



September 2023 Quarterly Activities Report

HIGHLIGHTS

- Major focus on completing remaining phase 1 funding, working with financial advisors, Macquarie bank, Clarksons Securities and Endeavour Financial in negotiations with numerous parties encompassing strategic partnerships, non dilutive royalties, equity and offtake agreements.
- The Company is currently updating its base case economic model for Muga and an update to the market will be provided once completed. The Company expects the headline numbers to be generally in line with the previous feasibility study.
- Potash (MOP) market dynamics showing positive outlook indicators with prices forecast to increase. Growing need for supply diversification following increasing geopolitical tensions.
- Land expropriation process successful with land access secured for the Project.
- Preliminary works necessary prior to start of the main construction progressed during the Quarter, some of them carried out in the recently expropriated lands.
- Construction of main facilities now planned to start in early 2024.
- A\$16.4M cash at bank at 30 September 2023.

European potash developer, Highfield Resources Limited (ASX:HFR) (“Highfield”, or the “Company”) is pleased to provide the market with an update on activities developing the world class Muga Potash mine (“Muga”, “Mine” or “Project”), located in Spain, in the September 2023 quarter.

MUGA POTASH MINE

Highfield is focused on building a globally significant and sustainable Potash business. The Muga Potash mine has outstanding forecast Project economics with a low-cost position underpinning a high-margin operation that has excellent logistics with direct highway road access to customer markets, renewable grid power, established social licence to operate, and an experienced team in place to execute. The Company is currently updating its base case economic model for Muga and an update to the market will be provided shortly. The Company expects the headline numbers to be generally in line with the previous feasibility study updated in November 2022 (refer ASX release, 2 November 2022, “Muga Project Updated Feasibility Study”).

The Project is fully permitted (including construction licences), and the Muga Potash mine is now construction ready, subject to financing.

PROJECT FINANCING

The Company will develop the Muga Potash mine over two phases and has secured an important part of the funding for phase 1 with €320M in senior secured project financing debt through BNP Paribas S.A., ING Bank



N.V., Natixis CIB, Societe Generale, HSBC Continental EU, and Caja Rural de Navarra. Up to €27M of equipment operating lease financing has also been secured with Macquarie Bank.

Highfield is exploring multiple sources for the remaining financing in order to reach a Final Investment Decision (“**FID**”) and the commencement of construction. Together with its financial advisors, Macquarie Bank, Clarksons Securities and Endeavour Financial, a number of negotiations are underway on the remaining financing mix which include non-dilutive royalty, a strategic project partner, and equity. The Company is looking for the financing mix which maximises shareholder value.

The Company is aiming to finalise financing discussions and to secure all remaining funding for phase 1 capital requirements to enable the start of construction of the main facilities in early 2024.

POTASH MARKET DYNAMICS

As one of the three main macronutrients, potash (K_2O) is a critical fertilizer input to the global farming industry. Potassium plays a vital role for all plants for water uptake and the synthesis of plant material, improving plant health. The two most common forms of potassium are Muriate of Potash (MOP) and Sulfate of Potash (SOP). Potash is mined by one of three methods: conventional mining, solution mining, or brines. Highfield’s Muga mine in Spain is a conventional mine and will produce MOP which is used in the majority of fertilizer products globally. No substitutes exist for potassium as an essential plant nutrient.

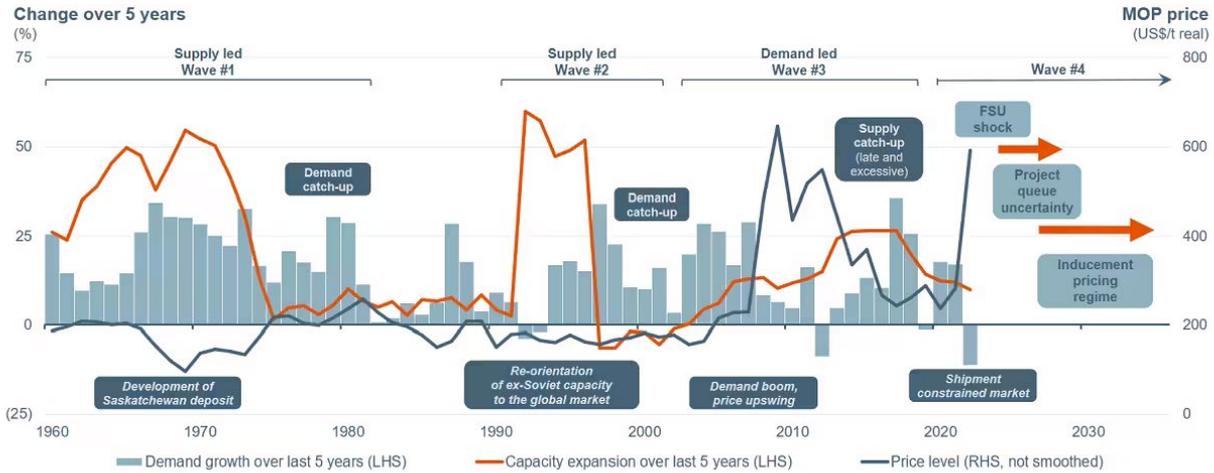
Currently the top five MOP producing countries¹ include: Canada (31.3%), Russia (20.8%), Belarus (18%), China (9.5%), and Israel (5.3%). Over the past two years, MOP price increases have been driven by a number of factors, including increases in input costs, supply disruptions caused by sanctions (Russia and Belarus), and export restrictions (China). The global potash industry continues to face significant supply challenges with existing volatility due to the continuing Russian-Ukrainian war, re-evaluation of dependence on Chinese supply, and now compounded by the recent Palestine/Israel conflict. As can be seen from the graph below (see figure 1), analysts are now predicting that further volatility in potash supply could impact prices once more in the medium term with a potential “4th wave” of price increases forecast.

This evolving market dynamic may lead to an increased need for diversification of potash supply and represents a strategic opportunity for Highfield’s Western European Muga Potash mine located in Spain.

¹ Natural Resources Canada (NRCan)

The waves that have defined the potash industry

The 4th wave was getting underway pre-FSU shock. An inducement pricing regime remains the most likely outcome for the 2030s



Data: BHP analysis based on multiple sources. Latest datapoint in 2022. FOB Vancouver prices have averaged \$US480/t in 2023 to date, with our latest spot estimate around \$400/t. Note: New supply from FSU is shown in 1990s when existing supply was re-directed from domestic and Eastern Bloc markets after local demand collapsed. Eastern Bloc demand excluded until 1992. 2009 demand excluded.

Figure 1 – Potash market outlook showing that positive indicators are emerging

(source: BHP, Potash outlook 2023 – fourth wave scenario)

EXPLORATION

There were no significant mining exploration activities during the quarter. The current priority for the Company is the development of the Muga Potash mine.

PROJECT ACTIVITIES

Following the successful expropriation process in Navarra, and with land access secured for the Project, some preliminary works, which need to be carried out prior to the main construction have been progressed during the quarter.

Earthworks commenced in Navarra, in preparation of the areas for the saline waste deposit and the environmental protection barriers around the footprint of the Project. These works are to be built partially from the excavated material from the mine’s boxcut (see figure 2) and the construction of the ponds.



Figure 2 – Earthmoving activities

The Company completed several large diameter boreholes for the hydrogeological control of underground waters according to the environmental monitoring plan approved for the Project (see figure 3). These boreholes have been equipped with hydrogeological control piezometers, which the Company will monitor throughout the construction phase of the Project and the subsequent operation of the mine. The readings made prior to the start of construction will provide the baseline for underground water levels.



Figure 3 - Borehole drill campaign

Additionally, during the quarter, the geological, geotechnical and hydrogeological investigation campaign was completed in the remaining areas not previously accessible by the Company to confirm the design of the freshwater and saline ponds to be located there. Nine geotechnical drillholes, several trial pits and dynamic penetration tests have been carried out throughout these areas as well as a battery of in situ hydrogeological and pumping tests.

CORPORATE

As at 30 September 2023, the Company's cash balance was A\$16.4 million. Cash outflows during the period at A\$5.4m were down by 54% (or A\$6.3m) when compared to the previous quarter, which had included the payment of the second tranche of upfront fees to the project finance bank partners. Primary expenditure in the September quarter relates to general admin costs (A\$2.8m), consultant fees and other charges related to the project's funding (A\$1.6m), preliminary works at the mine site (A\$0.7m) and other expenses to progress the project (A\$0.3m).

Cash preservation remains a priority and prudent measures to manage non-essential expenditure have been implemented. The Company remains focused on obtaining the remaining capital required to commence full

Highfield Resources Limited

ACN 153 918 257

ASX: HFR

www.highfieldresources.com.au

ASX ANNOUNCEMENT

30 October 2023

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scale construction of Muga in early 2024. In this respect, several key steps have been taken so far, primarily the execution of the principal credit facilities for a total €320 million, the operating lease with Macquarie with a total value of up to €27 million and the recent strategic investment of A\$25 million from EMR and Tectonic. (refer ASX, 25 May 2023, “Key Strategic Investment of A\$25m Secured”)

In August 2023, the Company was deeply saddened to inform shareholders of the passing of its Board member, Mr Brian Jamieson. Mr Jamieson joined the Highfield Board in May 2018 and made a significant contribution over the ensuing five years as both a non-executive Director and Committee member.

In September 2023, Highfield welcomed experienced resources and industrial minerals senior executive, Mr Luke Anderson, to the Board as a Non-executive director. (refer ASX, 13 September 2023, “Non-executive Director Appointment”)

PAYMENTS TO RELATED PARTIES

As outlined in section 6 of the attached Appendix 5B, payments to related parties of the entity and their associates, totals A\$695k, relate to fees and salaries paid to executive and non-executive Directors during the quarter and includes payment of prior year items.

OUTLOOK AND STRATEGY – DECEMBER 2023 QUARTER

Preparation for the Construction phase:

- Complete feasibility model review and update market
- Sign construction agreement for the declines
- Continue negotiations with financiers and strategic partners
- Enhance marketing and shareholder engagement activities
- Prepare for Final Investment Decision
- Pre-work for commencement of construction

-ENDS-

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

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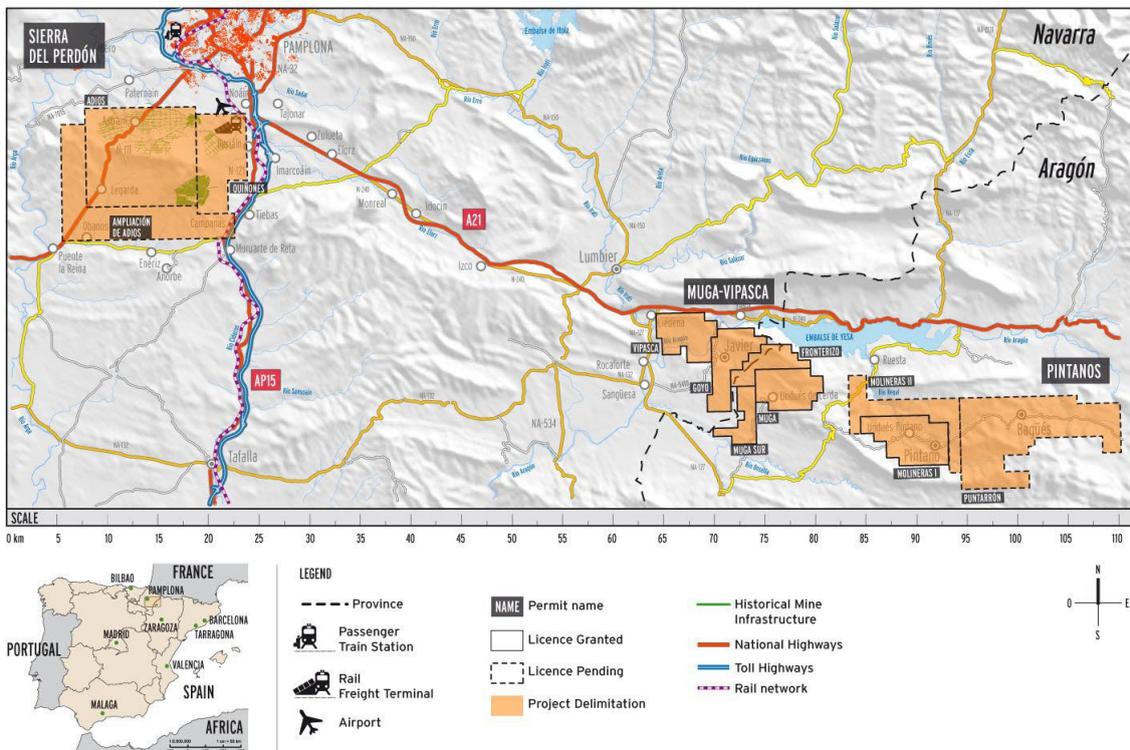
About Highfield Resources

Highfield Resources is an ASX listed potash company which is focusing on the construction of its flagship low cost, low capex Muga Project in Spain having now received all permits and key licences needed. With the Mining Concession being granted in July 2021, the ramp construction licence in Aragón in June 2022 and the process plant construction licence in Navarra in March 2023. Following the finalisation of the initial site preparatory work of the mine gate and decline area, full scale construction is expected to commence in early 2024.

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. In addition to Muga’s secure southern European location, since February 2022 events in Russia and Belarus have heightened the awareness of the strategic value of the Muga Project for both Spain and the European Union.

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 250km².

LOCATION OF MUGA-VIPASCA, PINTANOS, AND SIERRA DEL PERDÓN TENEMENT AREAS IN NORTHERN SPAIN.



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")

30 September 2023

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 (if expensed)		(3)
(b) development		
(c) production		
(d) staff costs	(1,272)	(2,578)
(e) administration and corporate costs	(2,391)	(6,174)
1.3 Dividends received (see note 3)		
1.4 Interest received	69	111
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (GST/VAT refunded)	136	684
1.9 Net cash from / (used in) operating activities	(3,458)	(7,960)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) tenements		
(c) property, plant and equipment	(3)	(906)
(d) exploration & evaluation (if capitalised)	(1,939)	(7,001)
(e) investments		
(f) other non-current assets		

Mining exploration entity or oil and gas exploration entity quarterly cash flow 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) 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)		
2.6	Net cash from / (used in) investing activities	(1,942)	(7,907)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		24,616
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		(11,567)
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	-	13,049

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	21,832	19,446
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,458)	(7,960)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,942)	(7,907)
4.4	Net cash from / (used in) financing activities (item 3.10 above)		13,049

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(10)	(206)
4.6	Cash and cash equivalents at end of period	16,422	16,422

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	16,422	21,832
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)	16,422	21,832

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**

695

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. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities		
7.2 Credit standby arrangements		
7.3 Other (please specify)	24,616	24,616
7.4 Total financing facilities		

7.5 **Unused financing facilities available at quarter end**

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.

A convertible note of approximately A\$25 million was secured in the previous quarter with a maturity date of 24 months from the convertible notes' completion date (refer ASX 23 May 2023, "Key Strategic Investment of A\$25m Secured"). Funds managed by EMR Capital Management Ltd. and Tectonic Investment Management and related parties are the noteholders.

The debt will accrue interests (at a 14% per annum) that will be paid in kind via addition to the convertible notes amount and will mandatorily be converted into fully paid ordinary shares in the Company before the first drawdown of the €320.60 million senior loan facility secured with a group of international banks to fund the Muga Project.

This note is secured by a share pledge over all the shares in and shareholder loans to, the Spanish subsidiary, Geocalci, S.L.U. which owns and is developing the Muga Project.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(3,458)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(1,939)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(5,397)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	16,422
8.5 Unused finance facilities available at quarter end (Item 7.5)	
8.6 Total available funding (Item 8.4 + Item 8.5)	16,422
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	3.04

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

- 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:

- 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: 30 October 2023

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.