

ASX Release
23 October 2018

QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 30th SEPTEMBER 2018

Overview

- The Company released an Updated Mineral Resource statement on 8 October 2018
- The Company released a Muga Project Update on 15 October 2018, with the following key highlights:
 - Phase 1 capex of €342 million with additional Phase 2 capex of €199 million
 - NPV₈ of €1,159 million and IRR of 23% for the full production project
 - Competitive C1 cash cost of €104/t, including salt by-product credit.
 - 27 year mine life.
- Extensive interaction with relevant authorities to ensure alignment on key aspects of the environmental permit submission
- Completed mine design optimisation including work by specialist consultant, SRK Consulting (UK) Limited, on the revised mine layout
- Confirmatory geotechnical drilling validated the proposed twin access decline for the Muga Mine
- Completed two further geotechnical drill holes above the immediate vicinity of the declines to corroborate data from previous geophysical work
- Hydrogeological drilling completed and conclusive water pumping tests completed with low water flows now being predicted
- A third-party project review by Micon International Company Limited confirmed Highfield's project execution plan as robust
- Cash at bank as at 30 September 2018: A\$58.5M

Highfield Resources Limited
ACN 153 918 257
ASX: HFR

Issued Capital
329.5 million shares
53.25 million options

Registered Office
169 Fullarton Road
Dulwich, SA 5065
Australia

T. +61 8 8133 5098
F. +61 8 8431 3502

Head Office
Avenida Carlos III, 13 -
1^oB, 31002
Pamplona,
Spain

T. +34 948 050 577
F. +34 948 050 578

www.highfieldresources.com.au

Directors
Derek Carter
Peter Albert
Pauline Carr
Richard Crookes
Roger Davey
Jim Dietz
Owen Hegarty
Brian Jamieson
Isaac Querub

Company Secretary
Donald Stephens

Muga Project

Overview

Highfield Resources (ASX: HFR) (“Highfield” or “the Company”) is a Spanish potash developer. 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 80km² 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.

Muga Project Approvals Process

As reported in March 2018 (refer ASX release 8th March 2018, “Muga Mine Environmental Permitting Update”), the Ministry for Ecological Transition (Ministerio para la Transición Ecológica, “MITECO”) requested the Company to provide further clarification on aspects of its environmental submission. In July 2018, the Company reported (refer ASX release 16th July 2018, “Update on Muga Mine Environmental Permitting Process”) that the final clarification documentation was submitted to MITECO. MITECO then distributed the Company’s documentation to a limited number of interested regulatory bodies. During the quarter, European summer holidays impacted the ability for some authorities to respond to MITECO, although the Company understands that this process is advancing, with MITECO now receiving a number of reports from the regulatory bodies. Throughout the quarter the Company has maintained open communication with MITECO and all relevant regulatory bodies to help facilitate the approval process.

Muga Project Technical Update

On the 10th October 2018, the Company released (refer ASX release “Updated Mineral Resources Estimate – Muga Project”) an updated Mineral Resource statement for Muga that was little changed to the previous statement released in 2015. On the 15th October 2018 the Company subsequently released (refer ASX release “Muga Project Update”) a Muga Project Update which forecast an NPV₈ of €1,159 million and IRR of 23% with a competitive C1 cash cost of €104/t, including salt by-product credit.

The mine plan was completed this quarter including all mine sequencing and scheduling with extraction ratios for all depths and layouts. Access will be by twin declines from surface, over a length of 2.6 km to a depth of 350m below surface and the preferred decline excavation machinery was observed in operational mode at a mine in Australia. The primary production method will be room and pillar with an advancing chevron pattern approach. The pillar design was assessed to provide an optimal extraction ratio while maintaining ground stability ensuring safe working and environmental conditions are achieved in the potash environment. The detailed mine plan was developed by the Company’s mine planning team with support from mining consulting group SRK Consulting (UK) Limited.

The revised mine plan also incorporates the anticipated requirements of the environmental permitting process, particularly related to subsidence control and exclusion zones around towns, infrastructure and objects of significant cultural importance.

During the quarter, all plant preliminary design and engineering optimisation work was completed for the Muga Project Update. The optimisation work was based on metallurgical test work completed over a number of months at the Saskatchewan Research Centre (“SRC”) laboratories. The results from this work were then incorporated into a revised process design developed by Hatch, a Canadian engineering company experienced in potash process plant design.

The Company appointed Micon International Company Ltd, a third-party mineral consultancy company, to undertake a technical review of specific aspects of the Project. This included a high-level review of resources and a detailed review of reserves, mine planning and scheduling, mine operation planning, process design and operation planning, project execution plan and programme sequence, cost plan, contract plans and procurement plans which confirmed the validity and suitability of all the technical work reviewed, and identified potential risk areas and mitigating strategies. Micon confirmed that the quantity

and substance of the work completed is generally more advanced than most projects at a similar stage of development.

During the quarter, a geotechnical assessment of the decline access was also completed. The core retrieved was representative of the lithology expected during excavation adding further confidence to the planned methodology of excavation. Two geotechnical holes were drilled above the immediate vicinity of the declines one of which intersected an anomaly previously picked up by the electro-tomography with the core revealing a fractured formation. These discontinuities had already been accounted for in the decline design and will be mitigated by using an appropriate support structure during the decline development. Two hydrogeological test holes were completed and a piezometer installed. Hydrogeological pumping tests and slug tests were finalised this quarter by Amphos 21, a technical consultant specialising in design of water management systems in mining environments. The results of the analysis indicated that there will be an inflow of water of less than 1l/s during the decline excavation.

Project Financing

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.

Pintanos Project

Highfield's 100% owned Pintanos Project (see Figure 1) abuts the Muga Project and covers an area of 65km². Depths from surface to mineralisation commence at around 500 metres. 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 the application process for the drilling permit "Molineras-20" for which the public exposition process has commenced.

Sierra del Perdón Project

Highfield's 100% owned Sierra del Perdón ("SdP") Project (see Figure 2) is located south east of Pamplona and covers approximately 145km². 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.

During the quarter two drill holes, SdP-007 and SdP-017 were completed (see Figure 2), the assay results of which will be reported when available.

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 the less prospective part of the tenements. The results of the drilling will be incorporated into an exploration plan supporting an in progress application for a 3 year time extension of the exploration permits.

Vipasca

The Vipasca Project (see Figure 3) 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 tenement is highly prospective for economic potash mineralisation, with a primary focus on the deeper, higher grade, P1 and P2 potash horizons.

As previously reported, additional work was completed 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, some parts of Vipasca are now deemed unlikely to yield an economic Reserve and the Company is now in a position to focus on the identified more prospective areas and has completed a drill hole at

V17-03 during the quarter and continuing with drill hole V17-02 (see Figure 3). The assay results of these two drill holes will be reported when available.

Other Projects

The Company has an additional 100%-owned project in the basin (see Figure 1) known as Izaga. No additional field work was carried out on this project during the quarter.

Cash Position

The Company continues to actively pursue opportunities to preserve cash whilst at the same time committing to expenditure required for permitting and project optimisation activities.

As at 30 September 2018, the Company had A\$58.5 million in cash on its balance sheet.

Plans for December Quarter 2018

Muga Project:

- Complete and release an updated Ore Reserve Statement
- Continue preparation for the next steps in the approval process, including development of documentation relating to the Construction Permits

Other Projects:

- Finalise drilling at Vipasca
- Application for a time extension of the investigation permit at Sierra del Perdón in progress

For more information:

Highfield Resources Limited

Peter Albert
Managing Director
Ph: +34 628 590 109

Olivier Vadillo
Investor Relations
Ph: +34 609 811 257

About Highfield Resources

Highfield Resources is an ASX listed potash company with five 100% owned projects located in Spain.

Highfield's Muga, Vipasca, Pintanos, Izaga and Sierra del Perdón potash projects are located in the Ebro potash producing basin in Northern Spain, covering a project area of just under 500km².

Highfield is awaiting the granting of a positive environmental permit, the award of the mining concession and other permits which will enable it to commence construction of the Mine.

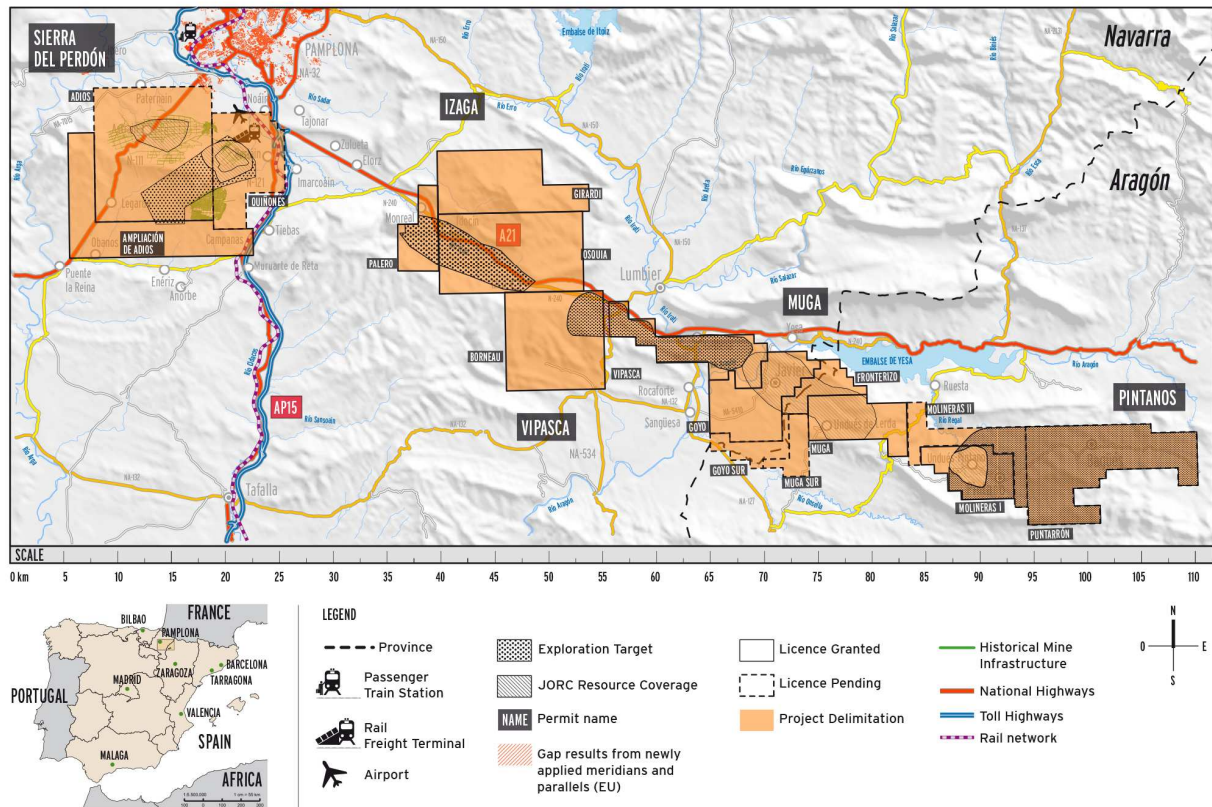


Figure 1: Location of Highfield's Muga, Vipasca, Pintano, Izaga and Sierra del Perdón Projects in Northern Spain*

*The potential quantity and grade of the Exploration Target is conceptual in nature and there has been insufficient exploration to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource

COMPETENT PERSONS STATEMENT FOR MUGA POTASH PROJECT

This update was prepared by Mr. Peter Albert, Managing Director of Highfield Resources. The information in this update that relates to Ore Reserves, 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

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 considered a Competent Person (CP) under the definitions and standards described in the JORC Code 2012. Ms Fardell takes responsibility for the Mineral Resource Statement presented here.

Ms Anna Fardell consents to the inclusion in this update of the matters based on their 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 update was prepared by Mr. Peter Albert, Managing Director of Highfield Resources. The information in this update that relates to Ore Reserves, 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 and Mr. Manuel Jesús Gonzalez Roldan consent to the inclusion in this update of the matters based on their information in the form and context in which it appears.

Table 1: Summary of Highfield's Mineral Interests as at 30 September 2018

Project	Region	Permit Name	Permit Type	Applied	Granted	Deadline	Ref #	Area Km ²	Holder	Structure
Sierra del Perdón	Navarra	Quiñones	Investigation	19/07/2011	07/08/2012	In process	35760	22,88	Geocalcali SL	100%
Sierra del Perdón	Navarra	Adiós	Investigation	19/07/2011	07/08/2012	In process	35770	59,40	Geocalcali SL	100%
Sierra del Perdón	Navarra	Ampliación de Adiós	Investigation	26/10/2012	14/02/2014	13/06/2020	35880	40,90	Geocalcali SL	100%
								123,18		
Izaga	Navarra	Girardi	Investigation	28/04/2015	26/01/2017	26/01/2020	35950	38,57	Geocalcali SL	100%
Izaga	Navarra	Osquia	Investigation	28/04/2015	12/01/2017	12/01/2020	35970	57,42	Geocalcali SL	100%
Izaga	Navarra	Palero	Investigation	12/05/2017	07/06/2018	07/06/2021	36000	11,76	Geocalcali SL	100%
								107,75		
Vipasca	Navarra	Vipasca	Investigation	06/11/2013	11/12/2014	09/04/2021	35900	27,30	Geocalcali SL	100%
Vipasca	Navarra	Borneau	Investigation	28/04/2015	12/01/2017	12/01/2020	35960	80,33	Geocalcali SL	100%
								107,63		
Muga	Navarra	Goyo	Investigation	19/07/2011	24/12/2012	21/10/2018	35780	27,72	Geocalcali SL	100%
Muga	Navarra	Goyo Sur	Investigation	25/07/2014	Pending	--	35920	8,96	Geocalcali SL	100%
Muga	Aragón	Fronterizo	Investigation	21/06/2012	05/02/2014	Stand-by	Z-3502/N-3585	9,80	Geocalcali SL	100%
Muga	Aragón	Muga	Investigation	29/05/2013	07/04/2014	Stand-by	3500	20,40	Geocalcali SL	100%
Muga	Aragón	Muga Sur	Investigation	25/09/2014	Pending	--	3524	7,28	Geocalcali SL	100%
								74,16		
Pintanos	Aragón	Molineras 10	Investigation	20/11/2012	06/03/2014	In process	3495/10	18,20	Geocalcali SL	100%
Pintanos	Aragón	Molineras 20	Investigation	19/02/2013	Pending	--	3495/20	16,80	Geocalcali SL	100%
Pintanos	Aragón	Puntarrón	Investigation	08/05/2014	Pending	--	3510	30,24	Geocalcali SL	100%
								65,24		
							Total	477,96		
Muga	Navarra	Goyo	Concession	10/12/2014	Pending	--	35780	14,79	Geocalcali SL	100%
Muga	Aragón	Fronterizo	Concession	10/12/2014	Pending	--	Z-3502/N-3585	8,70	Geocalcali SL	100%
Muga	Aragón	Muga	Concession	10/12/2014	Pending	--	3500	15,08	Geocalcali SL	100%

Location: All permits are located in Spain.

Holder: All permits are held by Geocalcali SL, a 100% owned Spanish subsidiary of Highfield Resources Limited.

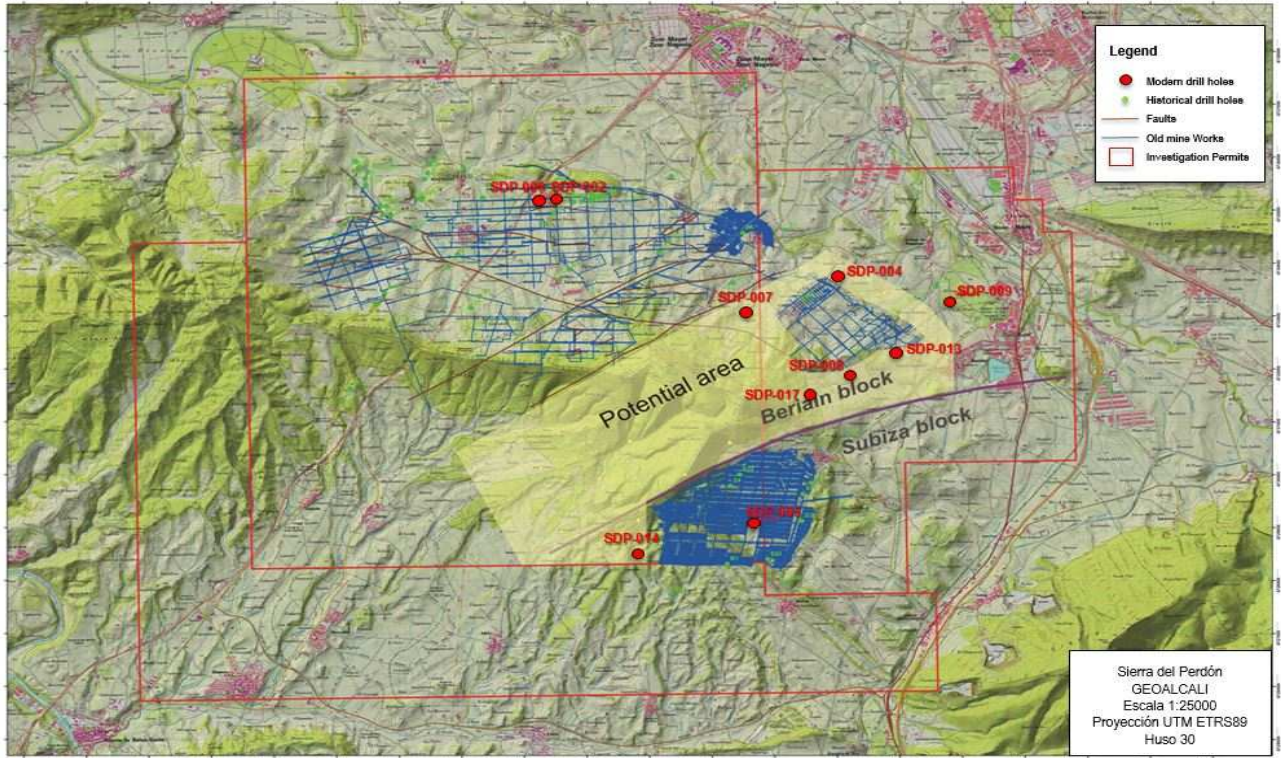


Figure 2: Location of Highfield’s Sierra del Perdón drill holes

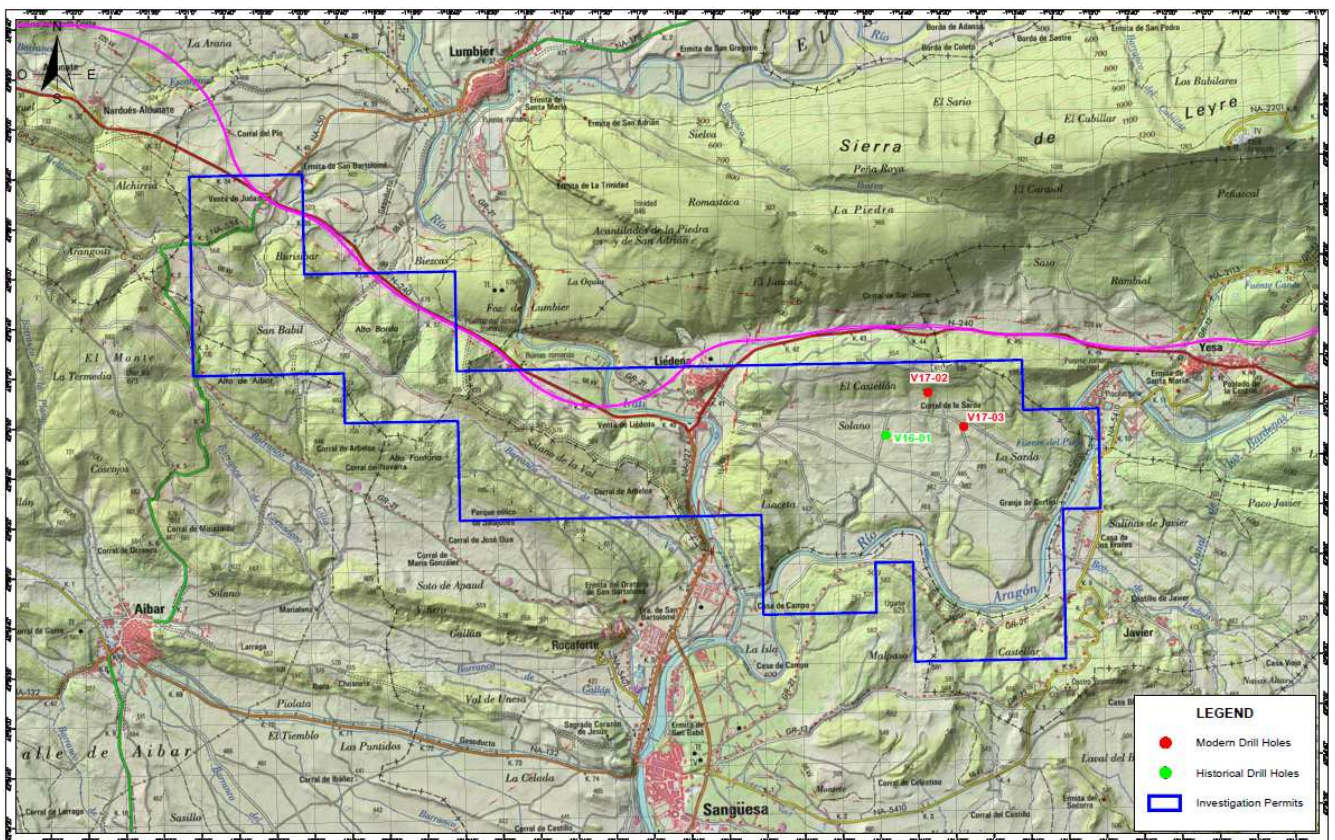


Figure 3: Location of Highfield’s Vipasca drill holes

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

HIGHFIELD RESOURCES LIMITED

ABN

51 153 918 257

Quarter ended ("current quarter")

30 September 2018

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	(2,403)	(8,159)
(b) development	-	-
(c) production	-	-
(d) staff costs	(597)	(1,983)
(e) administration and corporate costs	(489)	(883)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	4
1.5 Interest and other costs of finance paid	(51)	(51)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other – GST/VAT refunded	107	434
1.9 Net cash from / (used in) operating activities	(3,433)	(10,638)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(15)	(25)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) 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	(15)	(25)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	38	225
3.4	Transaction costs related to issues of shares, convertible notes or options	(2)	(4)
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	36	221

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	60,260	65,577
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,433)	(10,638)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(15)	(25)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	36	221
4.5	Effect of movement in exchange rates on cash held	1,652	3,365
4.6	Cash and cash equivalents at end of period	58,500	58,500

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	58,500	60,260
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)	58,500	60,260

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	361
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Payments for Directors' fees and salaries - \$361k

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

N/A

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

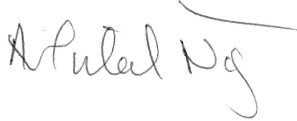
N/A

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(4,280)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(657)
9.5 Administration and corporate costs	(452)
9.6 Other – GST/VAT refunded	530
9.7 Total estimated cash outflows	(4,859)

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	-	-	-	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

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.



Sign here:

(CFO)

Date: 15 October 2018

Print name: Mike Norris

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.