Half Year Financial Report

30 June 2018

highfieldresources.com.au

ABN 51 153 918 257

CONTENTS

CORPORATE DIRECTORY

Directors
Mr. Derek Carter (Non-Executive Chairman)
Mr. Peter Albert (Managing Director)
Ms. Pauline Carr (Non-Executive Director)
Mr. Richard Crookes (Non-Executive Director)
Mr. Jim Dietz (Non-Executive Director)
Mr. Owen Hegarty (Non-Executive Director)
Mr. Isaac Querub (Non-Executive Director)
Mr. Brian Jamieson (Non-Executive Director)
Mr. Roger Davey (Non-Executive Director)

Company Secretary
Mr. Donald Stephens

Registered Office
169 Fullarton Road
DULWICH, SA 5065

Telephone: +61 8 8133 5000
Facsimile: +61 8 8431 3502
Website: highfieldresources.com.au

Share Registry
Advanced Share Registry Pty Ltd
110 Stirling Highway
NEDLANDS WA 6009

Telephone: +61 8 9389 8033
Facsimile: +61 8 9389 7871

Auditors
PricewaterhouseCoopers
Level 11/70 Franklin St
Adelaide SA 5000

Telephone: +61 8 8218 7000
Facsimile: +61 8 8218 7999

Stock Exchange
Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
ASX Code: HFR

The Directors of Highfield Resources Limited submit the financial report of the entity for the half year ended 30 June 2018. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The names of Directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr. Derek Carter	Non-Executive Chairman
Mr. Peter Albert	Managing Director
Ms. Pauline Carr	Non-Executive Director
Mr. Richard Crookes	Non-Executive Director
Mr. Jim Dietz	Non-Executive Director
Mr. Owen Hegarty	Non-Executive Director
Mr. Isaac Querub	Non-Executive Director (appointed 5 April 2018)
Mr. Brian Jamieson	Non-Executive Director (appointed 24 May 2018)
Mr. Roger Davey	Non-Executive Director (appointed 24 May 2018)

Results

The loss after tax for the half year ended 30 June 2018 was $0.68m (30 June 2017: net loss of $0.77m).

REVIEW OF OPERATIONS

Highfield Resources is a potash company listed on the Australian Securities Exchange with five 100% owned potash projects located in Spain´s potash producing Ebro Basin.

MUGA MINE PROJECT

Overview

The Company's flagship Muga Project ("Muga" or "the Project") is targeting the relatively shallow sylvinite beds in the Muga Project area that cover about 80km^2 in the Provinces of Navarra and Aragon. Mining is planned to commence at a depth of approximately 350 metres from surface and is therefore ideal for a relatively low-cost conventional mine.

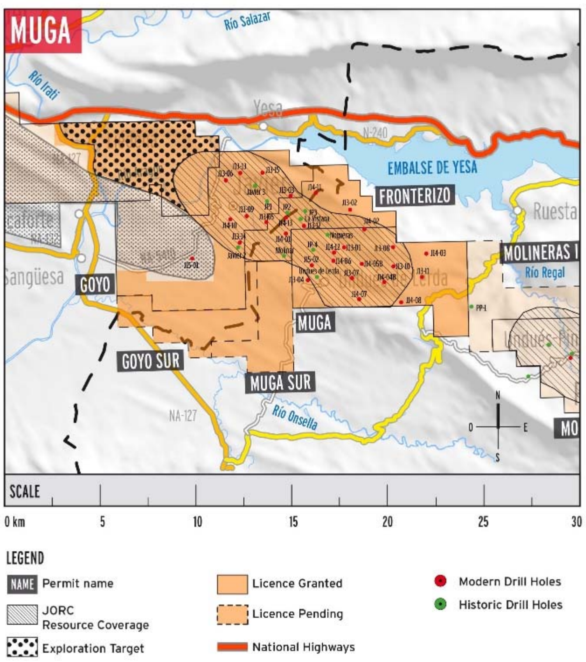

Figure 1: Map of Highfield's Muga Project

Permitting Update

During the six months ended 30 June 2018 the Company continued its work to secure the Declaración de Impacto Ambiental ("DIA"), or environmental permit, for the Muga Project. In March the Company reported that the Ministry of Agriculture, Fishing, Food and Environment (MAPAMA) had completed its review of the reports received from all of the referral authorities and had requested further clarification, within three months, on three items, namely seismicity, subsidence and salt by-product management. The Company requested, and was granted, a standard 45 day extension beyond the three months response timeframe initially specified. Given the unseasonably wet weather experienced throughout the second quarter of 2018, the extension proved important in ensuring that the fieldwork involved was completed as required and that the report submitted was both comprehensive and of a high quality. On 16 July the Company reported that it had submitted its final clarification documentation in respect of these areas to the Ministry, whose name has now changed to the Ministry for Ecological Transition (Ministerio para la Transición Ecológica or "MITECO").

Following input and review by technical experts and specialist consultants, the Company has demonstrated that the mine is expected to have minimal impact on local infrastructure as a consequence of its operations. The Company has also provided further technical and commercial detail on its plans to minimise salt by-product residue on surface and to eliminate the residual stockpile following mine closure. In addition, the Company validated this work with the relevant regulatory bodies prior to its submission to MITECO.

The next steps in the approvals process will include the submission of documentation relating to the Mining Concession and construction permits. Highfield is preparing for these, as well as for onsite construction activities, and remains confident of receiving the DIA, Mining Concession and constructions permits.

Muga Mine Development Progress

Geotechnical assessment of the decline access to the orebody continued during the half year. A geotechnical hole along the line of the declines was completed to a length of 482m which indicated competent rock quality along most of its length and validated the geological modelling arising from previous vertical drill holes. In addition, ground water quality and flow rate monitoring during the drilling confirmed low flow rates and no salinity. A further two geotechnical holes are being drilled from surface. The geotechnical work to date has confirmed the advantages of the Company's revised plan to develop twin parallel declines. Studies completed during the half year have confirmed that bolter-miners are the best equipment to develop the declines. Two hydrogeological test holes have been drilled and a piezometer installed. Pumping tests have commenced which will be used to confirm water management strategies for mine development and operations. SRK Consulting (UK) Limited continues to review the optimised mine plan and mine operating costs.

The metallurgical testwork programme carried out by the Saskatchewan Research Council was completed in the first quarter of 2018 and based on the results of this testwork, during the second quarter Hatch completed the basic design for the new process flowsheet, with the exception of the crystalliser. The Company has issued tender documentation for the crystalliser, with final proposals expected in the third quarter of 2018.

The project capital cost is under review to consider changes in the process plant and mine plan. It will also consider other factors such as cost escalation, expected requirements from the environmental permitting process, and appropriate contingency allowances. It is anticipated that the backfilling and salt plants that were previously included in the second phase of the Muga Project will instead be incorporated into the first phase. A revised "project statement", including revised capital costs, operating costs and development plans is also expected to be completed in the third quarter.

A third-party review of the Project is being undertaken by UK-based mineral industry consultants, Micon International Co. Ltd, focussing on the technical, engineering and delivery aspects of the Project. A preliminary report received during the Quarter confirmed that the Company's technical and development plans are sound and that there are no fatal flaws. The final report will be received by the Company following completion of the definitive mine plans and a review of the revised capital and operating estimates.

Financing Discussions

The Company has continued to update the Project Finance syndicate on project development with respect to the financing facility for Muga. Highfield remains confident of putting in place its debt and equity financing following receipt of all approvals to support a final investment decision and the commencement of construction.

SIERRA DEL PERDÓN

Highfield´s 100% owned Sierra del Perdón ("SdP") Project (see Figure 2) is located south east of Pamplona and covers approximately 145km^2. SdP is a brownfields project which previously hosted two potash mines operating from the 1960s until the late 1990s producing nearly 500,000 tonnes of K60 MOP per annum. There is potential for potash exploitation in new, unmined areas in the SdP Project area.

Two new exploration drill holes are continuing at SdP, SdP-007 and SdP-017, with two further holes planned for the second half of 2018.

After a number of years of exploration work, the Company has now reached the point where it will focus further work on the most prospective areas of SdP and will relinquish some of the less prospective part of the tenements. Applications for extension of the Adiós and Quiñones permits were submitted to the relevant authorities on 10 August 2018, including a 3 year exploration plan and a proposal to relinquish part of the permit area.

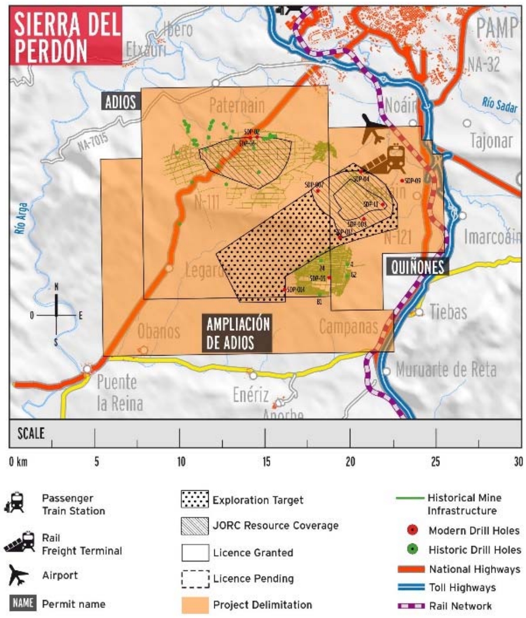

Figure 2: Map of Highfield's Sierra del Perdón Project

PINTANOS

Highfield´s 100%-owned Pintanos Project abuts the Muga Project and covers an area of 60km^2. Mineralisation commences at around 500 metres from surface. The Company is building on substantial historical potash exploration information which includes seven drill holes and ten seismic profiles completed in the late 1980s.

The Company has re-started application for the drilling permit "Molineras-20", the public exposition process for which began on 28 August 2018.

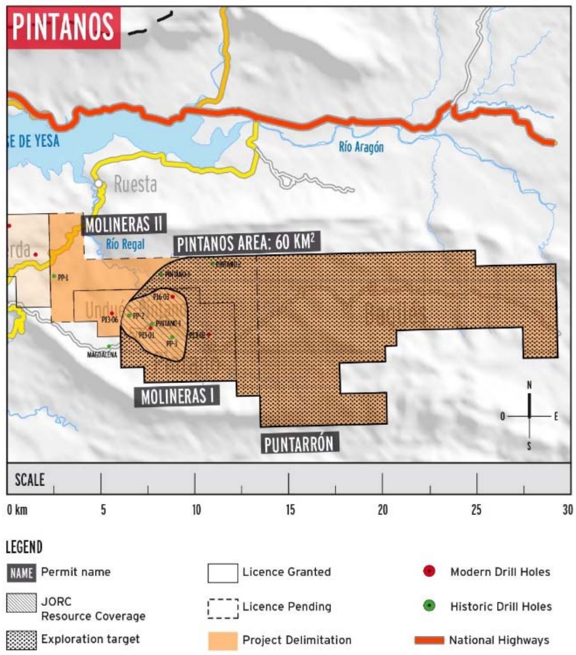

Figure 3: Map of Highfield's Pintanos Project

VIPASCA

Highfield´s 100%-owned Vipasca Project area includes the majority of the Vipasca permit, the entire Borneau permit and half of the Osquia permit. It is located adjacent to the Muga Project and covers approximately 100km2. The focus is on the deeper higher-grade potash mineralisation that occurs in the P1 and P2 potash bed in the Muga sub-basin that runs along strike to the north-west into the Vipasca permit area.

Additional work was carried out at Vipasca in 2017 which was designed to test the deeper mineralisation towards the west, beyond the north west extension of the deposit. As a result of this work, parts of Vipasca are deemed unlikely to yield an economic Reserve and the Company is now in a position to focus on the areas identified as more prospective.

Two drill holes are planned in the second half of 2018 at Vipasca.

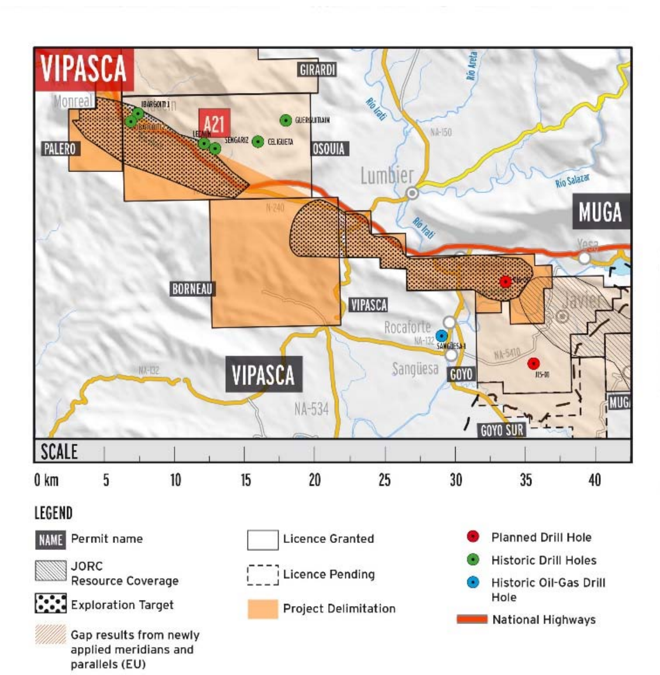

Figure 4: Map of Highfield’s Vipasca Project

IZAGA

Highfield´s 100%-owned Izaga Project covers an area of more than 100km^2, where historic drill holes and 2D seismic show a relatively continuous evaporite with drill hole intersects containing potash.

An additional permit in this area, the Izaga Palero permit, was granted on 7 June 2018. No additional field work was carried out on this project during the half year.

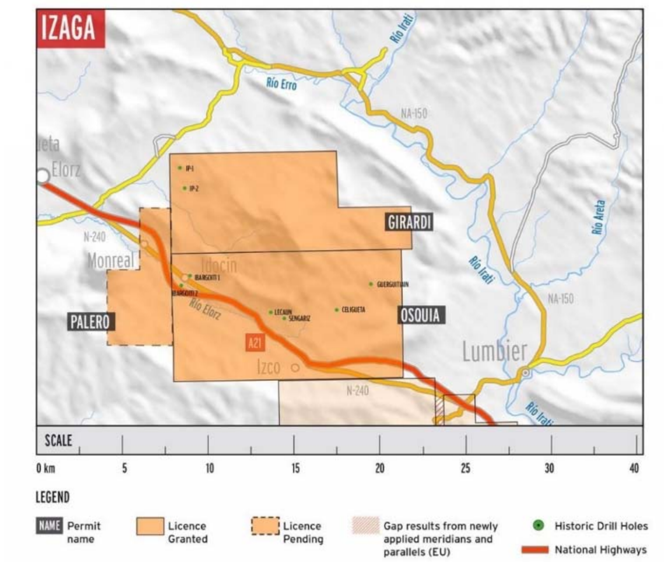

Figure 5: Map of Highfield’s Izaga Project

CORPORATE

Appointment of new Non-Executive Directors and Senior Managers

On 5 April 2018 Mr Isaac Querub was appointed to the Board as an independent Non-Executive Director. Mr. Querub has more than 35 years' experience in the commodities sector including 12 years as CEO of Glencore in Spain.

On 24 May 2018 the Company's AGM was held with all resolutions passed, including the appointment of two Non-Executive Directors, Mr. Roger Davey and Mr. Brian Jamieson.

Mr. Davey is a mining engineer with over 40 years' experience in international mining and mining finance. A fluent Spanish speaker, Mr. Davey is also Chairman of Atalaya Mining in southern Spain.

Mr. Jamieson has over 40 years' experience in the advisory, manufacturing, resources and technology industries in Australia and offshore and is experienced in developing exploration-focused companies into producers.

Mr. Olivier Vadillo joined the Company as Investor Relations Manager on 16 April. Mr Vadillo has more than 12 years' experience in strategic consulting at companies such as Wood Mackenzie and Deloitte.

Mr. David Williams joined the Company on 19 February 2018 as General Manager Technical Services, bringing more than 35 years UK and Canadian potash mining experience.

GEOALCALI FOUNDATION

Overview

The Geoalcali Foundation is a not-for-profit Spanish foundation, supported exclusively by the Company. It was established to deliver projects into the communities in which the Company will operate its mines.

Projects

The Company's community engagement programme has delivered numerous projects in the regions of Navarra and Aragón, which the Muga Project straddles. Ongoing initiatives include an education programme on healthy school meals, the OrganiK nursery and fertiliser project, and a number of social welfare programmes and cultural initiatives throughout the region.

Since its inception, the Foundation has supported 127 individual projects. It currently has 8 active projects. Two of these are one-off contributions or sponsorships, and six are part of on-going, longer term collaborations.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

There have been no significant events after the reporting date requiring disclosure in this report.

ROUNDING OF AMOUNTS

The Company has applied the relief available to it in ASIC Legislative Instrument 2016/191, and accordingly certain amounts in the half year financial report and the Directors' report have been rounded off to the nearest $1,000, unless otherwise indicated.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires the Company's auditors, PwC, to provide the Directors of the company with an Independence Declaration in relation to the review of the half year financial report. This Independence Declaration is set out on page 7 and forms part of this Directors' report for the half year ended 30 June 2018.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.

Peter Albert
Managing Director

Pamplona, Spain
12 September 2018

pwc

Auditor's Independence Declaration

As lead auditor for the review of Highfield Resources Limited for the half-year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Highfield Resources Limited and the entities it controlled during the period.

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
12 September 2018

PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T: +61 8 8218 7000, F: +61 8 8218 7999, www.pwc.com.au

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the half year ended 30 June 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
Continuing Operations			
Interest received		4	4
Gain on foreign exchange		1,580	1,039
Listing and share registry expenses		(9)	(25)
Professional and consultants' fees		(151)	(311)
Employee costs		(983)	(858)
Share based payments expense	8	(864)	(377)
Travel and accommodation expenses		(52)	(52)
Donations		(108)	(115)
Depreciation		(54)	(61)
Other Expenses		(43)	(15)
Loss from continuing operations before income tax		**(680)**	**(771)**
Income tax expense		-	-
Loss from continuing operations after income tax		**(680)**	**(771)**
Net loss for the period		**(680)**	**(771)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		1,710	1,358
Other comprehensive income for the period net of tax		**1,710**	**1,358**
Total comprehensive result for the period		**1,030**	**587**
Loss per share			
Basic and diluted loss per share (cents)		(0.21)	(0.24)

The above Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position

as at 30 June 2018

	Note	30 June 2018 $'000	31 December 2017 $'000
Current Assets			
Cash and cash equivalents		60,260	65,577
Other receivables	3	790	789
Total Current Assets		61,050	66,366
Non-Current Assets			
Investments		-	5
Other receivables	3	67	71
Property, plant and equipment		114	155
Deferred exploration & evaluation expenditure	4	101,223	94,090
Total Non-Current Assets		101,404	94,321
Total Assets		162,454	160,687
Current Liabilities			
Trade and other payables	5	2,363	2,674
Total Current Liabilities		2,363	2,674
Total Liabilities		2,363	2,674
Net Assets		**160,091**	**158,013**
Equity			
Issued capital	6	172,584	172,400
Reserves	7	25,202	22,628
Accumulated losses		(37,695)	(37,015)
Total Equity		**160,091**	**158,013**

The above Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity

for the half year ended 30 June 2018

	Issued capital $'000	Accumulated losses $'000	Share based payments reserve $'000	Foreign exchange translation reserve $'000	Option premium reserve $'000	Performance share reserve $'000	Total $'000
Balance at 1 January 2017	**169,167**	**(35,774)**	**19,118**	**(439)**	**1**	**-**	**152,073**
Total comprehensive income for the half year							
Income/(Loss) for the half year	-	(771)	-	-	-	-	(771)
Other comprehensive income	-	-	-	1,358	-	-	1,358
Total comprehensive result for the half year	-	(771)	-	1,358	-	-	587
Transactions with owners in their capacity as owners							
Shares issued during the half year	3,250	-	-	-	-	-	3,250
Cost of issue	(17)	-	-	-	-	-	(17)
Share based payment	-	-	377	-	-	-	377
Balance at 30 June 2017	**172,400**	**(36,545)**	**19,495**	**919**	**1**	**-**	**156,270**
Balance at 1 January 2018	**172,400**	**(37,015)**	**19,809**	**2,818**	**1**	**-**	**158,013**
Total comprehensive income for the half year							
Income/(Loss) for the half year	-	(680)	-	-	-	-	(680)
Other comprehensive income	-	-	-	1,710	-	-	1,710
Total comprehensive result for the half year	-	(680)	-	1,710	-	-	1,030
Transactions with owners in their capacity as owners							
Shares issued during the half year	188	-	-	-	-	-	188
Cost of issue	(4)	-	-	-	-	-	(4)
Share based payment	-	-	864	-	-	-	864
Balance at 30 June 2018	**172,584**	**(37,695)**	**20,673**	**4,528**	**1**	**-**	**160,091**

The above Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows

for the half year ended 30 June 2018

	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities		
Payments to suppliers and employees	(1,780)	(1,990)
Interest received	4	4
Other receipts/payments (GST/VAT)	326	693
Net cash flows used in operating activities	**(1,450)**	**(1,293)**
Cash flows from investing activities		
Purchase of plant and equipment	(10)	(4)
Payments for Exploration and evaluation expenditure	(5,756)	(11,253)
Net cash used in investing activities	**(5,766)**	**(11,257)**
Cash flows from financing activities		
Proceeds from issue of shares	188	3,250
Payments for share issue costs	(2)	(17)
Net cash provided by financing activities	**186**	**3,233**
Net decrease in cash and cash equivalents	(7,030)	(9,317)
Cash and cash equivalents at the beginning of the period	65,577	77,838
Effect of exchange rate fluctuations on cash	1,713	1,039
Cash and cash equivalents at the end of the period	**60,260**	**69,560**

The above Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Condensed Financial Statements

for the half year ended 30 June 2018

1. Corporate Information

The condensed consolidated financial report of Highfield Resources Limited ("Highfield" or "the Company") and its subsidiaries (together referred to as the "Group") for the half year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors on 12 September 2018. Highfield is a company limited by shares domiciled and incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and the principal activities of the Company are described in the Directors' Report.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

These condensed consolidated financial statements for the half year reporting period ended 30 June 2018 have been prepared in accordance with applicable accounting standards including AASB 134 "Interim Financial Reporting" and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with IAS 34 "Interim Financial Reporting".

These half year condensed consolidated financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these half year condensed financial statements are to be read in conjunction with the consolidated financial statements for the six months ended 31 December 2017 and any public announcements made by Highfield during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of new or amended standards as set out below.

(b) New and amended standards adopted by the Group

The Group adopted the following new or revised accounting standards in the period:

- AASB 15 Revenue from Contracts with Customers; and
- AASB 9 Financial Instruments.

Adoption of these standards has not resulted in a material impact on the Group's current period results or restatement of previously reported financial results.

The Group's accounting policy in relation to revenue has been updated as follows:

Revenue

While AASB 15 was adopted by the Company with effect from 1 Jan 2018, the Company currently has no contracts with customers.

Interest income is recorded by the group using the effective interest method.

(c) Rounding of amounts

The Company is of a kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off in accordance with that class order to the nearest thousand dollars.

	30 June 2018 $'000	31 December 2017 $'000
3. Other Receivables		
Current		
GST receivable	47	40
VAT receivable	103	81
Other	640	668
	790	**789**
Non-current		
Guarantees	67	71
	67	**71**

GST/VAT receivable and other receivables are non-interest bearing and generally receivable on 30 day terms. They are neither past due nor impaired. The amount is fully collectible. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. Other receivables mainly represent guarantees provided to third parties.

	30 June 2018 $'000
4. Deferred Exploration & Evaluation Expenditure	
Opening balance	94,090
Exploration and evaluation expenditure incurred during the period	5,405
Net exchange differences on translation	1,728
Closing balance	**101,223**

The ultimate recoupment of costs carried forward for exploration and evaluation expenditure is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

	30 June 2018 $'000	31 December 2017 $'000
5. Trade and Other Payables		
Trade payables	976	845
Other payables	48	34
Accruals	1,339	1,795
	2,363	**2,674**

Trade payables, other payables and accruals are non-interest bearing and generally payable on 30 day terms. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

	30 June 2018 $'000	31 December 2017 $'000
6. Issued Capital		
(a) Issued and paid up capital		
Issued and fully paid	**172,584**	**172,400**

	30 June 2018 No.	30 June 2018 $000
(b) Movements in ordinary shares on issue		
Six months ended 30 June 2018:		
Opening balance	329,225,003	172,400
Shares issued upon conversion of unlisted options[1]	250,000	188
Transaction costs on share issue	-	(4)
Closing balance	**329,475,003**	**172,584**

[1] 250,000 shares were issued upon conversion of unlisted options exercisable at $0.75, expiring on June 2018.

	30 June 2018 $'000	31 December 2017 $'000
7. Reserves		
Share based payments reserve[1]	20,673	19,809
Foreign currency translation reserve[2]	4,528	2,818
Option premium reserve[3]	1	1
	25,202	**22,628**

[1] The share based payment reserve is used to record the value of equity benefits provided to Directors and executives as part of their remuneration and non-employees for their goods and services. Refer to note 8 for further details of the options issued during the half year ended 30 June 2018.

[2] The foreign exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve.

[3] The option premium reserve is used to record the amount received on the issue of unlisted options.

	30 June 2018 $'000	30 June 2017 $'000
8. Share Based Payments		
Share-based payment transactions recognised as operational expenses in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income during the period were as follows:		
Options granted during the period	550	80
Options granted in prior periods	314	297
	864	**377**

Employee share based payments

The Company operates an equity incentive plan known as ´Highfield Resources Limited Employee Long Term Incentive Plan' ("ELTIP"). Subject to the attainment of performance hurdles and vesting conditions participants in this plan may receive options. The objective of the plan is to assist in the recruitment, reward, retention and motivation of senior managers.

The fair value at grant date of options granted during the period was determined using the binomial method, taking into account the exercise price, the term of the option, the share price at grant date, the expected price volatility of the underlying share and the risk free interest rate for the term of the option.

The table below summarises options granted during the half year ended 30 June 2018:

Grant Date	Expiry date	Exercise price	Granted during the half year	Exercised during the half year	Lapsed during the half year	Number at end of the half year	Exercisable at end of the half year
08/06/2018	30/06/2021	$1.29	3,000,000[1]	-	-	3,000,000	3,000,000
08/06/2018	31/12/2025	$1.29	7,342,397[2]	-	-	7,342,397	-
			10,342,397			**10,342,397**	**3,000,000**

[1] Comprises 1,000,000 options granted to each of the three Non-Executive Directors appointed during the half year, as confirmed at the AGM on 24 May 2018. There are no service vesting or performance vesting conditions on respect of these options.

[2] Represents options granted to the Managing Director, Chief Financial Officer and other employees. The options will vest on satisfaction of the following Vesting Conditions during the three year vesting period commencing on 1 January 2018 and ending on 31 December 2020:

(a) Market Based Performance:
50% of the options will be assessed for vesting based upon the Company's relative share price performance at the start of the vesting period, being the 20 day Volume Weighted Average Price (VWAP) of the Company's shares immediately preceding 1 January each year, to the closing price of the Company's shares at the conclusion of the vesting period, being the 20 day VWAP immediately preceding 31 December 2020, versus the S&P/ASX 300 Resources Index (XKR) for the same period, in accordance with a defined scale as follows:

- Below 10% of index performance = nil vesting;
- Between -10% and 0% of index performance = vests 2.5% per 1% so "at index" 25% vests;
- Above index performance = vests at 3% per 1% so at 25% above index 100% vests;

(b) Total Shareholder Return (TSR):
50% of the options will be assessed for the vesting based upon the Company's TSR from the opening price of the Company's shares at the start of the Vesting Period to the closing price of the Company's shares at the conclusion of the vesting period. The performance measure is absolute performance based on compound annual growth rate achieved in TSR.

The proportion of the TSR Options that vest into shares will be determined in accordance with the following vesting scale:

- Zero to 10% = vests at 3% per 1% so at 10% TSR 30% vests;
- Above 10% = vests at 7% per 1% so at 20% TSR 100% vests.

The expense recognised in respect of the above options granted during the half year was $550,450. The expense recognised during the half year on options granted in prior periods was $313,820.

The model inputs, not included in the table above, for options granted during the half year ended 30 June 2018 included:
(a) options were granted for no consideration;
(b) expected lives of the options range from 3.0 to 7.5 years;
(c) share price at grant date ranged from $0.725 to $1.005;
(d) expected volatility ranging from 21% to 53%;
(e) expected dividend yield of Nil; and
(f) a risk free interest rate ranging from 2.09% to 2.20%

9. Capital Expenditure Commitments

At 30 June 2018, the Group had entered into a number of contracts as part of the development of the Muga Potash Project located in Spain. The expected payments in relation to these contracts which were not required to be recognised as liabilities at 30 June 2018 amounted to approximately $53m. The contracts are able to be terminated by the Company at any point in time. The minimum amount payable following termination is approximately $1m.

The Directors are not aware of any other commitments as at 30 June 2018.

10. Dividends

No dividends have been paid or provided for during the half year.

11. Contingent Assets and Liabilities

There are no known contingent assets or liabilities as at 30 June 2018 (31 December 2017: Nil).

12. Significant Events after the Reporting Period Events

There have been no significant events after the reporting period requiring disclosure in this report.

In the opinion of the Directors of Highfield Resources Limited ('the Company'):

1. The attached condensed financial statements and notes thereto are in accordance with the Corporations Act 2001 including:

   a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   b. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the half year then ended; and.

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

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

Peter Albert
Managing Director

Pamplona, Spain
12 September 2018

Independent auditor's review report to the members of Highfield Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Highfield Resources Limited (the Company), which comprises the Condensed consolidated statement of financial position as at 30 June 2018, the Condensed consolidated statement of changes in equity, Condensed consolidated statement of cash flows and Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Highfield Resources Limited. The group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the group's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Highfield Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Highfield Resources Limited is not in accordance with the *Corporations Act 2001* including:

PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T: +61 8 8218 7000, F: +61 8 8218 7999, www.pwc.com.au

1. giving a true and fair view of the group's financial position as at 30 June 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
12 September 2018