

ASX Release
20 October 2016

SEPTEMBER 2016 QUARTERLY ACTIVITIES REPORT

Overview

- Memorandums of Understanding signed for offtake covering 100% of Phase 1 production from Muga Potash Project
- Memorandum of Understanding signed with Cargill Incorporated for salt sales in the USA
- Environmental review and permitting process continues to progress
- Credit approvals received from four banks subject to final conditions

Corporate:

- Commencement of Mr Peter Albert as Managing Director and CEO of Highfield, based in Pamplona
- Former Managing Director, Mr Anthony Hall, continues to work closely with Mr Albert providing transitional support and advisory services.
- Retirement of Mr Pedro Rodriguez from the Board of Directors. Mr Rodriguez will continue to provide the Company with advisory services as required and requested by the Managing Director which is likely to be at least until all permits are issued for development of the Muga Project.
- 2016 Annual Report Reduction to nil of Performance Share Reserve balance in Highfield Resources' 2016 annual audited financial statements

Financial Strength:

- Cash at bank as at 30 September 2016: A\$82.9m.

Plans for December Quarter:

Muga Potash Mine:

- Advance and complete the pre-requirements prior to signing of facility agreements for project finance of Muga Potash Project
- Continue to progress mine approval process and prepare for the immediate commencement of construction once approvals are received
- Continue to advance all outstanding items in relation to the fixed price lump sum contract for the construction of the mine and processing facilities with Acciona Infraestructuras ("Acciona")

Other Projects:

- Drilling to test exploration targets in Pintanos Potash Project
- Advancement of strategies for de-icing and vacuum salt sales

Highfield Resources Ltd.

ACN 153 918 257
ASX: HFR

Issued Capital

319.9 million shares
47.9 million options

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Derek Carter
Peter Albert
Pauline Carr
Richard Crookes
Jim Dietz
Owen Hegarty

Company Secretary

Donald Stephens

Muga Potash Project

Overview

Highfield Resources (ASX: HFR) (“Highfield” or “the Company”) is a Spanish potash developer. The Company’s flagship Muga Potash Project (“Muga” or “the Project”) is targeting the relatively shallow sylvinite beds in the Muga Project area that cover about 80km². Mineralisation commences at depths from surface of less than 200 metres and appears ideal for a relatively low-cost conventional mine accessed via a dual decline, as demonstrated in the Company’s Muga Project Optimisation Study completed in November 2015 (refer to ASX announcement dated 17 November 2015).

Muga Mine Development Progress

During the quarter the Company continued to progress the development and planning of Muga to allow construction to commence once licences are received.

Global construction company, Acciona, which previously completed a review of Highfield’s cost plan and program for Muga, continues to work closely with the Company finalising the complete scope of work and targeting execution of a fixed price lump sum construction contract. Acciona’s cost estimates continue to compare favourably with the Company’s previously announced Optimisation Study (refer ASX announcement 17 November 2015).

Detailed engineering design continues as planned, with expert consultants working alongside the Highfield technical team to finalise underground mining and ventilation, process plant design and construction, site civil works, and tailings management.

Orders have been placed for long-lead items including equipment for drying, compacting and glazing facilities as well as components of the wet processing including screening, crushing and flotation.

MOUs Signed for Offtake from Muga

The Company announced that it has signed non-binding MOUs with Keytrade AG, Ameropa AG and Trammo AG (together “the Traders”) covering up to 600,000 metric tonnes of K60 MOP per annum produced from its Muga Potash Mine. Upon signing of the formal documentation relating to these MOUs Highfield will have achieved a key condition precedent proposed by the mandated lead arrangers for the Project Finance Facility of the Muga Potash Mine. This facility is in the final stages of negotiation.

The Traders all have deep experience in the global fertiliser market across the three recognised macronutrients – potassium, nitrogen and phosphate. Importantly for Highfield, they all have recent and ongoing experience marketing potash in Highfield’s European target markets, on an ad-hoc basis, for incumbent producers. Highfield remains focused on those markets that will deliver the maximum possible margin, where it has clear logistical and margin advantages over its peers.

MOUs Signed with Cargill Incorporated for Salt Sales in USA

The Company announced that it has signed a non-binding MOU with Cargill, Incorporated (“Cargill”) for the sale of salt by Highfield to Cargill in the US. Highfield and Cargill have agreed to assess the viability of a long term commercial arrangement targeting salt sales by Highfield to Cargill for resale into the large US de-icing and industrial salt markets.

Cargill is one of the largest salt producers in the world and is in the top 3 in the USA. Its extensive distribution network makes it an ideal partner for Highfield to monetise its salt by-product from Muga.

Permitting Update

The Company continues to work closely with the various governmental departments to progress its application for the Mining Concession for Muga.

The feedback from the review of the Environmental and Social Impact Assessment (“ESIA”) for Muga continues to be received and the Company understands that the process is well advanced. Following the receipt of a Positive Environmental Declaration (“DIA”), the Spanish Central Government’s Department of Industry, Energy and Tourism (*Ministerio de Industria, Energía y Turismo* or “MINETUR”), which includes the Department of Mines, can move to the award of the Mining Concession.

The Company continues to remain confident of receiving its DIA and Mining Concession.

Reduction of Performance Share Reserve Balance in 2016 Annual Accounts

During the quarter, the Company notified its intention to reduce the balance of the Performance Share Reserve in the 2016 annual accounts (released 30 September 2016) from A\$11.5 million to nil.

The decision, made by the non-conflicted members of the Board of Directors (“Non-Conflicted Directors”), was implemented as part of the preparation of the Company’s annual accounts. This adjustment will result in a corresponding reduction in Deferred Exploration and Evaluation Expenditure.

The Non-Conflicted Directors believe, based on legal advice from Australian counsel, that the vesting condition associated with the B Shares is unlikely to be satisfied by the final vesting date due to the expected two-year construction timeline at Muga.

The Directors of Highfield confirmed that they continue to expect all relevant approvals required to commence construction at Muga, including a positive DIA and the Mining Concession, will be issued by the relevant Spanish Government departments.

Project Finance Update

The Company had previously announced a project finance mandate with four Mandated Lead Arrangers (“MLAs”) for long-term project finance facilities to fund the construction of the Project. Credit approvals from four banks have been received for a total of €185 million subject to satisfactory documentation and a number of conditions precedent to signing. The Company expects to finalise these items in due course. Additional funding alternatives will continue to be considered for the full project financing requirement with the view to selecting the best options later in the project execution cycle.

Vipasca Potash Project

Highfield’s 100%-owned Vipasca Project area (see Figure 1) includes the majority of the Vipasca permit, the entire Borneau permit and half of the Osquia permit. The Company is focusing on the deeper, higher-grade potash mineralisation that occurs in the P1 and P2 potash beds. The beds are located in the Muga sub-basin, which runs along strike to the north-west into the Vipasca permit area.

Limited work was carried out on the Vipasca Project during the Quarter.

Pintanos Potash 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 10 seismic profiles completed in the late 1980s.

Limited work was carried out on the Pintanos Project during the Quarter. Drilling to test the Exploration Target is planned to commence in the next quarter.

Sierra del Perdón Potash Project

Highfield's 100%-owned Sierra del Perdón Project (see Figure 1) is located less than 10km from Pamplona and is within 40km of the Company's flagship Muga Project.

Sierra del Perdón is a brownfield project which has hosted two former operating potash mines. The evaporite was historically mined, primarily for sylvinite but also for carnallite, before the mine closure in late 1996 due to relatively low potash prices of around US\$100/tonne. There is potential for potash exploitation in new, unmined areas in the Sierra del Perdón Project area and for limited additional production from brownfield (adjacent to historically mined) areas.

Limited work was carried out on the Sierra del Perdón Project over the Quarter.

Izaga Potash Project

Highfield's 100%-owned Izaga Project (see Figure 1) covers an area of more than 100km², where historic drill holes and 2D seismic show a relatively continuous evaporite with drill hole intersects containing potash. With further positive exploration results, the Project could display similar attributes to the Muga Project.

Permit applications are currently under consideration.

Basin Wide Potash Production and Logistics Scheme

The Company is investigating options for the exploitation of potash and salt mineralisation across its basin-wide project portfolio.

As reported in the Quarterly Activities Report dated 30 October 2015, global engineering consultancy, AECOM, has provided a detailed report on multiple transport options including rail extensions and slurry pipelines to a railhead. This report provides the Company with a good foundation to assess its various medium and long term options with respect to the development of Highfield's exciting pipeline of projects.

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. Further information can be found at the Foundation's website, www.geoalcali.com/geoalcali-foundation.

Projects

The Company's community engagement program has delivered numerous projects in the regions of Navarra and Aragón, the border between which the Muga Project straddles. The Company has recently broadened its engagement with the region of Aragón. Ongoing initiatives include a fertiliser education program in collaboration with the Agricultural Technology Centre of Aragón, the OrganiK nursery and fertiliser project, and a number of social welfare programs and cultural initiatives throughout the region.

Since its inception, the Foundation has supported 93 individual projects. It currently has 14 active projects. Eight of these are one-off contributions or sponsorships, and six are part of on-going, longer term collaborations.

Corporate

Commencement of Peter Albert as Managing Director and CEO

Mr Peter Albert commenced with Highfield Resources as Group Managing Director and Chief Executive Officer on 1 September 2016.

Former Managing Director, Mr Anthony Hall, has resigned from the Board of Directors, but will continue to provide Highfield with advisory services in the short to medium term.

Retirement of Mr Pedro Rodriguez from the Board of Directors

Mr Pedro Rodriguez has retired from the Board of Directors of Highfield effective 31 July 2016 (refer ASX release 1 August 2016). Mr Rodriguez has retired for personal reasons, but will continue to provide advisory services to the new Managing Director and Senior Executive Team for the foreseeable future.

Mr Rodriguez was responsible for the discovery of the assets in 2011 and, together with Highfield's Chairman, Derek Carter, effected the sale of the assets to Highfield Resources in 2012. Mr Rodriguez remains a significant shareholder in Highfield.

Cash position

As at 30 September 2016, the Company had A\$82.9 million in cash on its balance sheet.

Appendix 5B Statement of Cash Flows

The Company is preparing the Appendix 5B quarterly statement of cash flows and expects to release it to the ASX on or before 24 October 2016.

For more information:

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Table 1: Summary of Highfield's Mineral Interests as at 30 September 2016

Project	Region	Permit Name	Permit Type	Applied	Granted	Ref #	Area Km ²	Holder	Structure
Sierra del Perdón	Navarra	Quiñones	Investigation	19/07/2011	7/08/2012	35760	32.48	Geoalcali SL	100%
Sierra del Perdón	Navarra	Adiós	Investigation	19/07/2011	7/08/2012	35770	75.60	Geoalcali SL	100%
Sierra del Perdón	Navarra	Amplicación de Adiós	Investigation	26/10/2012	14/02/2014	35880	40.90	Geoalcali SL	100%
							148.98		
Muga	Navarra	Goyo	Investigation	19/07/2011	24/12/2012	35780	27.72	Geoalcali SL	100%
Muga	Navarra	Goyo Sur	Investigation	25/07/2014	Pending	35920	8.96	Geoalcali SL	100%
Muga	Aragón	Fronterizo	Investigation	21/06/2012	5/02/2014	Z-3502/N-3585	9.80	Geoalcali SL	100%
Muga	Aragón	Muga	Investigation	29/05/2013	7/04/2014	3500	20.40	Geoalcali SL	100%
Muga	Aragón	Muga Sur	Investigation	25/09/2014	Pending	3524	7.28	Geoalcali SL	100%
							74.16		
Vipasca (Muga)*	Navarra	Vipasca	Investigation	6/11/2013	11/12/2014	35900	38.92	Geoalcali SL	100%
Vipasca (Izaga)*	Navarra	Osquia	Investigation	28/04/2015	Pending	35970	81.20	Geoalcali SL	100%
Vipasca	Navarra	Bomeau	Investigation	28/04/2015	Pending	35960	80.33	Geoalcali SL	100%
							200.45		
Pintano	Aragón	Molineras 10	Investigation	20/11/2012	6/03/2014	3495/10	18.20	Geoalcali SL	100%
Pintano	Aragón	Molineras 20	Investigation	19/02/2013	Pending	3495/20	16.80	Geoalcali SL	100%
Pintano	Aragón	Puntarrón	Investigation	7/05/2014	Pending	3509	30.24	Geoalcali SL	100%
							65.24		
Izaga	Navarra	Girardi	Investigation	28/04/2015	Pending	35950	79.17	Geoalcali SL	100%
							79.17		
*Permit includes areas in two Projects						Total	568.00		

Location: All permits are located in Spain.

Holder: Geoalcali SL is a 100%-owned Spanish subsidiary of Highfield Resources Limited.

Changes: Nil

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 more than 550km². The Sierra del Perdón project includes two former operating potash mines.

The Company completed a Definitive Feasibility Study for its flagship Muga Project in March 2015, which was optimised in November 2015 to enhance operational efficiencies, sales and marketing activities and the life of mine. Highfield is awaiting a positive environmental declaration which will enable it commence construction of the Mine.

In addition to the existing Muga Project, Highfield also has significant Exploration Targets for an extension to Muga, as well as for the Vipasca and Pintanos Potash Projects.

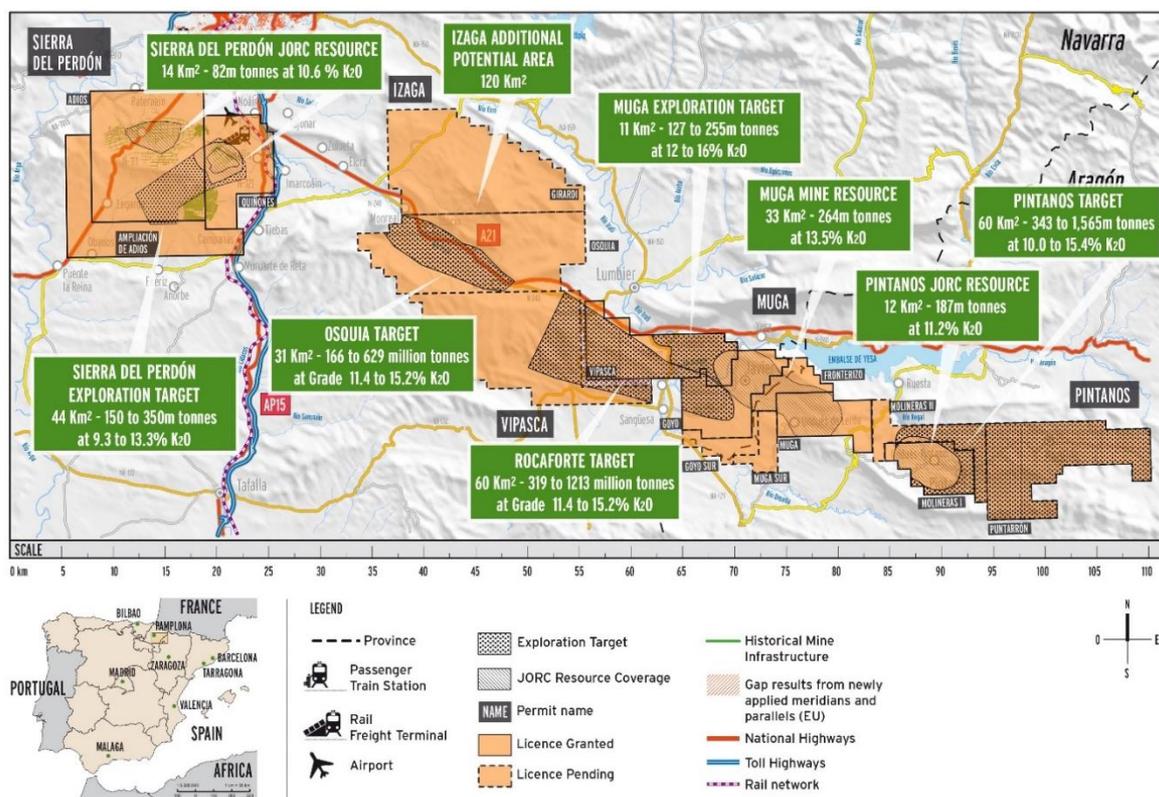


Figure 1: Location of Highfield's Muga, Vipasca, Pintanos, Izaga and Sierra del Perdón Projects in Northern Spain *

**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*