



ASX: HFR

28 January 2022

## 31 DECEMBER 2021 QUARTERLY ACTIVITIES REPORT

### HIGHLIGHTS

- Muga Project's Ore Reserve ("ORE") estimate updated and geological characteristics reconfirmed with 104.3 Mt at a mean grade of 10.2% Potassium Oxide (K<sub>2</sub>O)<sup>1</sup>.
- Muga Project's compelling economics also reconfirmed following the completion of the updated Feasibility Study<sup>2</sup>:
  - 30 year mine life;
  - NPV<sub>8</sub> of €1.9 billion and 25% IRR;
  - Sensitivity analysis using current flat real spot prices for the whole life of mine results in a post-tax NPV<sub>8</sub> of €2.8 billion and a 42% IRR; and
  - At full production, EBITDA of around €400 million per year.
- Construction agreement negotiations with Acciona progressed. In parallel, an open book tendering process for the construction works is being undertaken by both companies.
- Inflationary risk mitigation continued with another purchase contracts signed with Eriez to supply column cells.
- The process to obtain the construction licences is ongoing as two positive reports from Aragón have been received while the Company is expecting a decision about the split of the electricity works licence in Navarra ahead of the main licence for the plant.
- Comprehensive due diligence process, co-ordinated by Endeavour Financial, undertaken during the quarter. Draft term sheet by a potential syndicate of lenders progressed. Target debt sizing to start Phase 1 construction is around €300 million.
- Cash at bank as at 31 December 2021 was: A\$22.24 million

<sup>1</sup> (refer ASX release 23 November 2021, "Updated Ore Reserve Estimate – Muga Project")

<sup>2</sup> (refer ASX release 8 December 2021, "Muga Feasibility Study – Updated")



**Highfield Resources CEO, Mr Salazar, said:**

*“The Company was able to reconfirm ore reserves even after including all restrictions from the mining concession and also reconfirmed the compelling economics of the Project. Strong future expected Project cash flows supports an ambitious debt level target. The Company has mitigated recent inflationary risk with early procurement of plant equipment. We are working with Acciona negotiating the construction agreement and collaborating with consultants to complete the exhaustive due diligence for the banks. We continue to work with the administrations to obtain the construction licences. Another important quarter as we are advancing on all fronts to get Muga into construction.”*

## ACTIVITIES IN THE MUGA PROJECT DURING THE QUARTER

### Overview

Following the grant of the mining concession in July 2021, Highfield Resources’ (“Highfield” or “the Company”) flagship Muga Project (“Muga” or “the Project”) is progressing towards construction. The Company continues the negotiation of the construction agreement, preparing the documentation and negotiating different financing alternatives and advancing the construction licences. As part of this progress plan, the update of the ORE and the feasibility study have been concluded, and key long lead equipment has been contracted.

### Muga Project: Engineering and Construction Update

The Company is making progress in the negotiation of the construction agreement with its construction partner, Acciona Construcción SA (“Acciona”). At the same time the Company together with Acciona are running a tendering process, on an open book basis, for the construction works.

The Company has signed an additional contract for the purchase of equipment for the processing plant. This contract has been signed with Eriez Flotation Division Canada Inc (“Eriez”), with a total value of €1.1 million and provides the column cells for the secondary flotation which increases the grade of the KCl (potassium chloride) concentrate. The Company expects to sign the final remaining two agreements for plant equipment during the current quarter.

### Muga Project: Permitting Update

The townhalls of Sanguesa (Navarra) and Undués de Lerda (Aragón) are responsible for the construction licences for the processing plant and the mine gate respectively. As part of the local licencing procedure, both townhalls have requested secondary reports from the governments of Navarra and Aragón to provide further support to their process. A positive report has already been received from the Aragón administration and another one from the Province of Zaragoza, reassuring the Undués de Lerda townhall on the conditions and process to advance the mine gate licence. At the same time, the Company has been in discussions with the Navarra administration to split the electricity works from the main construction licence of the processing plant and a decision is expected in the next few weeks. Although receiving the electricity works licence early is not essential for the project, it would allow the construction of the electricity line ahead of the main construction of the project and the use of electricity from the grid rather than from generators with significant savings in costs and CO2 emissions.



## Muga Project Financing

During the quarter, the Company continued to work with its Financial Advisor, Endeavour Financial, to secure appropriate financing for Phase 1. Based upon its assessment of the Muga Project and following positive feedback on a draft term sheet by a potential syndicate of lenders, the Company is targeting debt sizing of around €300 million to start construction of Phase 1. The due diligence is progressing well and the plan is to have the term sheet with the banks in the first quarter of 2022. A comprehensive due diligence process has been undertaken during the quarter, including a site visit by consultants covering technical, environmental and social assessments of the Muga project. The corresponding due diligence reports are being finalised and will be critical to provide reassurance to the banks in the debt financing process.

The receipt of the Mining Concession, the strong market fundamentals and the recent increase in the share price is continuing to drive interest in the Company and provide impetus to the Company's engagement with its key brokers and strategic partners in the context of reviewing alternative strategic financing options, prior to the start of construction works.

## Exploration

There were no significant developments during the quarter in the Pintanos and Sierra del Perdón tenement areas. The current priority for the Company is the development of Muga.

## Cash Position

As at 31 December 2021, the Company had A\$22.24 million in cash. The main payments during the quarter were made to sign purchase contracts for long-lead plant equipment, which also entails the delivery of detailed engineering for the equipment to complement the plant design. G&A expenditure and other minor permitting related payments were done during the quarter.

## Payments to Related Parties

As outlined in section 6 of the attached Appendix 5B, payments to related parties of the entity and their associates, totalling A\$238,000, relate to fees and salaries paid to executive and non-executive Directors during the quarter.

## Outlook and Strategy - Plans for March 2022 Quarter

Preparation for the Construction phase:

- Finalise construction agreement with our construction partner, Acciona.
- Finalise strategy for the debt and other sources of capital and equity financing for Muga with shareholders, brokers, investors, banks and other financial parties in collaboration with Endeavour Financial.
- Continue to progress construction licences with town-halls (local councils) in Navarra (Sanguesa) and Aragón (Undués), including a decision about the possibility of splitting the grant of the licence of the electricity works ahead of the main plant licence.

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

-ENDS-

# QUARTERLY ACTIVITIES REPORT



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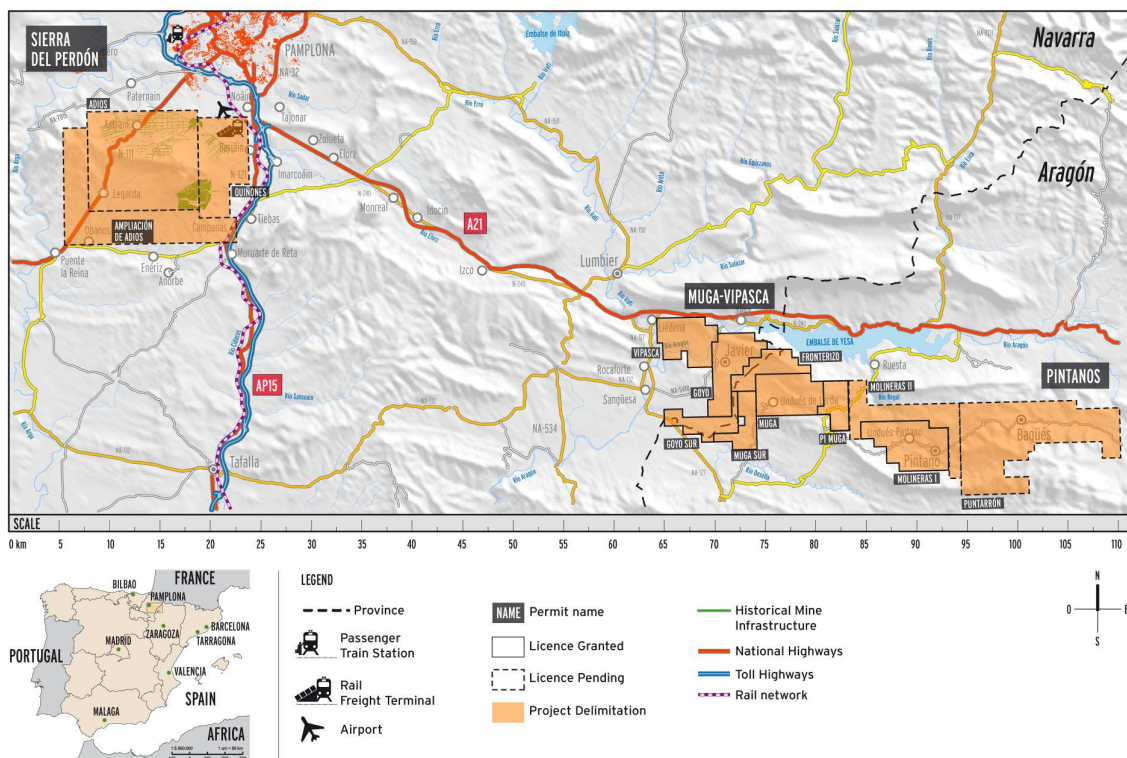


## ABOUT HIGHFIELD RESOURCES

Highfield Resources is an ASX listed potash company which is focussing on the construction of its flagship low cost, low capex Muga Project in Spain having been granted the Mining Concession in July 2021.

Muga is a unique project – with shallow mineralization with no aquifers above it there is no need to build a shaft. There is quality and readily accessible infrastructure already in place in the region and importantly, the Muga Project is located in the heart of a European agricultural region which has a clear deficit in potash supply.

Highfield's potash tenements (Muga-Vipasca, Pintanos, and Sierra del Perdón) are located in the Ebro potash producing basin in Northern Spain, covering an area of around 262km<sup>2</sup>.



**Figure 1: Location of Muga-Vipasca, Pintanos, and Sierra del Perdón Tenement Areas in Northern Spain**

# QUARTERLY ACTIVITIES REPORT



**Figure 2: Artist impression of the Muga project**

MINING CONCESSIONS												
Tenement area/Project	Region	Permit Name	Permit Type	Applied	Granted	First Extension Granted	Second Extension Granted	Ref #	Area Km2	Holder	Structure	
Muga	Navarra	Goyo	Mining	10/12/2014	01/07/2021	--	--	35780	15.3	Geoalcali SL	100%	
Muga	Aragón	Fronterizo	Mining	10/12/2014	01/07/2021	--	--	3502	9	Geoalcali SL	100%	
Muga	Aragón	Muga	Mining	10/12/2014	01/07/2021	--	--	3500	14.4	Geoalcali SL	100%	
									<b>38.70</b>			
INVESTIGATION PERMITS												
Sierra del Perdón	Navarra	Quiñones	Investigation	19/07/2011	Application in process	--	--	35760	22.88	Geoalcali SL	100%	
Sierra del Perdón	Navarra	Adiós	Investigation	19/07/2011	Application in process	--	--	35770	59.40	Geoalcali SL	100%	
Sierra del Perdón	Navarra	Ampliación de Adiós	Investigation	26/10/2012	Application in process	--	--	35880	40.90	Geoalcali SL	100%	
									<b>123.18</b>			
Vipasca	Navarra	Vipasca	Investigation	06/11/2013	11/12/2014	09/04/2018	30/04/2021	35900	14.1	Geoalcali SL	100%	
									<b>14.1</b>			
Muga	Navarra	Goyo Sur	Investigation	25/07/2014	13/12/2019	--	--	35920	8.96	Geoalcali SL	100%	
Muga	Aragón	Muga	Investigation	29/05/2013	07/04/2014	25/09/2019	--	3500	5.32	Geoalcali SL	100%	
Muga	Aragón	Muga Sur	Investigation	25/09/2014	30/06/2020	--	--	3524	7.28	Geoalcali SL	100%	
									<b>21.56</b>			
Pintanos	Aragón	Molineras 10	Investigation	20/11/2012	06/03/2014	08/06/2020	--	3495/10	18.2	Geoalcali SL	100%	
Pintanos	Aragón	Molineras 20	Investigation	19/02/2013	Pending	--	--	3495/20	16.8	Geoalcali SL	100%	
Pintanos	Aragón	Puntarrón	Investigation	08/05/2014	Pending	--	--	3510	30.24	Geoalcali SL	100%	
									<b>65.24</b>			
									<b>Total</b>	<b>262.78</b>		

**Location:** All permits are located in Spain.

**Holder:** All permits are held by Geoalcali S.L.U., a 100% owned Spanish subsidiary of Highfield Resources Limited.

**Highfields Resources**

ACN 153 918 257

ASX: HFR

[www.highfieldresources.com.au](http://www.highfieldresources.com.au)



# QUARTERLY ACTIVITIES REPORT

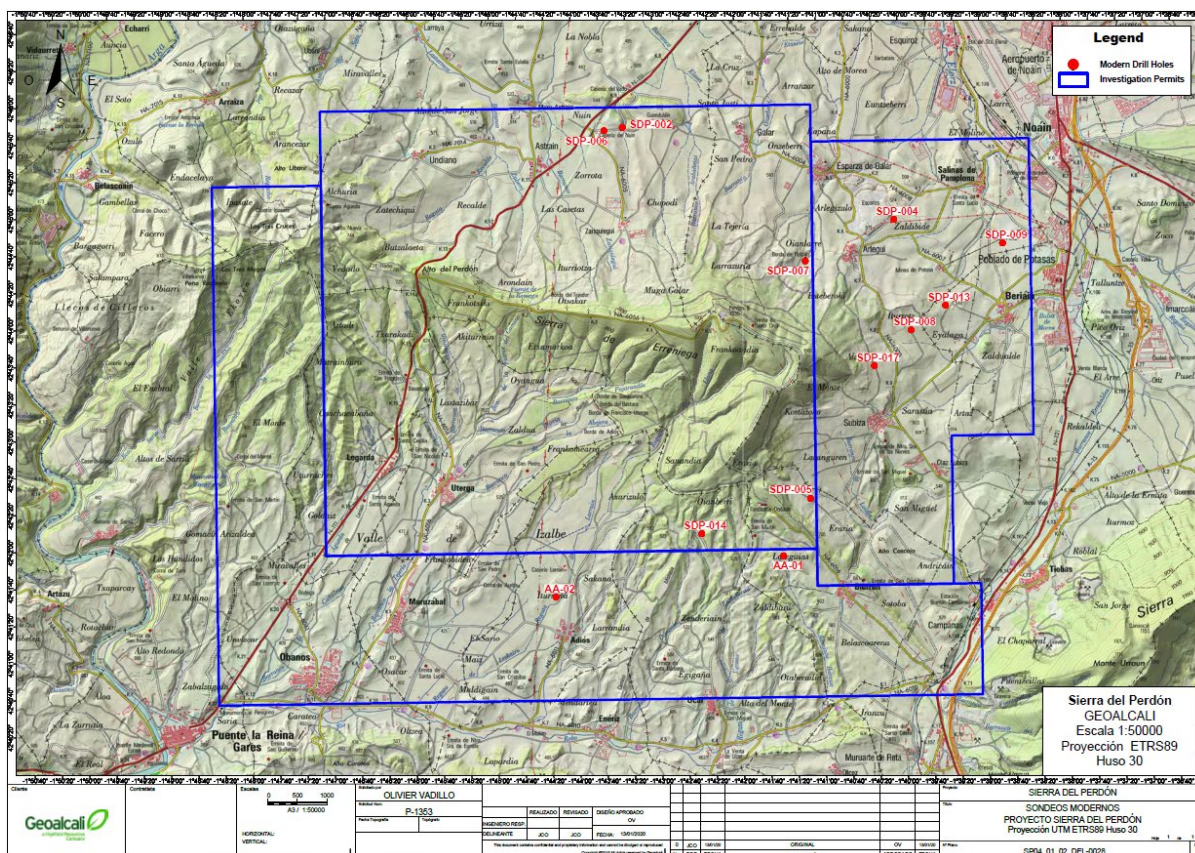


Figure 3: Location of Sierra del Perdón drill holes



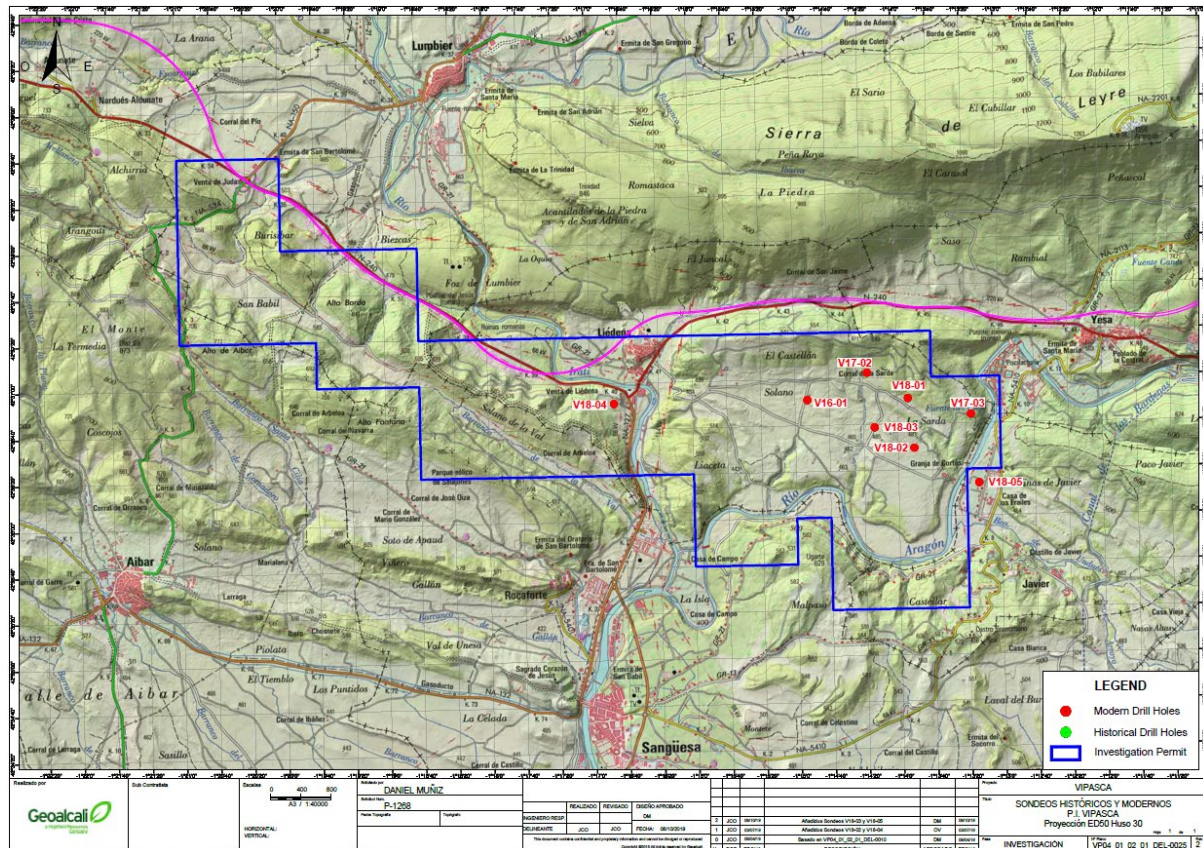


Figure 4: Location of Vipasca drill holes





## COMPETENT PERSONS STATEMENT FOR MUGA ORE RESERVES AND MUGA MINERAL RESOURCES

This update was prepared by Mr. Ignacio Salazar Director of Highfield Resources. The information in this update that relates to Ore Reserves is based on information prepared under the direction of Dr Mike Armitage, a Corporate Consultant with SRK Consulting (UK) Limited. Dr. Mike Armitage CEng, CGeol. is the Competent Person who assumes overall professional responsibility for the reported Ore Reserve. The information related with the review of the Life of Mine ("LOM") that underpins the Ore Reserves has been prepared by Mr Chris Bray, who is a full-time employee of and Principal Consultant (Mining) at SRK. The information in this update that relates to Mineral Resources is based on information prepared by Ms Anna Fardell, a Senior Consultant at SRK Consulting (UK) Limited.

Dr Mike Armitage is a Member the Institute of Materials, Metals and Mining ("IMMM") which is a 'Recognised Overseas Professional Organisation' ("ROPO") included in a list promulgated by the Australian Stock Exchange ("ASX") from time to time. Dr. Mike Armitage 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 a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr. Mike Armitage consents to the inclusion in this update of the matters based on this information in the form and context in which it appears.

Mr Chris Bray BEng, MAusIMM (CP) is taking responsibility for the review of the LOM plan, as reported by the Company. Mr Bray is a full-time employee and Principal Consultant (Mining) at SRK. He is a Member of and Chartered Professional in the Australasian Institute of Mining and Metallurgy. He is a Mining Engineer with 24 years' experience in the mining and metals industry, including operational experience in underground mines as well as mine planning and review experience on underground potash, salt, lithium and borate projects, and as such qualifies as a CP as defined in the JORC Code. He has also been involved in the reporting of Ore Reserves on various properties internationally for over 10 years.

Ms Anna Fardell is a Senior Resource Geologist employed by SRK, and has over 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 and Exploration Target 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 ORE RESERVES AND MUGA MINERAL RESOURCES.

This report was approved by Mr Ignacio Salazar, CEO of Highfield Resources. The information in this report that relates to 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 Osinaga and Mr Manuel Jesús Gonzalez Roldan consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

## Appendix 5B

### Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

HIGHFIELD RESOURCES LIMITED

ABN

51 153 918 257

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers		
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	6	(142)
	(b) development		
	(c) production		
	(d) staff costs	(1,213)	(3,063)
	(e) administration and corporate costs	(508)	(2,207)
1.3	Dividends received (see note 3)		
1.4	Interest received		
1.5	Interest and other costs of finance paid	(5)	(36)
1.6	Income taxes paid		
1.7	Government grants and tax incentives		
1.8	Other (GST/VAT refunded)	401	1,104
<b>1.9</b>	<b>Net cash from / (used in) operating activities</b>	<b>(1,319)</b>	<b>(4,344)</b>

<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment	-	(2)
	(d) exploration & evaluation (if capitalised)	(2,641)	(10,699)
	(e) investments		
	(f) other non-current assets		

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
2.2	Proceeds from the disposal of:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment		
	(d) investments		
	(e) 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)		
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(2,641)</b>	<b>(10,701)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		18,112
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		(825)
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)		
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>		<b>17,287</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	26,480	20,202
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,319)	(4,344)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,641)	(10,701)
4.4	Net cash from / (used in) financing activities (item 3.10 above)		17,287

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	(279)	(203)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>22,241</b>	<b>22,241</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	22,241	26,480
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>22,241</b>	<b>26,480</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter  
\$A'000**

238

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

The above payments relate to fees and salaries paid to Directors during the quarter.



## Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. <b>Financing facilities</b>		<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>			
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>			
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	<b>Total financing facilities</b>		
7.5	<b>Unused financing facilities available at quarter end</b>		
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. <b>Estimated cash available for future operating activities</b>		<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (Item 1.9)	(1,319)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(2,641)
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(3,960)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	22,241
8.5	Unused finance facilities available at quarter end (Item 7.5)	
8.6	Total available funding (Item 8.4 + Item 8.5)	22,241
8.7	<b>Estimated quarters of funding available (Item 8.6 divided by Item 8.3)</b>	5.62
8.8	If Item 8.7 is less than 2 quarters, please provide answers to the following questions:	
1.	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer:	
2.	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer:	
3.	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer:	

## **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.

Date: 28 January 2022

Authorised by: the Board of Highfield Resources Ltd.

(Name of body or officer authorising release – see note 4)

## **Notes**

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.