

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OR TO ANY OTHER JURISDICTION WHERE SUCH RELEASE, PUBLICATION OR DISTRIBUTION WOULD BE PROHIBITED BY APPLICABLE LAW

21 February 2024

Notice under Section 708A(12C)(e) of the Corporations Act 2001 (Cth)

On 22 December 2023, Highfield Resources Limited ACN 153 918 257 (ASX:HFR) (**Highfield or Company**) announced that it had entered into a convertible note deed (**CND**) with each of Potash (MUGA) Investment Pte. Ltd (formerly EMR Capital Investment (No. 2B) Pte Ltd) (**EMR Fund 1**), EMR Capital GP III Limited in its capacity as general partner of EMR Capital Resources Fund III, LP (**EMR Fund III**)¹, Boutique Capital Pty Ltd as trustee for the Tectonic Opportunities Fund (**Tectonic**) and an institutional investor (**Institutional Investor**) (together, the **Noteholders**), pursuant to which the Noteholders had agreed to subscribe for, in aggregate, approximately US\$6 million (which equates to approximately A\$8.9 million) of unlisted limited security loan notes, convertible into fully paid ordinary shares in the Company (**Notes**).

Highfield has prepared this cleansing notice (**Notice**) for the purposes of section 708A(12C)(e) of the Corporations Act 2001 (Cth) (**Corporations Act**), as notionally inserted by ASIC Corporations (Sale Offers: Securities Issued on Conversion of Notes) Instrument 2016/82 (**Instrument 2016/82**), to permit freely tradable fully paid ordinary shares in the Company (**Shares**) to be issued on conversion of the Notes issued by the Company to the Noteholders.

The Notes which have been issued to EMR Fund 1 and EMR Fund III (**EMR Parties**) were subject to approval by the holders of Shares in the Company (**Shareholders**) at an extraordinary general meeting of the Company held on 9 February 2024 (**EGM**) (**Shareholder Approval**). Shareholder Approval was received at the EGM and the issuance of the Notes to the EMR parties occurred on the date of this notice. No shareholder approval is required for the issuance of the Notes to Tectonic or the Institutional Investor which subscribed for the Notes. The issuance of the Notes to the Institutional Investor took place on 29 December 2023 and the issuance of the Notes to Tectonic occurred on 25 January 2024.

The key terms and conditions of the Notes (and the agreement under which they are to be issued) are set out in Annexure B – *'Terms and conditions of the Notes'* of this Notice (**Terms and Conditions**). The Terms and Conditions of the Notes are similar to the terms and conditions of the issuance of the convertible notes announced by the Company in May 2023.

The Company confirms that:

- (a) the Notes have been or will be issued without disclosure under Part 6D.2 of the Corporations Act;
- (b) this Notice comprises a notice under section 708A(12C)(e) of the Corporations Act in respect of the Notes, as inserted by ASIC Instrument 2016/82; and
- (c) this Notice complies with section 708A(12D) of the Corporations Act as inserted by Instrument 2016/82.

¹ Funds managed by EMR Capital Management Limited, a Cayman Islands exempted company and a specialist resources focused private equity manager. EMR Fund 1 has the right to appoint, and has appointed, a nominee to the board of directors of the Company and, the EMR Parties therefore, are parties which would be caught by the ambit of ASX Listing Rule 10.11.3.



No offer

This Notice does not constitute an offer of any Notes for issue or sale, or an invitation to subscribe for or purchase any Notes and is not intended to be used in connection with any such offer or invitation.

Contents of this Notice

This Notice sets out information that the Company believes investors and their professional advisers would reasonably require to make an informed assessment of the effect of the issue of the Notes on the Company and summarises the rights and liabilities attaching to the Notes and the Shares that may be issued on conversion of the Notes.

Effect of issue of the Notes on the Company

The Notes have been or will be issued to the Noteholders without disclosure to investors under Part 6D.2 of the Corporations Act.

The principal effects of the issue of the Notes on the Company are as follows:

- (a) the Company's cash reserves will be increased by approximately US\$3 million (for the Notes issued to the EMR Parties and approximately A\$8.9 million² for all Notes (in each case, before costs associated with the issue of the Notes to the Noteholders);
- (b) the Company has issued an aggregate of 612 Notes to the Noteholders as follows:
 - (i) 51 Notes to EMR Fund I having a face value of US\$10,000 per Note;
 - (ii) 255 Notes to EMR Fund IIII having a face value of US\$10,000 per Note;
 - (iii) 306 Notes to Tectonic having a face value of A\$10,000 per Note; and
 - (iv) 102 Notes to the Institutional Investor having a face value of US\$10,000 per Note;
- (c) the Company's indebtedness was increased by the aggregate face value of the Notes, being approximately US\$3 million for the Notes issued to the EMR Parties and approximately A\$8.9 million² for all Notes, plus, in each case, all capitalised and accrued but uncapitalised interest; and
- (d) each Note bears 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 (together the **Interest Rate**). Interest on the investment will be paid in kind via addition to the amount advanced by the Lenders under the Notes;
- (e) the Notes are secured by the same share pledge that was granted in September 2023 for the previous May 2023 convertible note investment, 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 (**KCL**)) in its wholly-owned subsidiary Geoalcali S.L.U. (which owns the Company's Muga Muriate of Potash Project (**Project**)); and
- (f) if the Notes are converted, this will dilute the holdings of existing Shareholders. The effect of the conversion of the Notes on the Company's capital structure is shown in the table below.

The Notes are to convert into Shares at the lower of:

- A\$0.3147, being the volume weighted average price (**VWAP**) of the Shares as traded on ASX over the 20 trading days prior to the date of the CND (**VWAP Conversion Price**);

² Foreign exchange rate for conversion is US\$1.00 to A\$1.48.



- if a 'Change of Control Trigger Date' (as defined in the CND) occurs, a 25% discount to the implied valuation per Share from the relevant 'change of control' transaction; and
- if the Company undertakes any new issue of Securities (as defined in the CND) (other than (i) the Notes under the CND, and (ii) the issue of Shares on exercise of convertible securities on issue in the Company as at the date of the CND, or (iii) an issue which results in an adjustment under Term 8 of the CND (being adjustments arising as a result of, for example, reorganisations of the Company's share capital, bonus issues etc)) (**New Issuance**) between the date of the CND and the Maturity Date (as defined in the CND being 22 June 2025), a 10% discount to the lowest issue price or exercise price (as applicable) of any Security issued in the New Issuance provided that:
 - 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 as if the relevant event had occurred as at the time of issue of the relevant Securities; and
 - if such price is lower than 50% of the VWAP Conversion Price (**Floor Price**), the conversion price shall be the Floor Price.

This limb can operate on more than one occasion.

The Company notes that, while the first limb above is a fixed conversion price and there is a floor conversion price for the third limb above, there is technically no floor price under the second limb above (although the Company considers it unlikely that the price under that limb would be lower than under any other limb).

If the Company does undertake an issue of new Securities (which is the case that is covered by the third limb above), and such issuance triggers a lower conversion price than the one set up by the first limb of the conversion price formulation above, this would have the following dilutionary impact on the Company's shareholders, as illustrated in the table below (with calculations made in relation to the total amount of Notes of approximately A\$8.9 million).

Share price implied by 'potential new issue of securities'(A\$)	Conversion price (A\$)	Shares on issue as at the date of this Notice	Shares issued on conversion of Notes ¹	Total Shares on issue following conversion of Notes ¹	Dilutionary effect ^{1,2,3,4}
0.3462	0.3147	392,183,733	28,904,976	421,088,709	-6.9%
0.2594	0.2335	392,183,733	38,958,146	431,141,879	-9.0%
0.1727	0.157 (Floor Price)	392,183,733	57,938,827	450,122,560	-12.9%

Notes:

1. The above calculations do not contemplate conversion of any accrued interest as may be payable to the Noteholders (but does include the capitalisation of the arrangement fee described in the Terms and Conditions in Appendix B of this Notice). The Company will ensure that any further conversion of accrued interest is conducted in accordance with all applicable laws. The calculations assume a spot A\$:US\$ exchange rate of US\$0.67 to A\$1.00.
2. The issue of Shares on the conversion of any accrued interest will have a further dilutionary effect on Shareholders.
3. The above calculations do not contemplate conversion of existing unquoted options of the Company or convertible notes currently on issue and no other shares are issued prior to conversion.
4. The Notes are all converted in full.

Similarly, if there is a 'change of control' transaction and such a transaction triggers a conversion price of the Notes (given the operation of the second limb of the conversion price formulation above) which is lower than the other limbs' conversion price, this would have a dilutionary impact on the Company's Shareholders, as illustrated in the table below (with calculations made in relation to the total amount of Notes of approximately A\$8.9 million).



Share price implied by potential 'change of control' transaction (A\$)	Conversion price (A\$)	Shares on issue as at the date of this Notice	Shares issued on conversion of Notes ¹	Total Shares on issue following conversion of Notes ¹	Dilutionary effect ^{1,2,3,4}
0.3934	0.3147	392,183,733	28,904,976	421,088,709	-6.9%
0.2948	0.2211	392,183,733	41,139,802	433,323,535	-9.5%
0.1963	0.1570 (Floor Price)	392,183,733	57,938,827	450,122,560	-12.9%

Notes:

1. The above calculations do not contemplate conversion of any accrued interest as may be payable to the Noteholders (but does include the capitalisation of the arrangement fee described in the Terms and Conditions in Appendix B of this Notice). The Company will ensure that any further conversion of accrued interest is conducted in accordance with all applicable laws. The calculations assume a spot A\$:US\$ exchange rate of US\$0.67 to A\$1.00.
2. The issue of Shares on the conversion of any accrued interest will have a further dilutionary effect on Shareholders.
3. The above calculations do not contemplate conversion of existing unquoted options of the Company or convertible notes currently on issue.
4. The Notes are all converted in full.
5. To enable comparison with the table above, this conversion price is the same as the floor price for the third limb of the conversion mechanism, despite the absence of a floor price in the case of this second limb being the lowest of the three.

Pro-forma statement of financial position

Set out below is a pro-forma statement of the Company's financial position as at 30 June 2023, based on the Company's financial statements included in the Company's half year report for the half year ended 30 June 2023, lodged with ASX on 12 September 2023, adjusted to reflect the issue of the Notes.

The pro-forma statement of financial position:

- (a) has been prepared in accordance with the Company's usual accounting policies under Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) and the Corporations Act;
- (b) is presented in abbreviated form in so far as it does not include all the disclosures required by the Australian Accounting Standards and Interpretations issued by the AASB applicable to annual financial statements;
- (c) is not audited and is based on financial statements that have been reviewed by the Company's auditor;
- (d) has been prepared on the basis that the Notes include embedded derivatives (the conversion component for which the Note terms adjust the security into a variable number of Shares in the Company). The debt host component of the Notes is initially recognised as financial liabilities at fair value (with fair value equating to the proceeds received) and subsequently, the debt is measured at amortised cost. Any movements in the fair value of the embedded derivative and effective interest associated with the debt host component will be recognised in the Company's statement of profit or loss has been provisionally prepared for the Notes, accordingly, the allocations between liabilities and equity detailed therein are subject to future change.

The pro forma statement of financial position of the Company is set out in Annexure A of this Notice.



Rights and liabilities attaching to the Notes

Please see Annexure B – *'Terms and conditions of the Notes'* of this Notice. That summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of the Noteholders.

Rights and liabilities attaching to Shares that may be issued on conversion of the Notes

Each Share issued to a Noteholder upon conversion of a Note will be issued as a fully paid ordinary share in the capital of the Company and will rank equally with existing Shares on issue in the Company in all respects with effect from the date of issue of such Shares.

Compliance with disclosure obligations

As a disclosing entity, the Company is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules.

Copies of documents lodged with the Australian Securities and Investments Commission (**ASIC**) in relation to the Company are available to the public and may be purchased by calling the ASIC Customer Contact Centre on +61 1300 300 630, or via the ASIC Connect website and can be obtained from, or inspected at, an ASIC office. Certain of these documents can also be obtained from www.asx.com.au and the Company's website [ASX Announcements - Highfield Resources](#), together with other market announcements.

In addition, a copy of the following documents may be obtained free of charge by any person upon their request prior to the date of issue of the Notes to the EMR Parties:

- (a) the Company's annual report most recently lodged with ASIC and ASX (being the audited consolidated annual financial report of the group for the financial year ended 31 December 2022);
- (b) the Company's half year report lodged with ASIC and ASX (being the audited consolidated half year financial report of the group for the half year ended 30 June 2023); and
- (c) any continuous disclosure notices given by the Company after the lodgement of the Company's audited consolidated annual financial report for the financial year ended 31 December 2022 and half year ended 30 June 2023 and before lodgement of this document with the ASX.

All written requests for copies of the above documents should be addressed to the Company. These documents, and all other regular reporting and disclosure documents of the Company, are also available electronically on the websites of the ASX at www.asx.com.au and the Company at [ASX Announcements - Highfield Resources](#)

No excluded information

As at the date of, and other than as set out in this Notice, there is no information that:

- (a) has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules of the prescribed financial market whose operator was given notice; and
- (b) is information that investors and their professional advisers would reasonably require for the purpose of making an informed assessment of:
 - (i) the assets and liabilities, financial position and performance, profits and losses and prospects of the body and
 - (ii) the rights and liabilities attaching to the Notes and resulting Shares to be issued on conversion of the Note.



Yours faithfully,

Ignacio Salazar
Chief Executive Officer
Highfield Resources Ltd

Authorised by:

This notice was authorised for release by the Directors of Highfield Resources Limited

ANNEXURE A

PRO-FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position

Figures in A\$	Half Year 30 June 2023 (actual)	CND related adjustment	Half Year 30 June 2023 (proforma)
Current Assets			
Cash and cash equivalents	21,832,726	8,918,035	30,750,761
Other receivables	22,835,887		22,835,887
Total Current Assets	44,668,613	8,918,035	53,586,648
Non-Current Assets			
Other receivables	1,527,076		1,527,076
Property, plant and equipment	5,035,676		5,035,676
Deferred exploration and evaluation expenditure	138,539,993		138,539,993
Total Non-Current Assets	145,102,745	-	145,102,745
Total Assets	189,771,358	8,918,035	198,689,393
Current Liabilities			
Trade and other payables	4,614,455		4,614,455
Short term bank debt	5,069,686		5,069,686
Total Current Liabilities	9,684,141	-	9,684,141
Loans and borrowings	18,875,701	7,443,267	26,318,968
Derivative financial liability	5,715,238	1,474,768	7,190,006
Other non current liabilities	2,097,956		2,097,956
Total Non-Current Liabilities	26,688,895	8,918,035	35,606,930
Total Liabilities	36,373,036	8,918,035	45,291,071
Net Assets	153,398,322	-	153,398,322
Equity			
Issued capital	206,754,566		206,754,566
Reserves	35,441,525		35,441,525
Accumulated losses	(88,797,769)		(88,797,769)
Total Equity	153,398,322	-	153,398,322

ANNEXURE B TERMS AND CONDITIONS OF NOTES

Terms used but not defined in this Annexure B have the meaning given to them in the Notice.

Item	Term	Description
1.	Amount to be raised	Approximately A\$8.9 million comprising US\$3 million from the EMR Parties, A\$3 million from Tectonic and US\$1 million from the Institutional Investor (Loan Amount) to be paid in full (in US\$ by the EMR Parties and the Institutional Investor and in A\$ 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 was conditional on receipt of Shareholder Approval for the issuance of the Notes to the EMR Parties. Shareholder approval was obtained at the EGM. In respect of the issuance of all Notes, each senior secured creditor of the Company providing their written approval to the proposed issuance of the Notes (such consent having been received prior to the date of this document).
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 (FIRB) 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 limited security 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) in its wholly-owned subsidiary Geoalcali S.L.U. (which owns the Muga Muriate of Potash Project (Project) 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: ■ 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.
8.	Maturity date	22 June 2025 (Maturity Date).



Item	Term	Description
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 Interest Rate). Interest will: ■ accrue at the relevant Interest Rate(s) from the issue date up to and including the date on which the Notes are converted or redeemed; ■ be calculated and capitalised and added to the total amount outstanding by the issue of new Notes on a quarterly basis; and ■ be payable in kind on conversion or redemption (to the extent not already paid).
10.	Voluntary pre-payment	The Company may prepay the Loan Amount (together with all outstanding interest) (Outstanding Amount) 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) (Voluntary Prepayment). 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).
11.	What is the pre-payment make-whole amount	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 (Prepayment Make-Whole Amount).
12.	Redemption	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.
13.	Conversion of Notes	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.



Item	Term	Description
14.	Restrictions on conversion of Notes	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) (Creep Capacity), 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 (Conversion Restriction). 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. Chapter 6 Approval means approval by Shareholders of the conversion of the Notes into Shares under item 7 of section 611 of the Corporations Act.
15.	Conversion price	The conversion price will be equal to the Outstanding Amount attributable to the Notes being converted divided by the lower of: ■ 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; ■ 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 ■ if the Company undertakes a New Issuance, a 10% discount to the lowest issue price or exercise price (as applicable) of any Security issued in the New Issuance provided that: ○ 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 ○ if such price is lower than the Floor Price, the conversion price shall be the Floor Price. This limb can operate on more than one occasion, (the Conversion Price).
16.	Mandatory conversion of Notes	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



Item	Term	Description
		the Conversion Restriction.
17.	Change of Control	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.
18.	Events of default	The CND includes customary events of default for a transaction of this nature, including, but not limited to: ■ insolvency of the Company, KCL or Geoalcali; ■ any payment default under the CND; ■ material breach (after relevant cure period exhausted) of other obligations under the CND; ■ cross default of any financial indebtedness of the Company or its subsidiaries where the amount owed under the financial indebtedness exceeds \$1,000,000; ■ the Company's senior facility agreement is cancelled or terminated; ■ the Company takes any action that is designed to have the effect of terminating its listing on ASX; ■ the key Project permit is revoked; ■ the Company, Geoalcali or both decide to discontinue the Project; ■ the Company receives any written notification from ASX that ASX is contemplating terminating its listing; ■ 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); ■ a Transaction Document is or becomes void or unenforceable in any material respect; ■ Geoalcali ceases to be a wholly owned direct subsidiary of KCL or KCL ceases to be a wholly owned direct subsidiary of the Company; ■ compulsory acquisition of all or a material part of the assets of the Company by a government agency; and ■ any event or circumstance occurs which has or would have a Material Adverse Effect (as defined in the CND), (the Events of Default).
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.



Item	Term	Description
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.