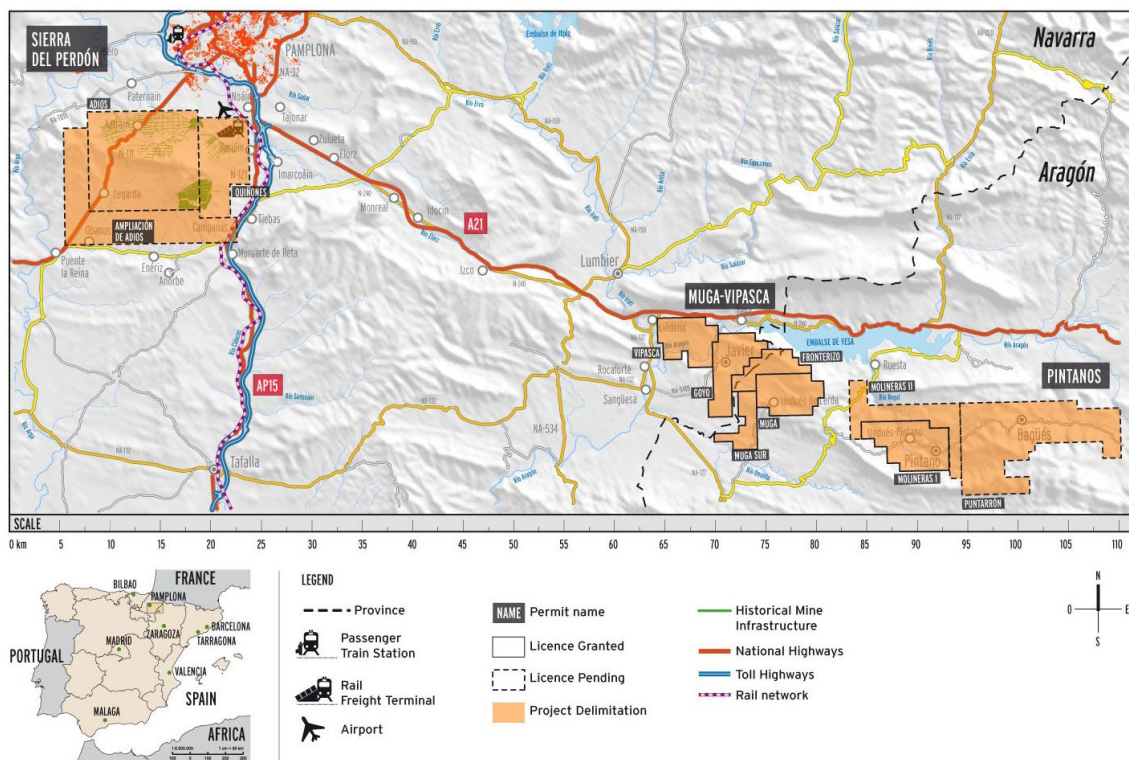
## About Highfield Resources

Highfield Resources is an ASX listed potash company which is focussing on the construction of its flagship low cost, low capex Muga Project in Spain having now received all permits and key licences needed. With the Mining Concession being granted in July 2021, the ramp construction licence in Aragón in June 2022 and the process plant construction licence in Navarra in March 2023. Following the finalisation of the initial site preparatory work of the mine gate and decline area, full scale construction is expected to commence in 2024.

Muga is a unique project – with shallow mineralization with no aquifers above it there is no need to build a shaft. There is quality and readily accessible infrastructure already in place in the region and importantly, the Muga Project is located in the heart of a European agricultural region which has a clear deficit in potash supply. In addition to Muga's secure southern European location, since February 2022 events in Russia and Belarus and more recently conflicts in the middle east have heightened the awareness of the strategic value of the Muga Project for both Spain and the European Union.

Highfield's potash tenements (Muga-Vipasca, Pintanos, and Sierra del Perdón) are located in the Ebro potash producing basin in Northern Spain, covering an area of around 250km<sup>2</sup>.

## LOCATION OF MUGA-VIPASCA, PINTANOS, AND SIERRA DEL PERDÓN TENEMENT AREAS IN NORTHERN SPAIN





## **About EMR Capital Management Limited**

EMR Capital is a specialist resources private equity manager with extensive operational experience and a proven track record in successful mining operations, development, investment and with deep linkages in the Asian and global markets.

## **About Tectonic Investment Management**

Tectonic Investment Management (Tectonic) is a boutique investment manager based in Kingscliff, Australia. Tectonic is 100% independent and owned by the investment team.

Tectonic focuses on investing into fast-growing, high quality businesses that will be future market leaders and has been a long-term supporter of Highfield over the years first entering the stock following the receipt of the Environmental approval in 2019.



## Annexure A – Convertible Notes - Key Terms

Item	Term	Description
1.	Amount to be raised	Approximately AU\$8.9 million comprising US\$3 million from the EMR noteholders ( <b>EMR Parties</b> ), AU\$3 million from Tectonic and US\$1 million from another institutional investor ( <b>Loan Amount</b> ) to be paid in full (in US\$ by the EMR Parties and the other institutional investor and in AU\$ by Tectonic) on the relevant issue dates for the Notes.
2.	Condition precedent to issuance of Notes	In the case of the issuance of the Notes to the EMR Parties, the issuance of the Notes will be conditional on receipt of Shareholder Approval for the issuance of the Notes to the EMR Parties.  In respect of the issuance of all Notes, receipt of the Creditor Consent.
3.	Conditions precedent to the grant by the Company of an EMR Parties' right to convert the Notes	Receipt of approval from the Foreign Investment Review Board ( <b>FIRB</b> ) for the issuance of Shares on conversion Notes to the EMR Parties. If FIRB approval is not received, the Notes issued to the EMR Parties will be cash-settled by the Company.
4.	Class and status of security to be issued to the Noteholders	Subject to the satisfaction of the conditions in Item 5 below, the Notes will be secured convertible notes which are convertible into Shares, and redeemable, as set out below.  Shares issued on conversion of the Notes will be fully paid and will rank pari passu in all respects with the Shares on issue in the Company as at the date of conversion.
5.	Security to be granted	The Notes are secured by way of the pledge, granted in September 2023, over all of the shares and shareholder loans which the Company indirectly holds (via its wholly owned subsidiary KCL Resources Limited ACN 150 161 658 ( <b>KCL</b> )) in its wholly-owned subsidiary Geoalcali S.L.U. ( <b>Geoalcali</b> ) (which owns the Muga Muriate of Potash Project ( <b>Project</b> ) located in the provinces of Navarra and Aragon, Spain).
6.	Arrangement fee	The Company will pay 2% of the Loan Amount (in kind via the issue of more Notes) on the date of issuance of the relevant Notes.
7.	Use of proceeds	The Loan Amount must be used by the Company for: <ul style="list-style-type: none"> <li>■ Pre-development costs such as long lead-time items, land acquisitions, technical studies, construction taxes and preparation for construction;</li> <li>■ Project finance costs;</li> <li>■ Corporate G&amp;A / working capital costs of the Company;</li> <li>■ Strategic investor due diligence and legal costs; and</li> <li>■ Transaction and financing costs.</li> </ul>
8.	Maturity date	22 June 2025 ( <b>Maturity Date</b> ).
9.	Coupon	Each Note will bear interest at the rate of 14% p.a. provided that additional default interest of 4% p.a. will be payable while an Event of Default (defined in Item 18 below) subsists (together the <b>Interest Rate</b> ).  Interest will: <ul style="list-style-type: none"> <li>■ accrue at the relevant Interest Rate(s) from the issue date up to and</li> </ul>



Item	Term	Description
		<p>including the date on which the Notes are converted or redeemed;</p> <ul style="list-style-type: none"> <li>■ be calculated and capitalised and added to the total amount outstanding by the issue of new Notes on a quarterly basis; and</li> <li>■ be payable in kind on conversion or redemption (to the extent not already paid).</li> </ul>
10.	Voluntary pre-payment	<p>The Company may prepay the Loan Amount (together with all outstanding interest) (<b>Outstanding Amount</b>) in full prior to the Maturity Date with at least 20 business days' notice to the Noteholders and payment of the applicable Prepayment Make-Whole Amount (as defined in Item 11 below) (<b>Voluntary Prepayment</b>).</p> <p>The Noteholders may choose to forgo any election by the Company to prepay the Outstanding Amount and instead elect to convert the Outstanding Amount to Shares at the Conversion Price (defined at Item 15 below).</p>
11.	What is the pre-payment make-whole amount	<p>An amount equivalent to the remaining scheduled interest payments that would have been accrued if the Loan Amount had been in place until the Maturity Date, and assuming that the interest payment on each date would have capitalised in accordance with the CND (<b>Prepayment Make-Whole Amount</b>).</p>
12.	Redemption	<p>Repayment in full of any Outstanding Amount owing must be made at the Maturity Date, provided that the Noteholders have not elected to convert the Notes (or notified the Company of its intention to do so) prior to the Maturity Date.</p>
13.	Conversion of Notes	<p>Subject to Item 14 below, the Noteholders may choose to convert all or some of their Notes into Shares at any time from the date of issue of the Notes until the Outstanding Amount has been repaid in full.</p>
14.	Restrictions on conversion of Notes	<p>If all or some of a conversion of Notes issued to the EMR Parties is not possible for regulatory reasons (including FIRB approval not having been received and the EMR Parties not being able to rely on the 'creep' provisions in item 9 of section 611 of the Corporations Act) (<b>Creep Capacity</b>), that part of a conversion will be cash-settled by the Company such that the EMR Parties will receive the equivalent value in cash that it would have realised if Shares had been issued to the EMR Parties on conversion of their Notes at the Conversion Price (defined at Item 15 below) and sold immediately at the applicable Conversion Price, provided that, in such circumstances, the EMR Parties may only voluntarily convert on an Event of Default (defined at Item 18 below), a Change of Control (defined at Item 17 below) or on the Maturity Date (<b>Conversion Restriction</b>).</p> <p>The Conversion Restriction will not apply if the EMR Parties do not have sufficient Creep Capacity but Chapter 6 Approval (defined below) has been obtained. The EMR Parties may at any time request that the Company seek Chapter 6 Approval and the Company will convene a meeting of its Shareholders to seek such approval.</p> <p><b>Chapter 6 Approval</b> means approval by Shareholders of the conversion of the Notes into Shares under item 7 of section 611 of the Corporations Act.</p>





Item	Term	Description
15.	Conversion price	<p>The conversion price will be equal to the Outstanding Amount attributable to the Notes being converted divided by the lower of:</p> <ul style="list-style-type: none"> <li>■ A\$0.3147, being the VWAP of the Shares as traded on ASX over the 20 trading days prior to the date of the CND;</li> <li>■ if a Change of Control Trigger Date (defined at Item 17 below) occurs, a 25% discount to the implied valuation per Share from the relevant Change of Control Trigger Date transaction; and</li> <li>■ if the Company undertakes a new issuance of securities, a 10% discount to the lowest issue price or exercise price (as applicable) of any Security issued in the new issuance provided that: <ul style="list-style-type: none"> <li>○ if such price is to be determined by reference to the application of a formula or other variable feature then the issue price will be determined by the application of such formula or variable feature or as if the relevant event had occurred as at the time of issue of the relevant Securities; and</li> <li>○ if such price is lower than the Floor Price, the conversion price shall be the Floor Price.</li> </ul> </li> </ul> <p>This limb can operate on more than one occasion, (the <b>Conversion Price</b>).</p>
16.	Mandatory conversion of Notes	<p>If any Outstanding Amount balance remains owing at the time of first drawdown under the Company's senior debt facility financing for the Project, the Outstanding Amount (excluding any Prepayment Make-Whole Amount) will mandatorily convert into Shares at the Conversion Price, unless, in respect of the EMR Parties, the Conversion Restriction applies in which case the Notes held by the EMR Parties will be redeemed to the extent not able to be converted because of the Conversion Restriction.</p>
17.	Change of Control	<p>If a Change of Control Trigger Date (as defined in the CND) occurs, the Noteholders may (if they have not converted all of their Notes prior to then), by not less than 15 business days' notice to the Company require repayment of Outstanding Amount. If a Change of Control Trigger Date occurs prior to Maturity Date, the Prepayment Make-Whole Amount is payable.</p>
18.	Events of default	<p>The CND includes customary events of default for a transaction of this nature, including, but not limited to:</p> <ul style="list-style-type: none"> <li>■ insolvency of the Company, KCL or Geoalcali;</li> <li>■ any payment default under the CND;</li> <li>■ material breach (after relevant cure period exhausted) of other obligations under the CND;</li> <li>■ cross default of any financial indebtedness of the Company or its subsidiaries where the amount owed under the financial indebtedness exceeds \$1,000,000;</li> <li>■ the Company's senior facility agreement is cancelled or terminated;</li> <li>■ the Company takes any action that is designed to have the effect of terminating its listing on ASX;</li> <li>■ the key Project permit is revoked;</li> <li>■ the Company, Geoalcali or both decide to discontinue the Project;</li> </ul>





Item	Term	Description
		<ul style="list-style-type: none"> <li>■ the Company receives any written notification from ASX that ASX is contemplating terminating its listing;</li> <li>■ an Issuer Group Member (as defined in the CND) breaches in a material respect any representation or warranty given in a Transaction Document (as defined in the CND);</li> <li>■ a Transaction Document is or becomes void or unenforceable in any material respect;</li> <li>■ Geoalcali ceases to be a wholly owned direct subsidiary of KCL or KCL ceases to be a wholly owned direct subsidiary of the Company;</li> <li>■ compulsory acquisition of all or a material part of the assets of the Company by a government agency; and</li> <li>■ any event or circumstance occurs which has or would have a Material Adverse Effect (as defined in the CND),</li> </ul> <p>(the <b>Events of Default</b>).</p>
19.	Quotation	The Notes will not be listed on ASX or any other exchange.
20.	Voting rights	The Notes will not confer the right to vote at any board or Shareholder meeting of the Company.
21.	Participation	The Notes do not confer a right on the holder of the Notes to participate in any issue of securities of the Company.
22.	Adjustment provisions	Standard adjustment provisions to the Conversion Price to deal with rights issues, placements, buybacks, share splits or consolidations, and other corporate events included in the CND.
23.	Transfer of Notes	The Noteholders shall not assign or transfer any of its rights or obligations under the CND and associated documentation without the Company's consent (such consent not to be unreasonably withheld) except in case of an Event of Default which is continuing or a transfer to an affiliate, in which case no such consent will be required.