



August 26, 2015

Highfield Resources Ltd.

Expect important catalysts in next 6 months

Our view: We think the next 6 months will be critical for Highfield with several upcoming catalysts including: mining approval, construction start-up, and full project financing. We continue to view Highfield as a potential high-reward, high-risk investment with asymmetrical upside and attractive valuation even at spot prices.

Key points:

Mining approval key to unlocking value: We believe the current focus is on obtaining the Mining Concession permit for Highfield's Muga project. The Mining Concession application (along with the Environmental Impact Assessment) was submitted December 2014 and the typical review period is 6-12 months. Technically the government must respond within 6 months, although bureaucratic processes have been slow and no response has been issued yet. Highfield may choose to begin mine construction without the Mining Concession - construction requires only municipal construction approval. However, we expect management will wait to secure the Mining Concession to de-risk the project since potential minor delays are only minimally detrimental to the project valuation.

In our valuation, we already assumed a longer permitting process and a late-2015 approval. Our valuation also assumes that production starts in calendar 4Q/17, a 6-month delay vs. Highfield's base case, to account for potential approval and construction delays. We estimate every 6-month delay reduces our Highfield valuation by ~2-3%.

Expect full project financing by end-2015: Highfield has also been working to secure financing for the Muga project. The company raised ~A\$100M through an equity issuance in May 2015 which bolstered the balance sheet, and we expect a debt raise before end-2015 to cover the remaining capex requirements for Muga Phase 1 (~EUR200M required based on EUR270M capex). We believe the low capex requirements for the Muga project and relatively attractive technical/geopolitical risk profile will help Highfield to secure full project financing.

Highfield remains a high reward, high risk investment with asymmetrical upside: We continue to believe Highfield offers high potential upside with attractive characteristics - low capex, low geopolitical risk, low technical risk, developed market, low financing risk - and our spot price valuation returns a still attractive \$1.99/sh valuation. However, we think Highfield's valuation is highly dependent on potash price volatility, a successful permitting/construction process, and the risks normally associated with undeveloped projects.

Maintain Outperform, Speculative Risk rating, Raise Price Target to \$2.75: We have slightly lowered our long-term potash price and increased share count for equity dilution, which is more than offset by weaker AUD/USD.

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Sector: Agriculture, Chemicals & Fertilizers

Outperform Speculative Risk

ASX: HFR; AUD 1.24

Price Target AUD 2.75 ↑ 2.70

WHAT'S INSIDE	
<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input type="checkbox"/> News Analysis

Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	310.3	Market Cap (MM):	385
Dividend:	0.00	Yield:	0.0%
		Enterprise Val. (MM):	747
		Avg. Daily Volume:	1,006,673

RBC Estimates

FY Jun	2014A	2015E	2016E	2017E
EPS, adjusted	(0.06)	(0.04)	(0.01)	(0.02)
Prev.		(0.05)	(0.03)	(0.03)
P/E				
Adjusted EBITDA	(5.5)	(9.6)	(3.2)	(8.1)
Prev.			(9.2)	(10.0)
EV/Adj. EBITDA	NA	NA	NA	NA
CFPS, adjusted	(0.05)	(0.01)	0.01	(0.01)
Prev.		(0.02)	(0.01)	
P/CFPS			NM	
FCFPS	(0.05)	(0.02)	(0.01)	(0.01)
Free Cash Flow Yield	NA	NA	NA	NA
EPS, adjusted		H1		H2
2014		(0.06)A		(0.02)A
2015		(0.03)A		(0.02)E
2016		(0.00)E		(0.00)E
Prev.		(0.02)E		(0.02)E
Adjusted EBITDA				
2014		(2.9)A		(2.6)A
2015		(5.1)A		(4.5)E
2016		(1.5)E		(1.7)E
Prev.		(4.5)E		(4.8)E

All values in AUD unless otherwise noted. AUDMM except per share data.

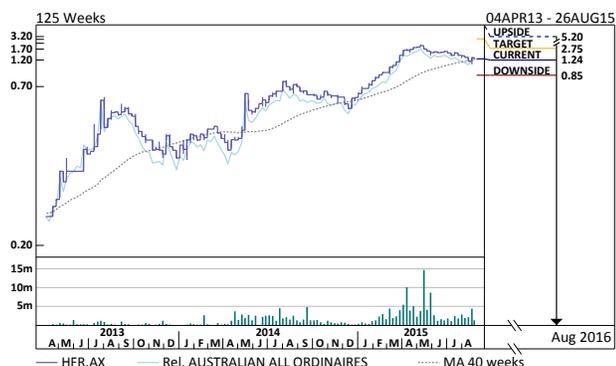
Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 12.



Target/Upside/Downside Scenarios

Exhibit 1: Highfield Resources Ltd.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

Our \$2.75 price target is based on a sum-of-the parts net asset value analysis and applies an 11% discount rate for the Muga project, 13% for Sierra del Perdon, and 15% for Muga/Vipasca Extension. These discount rates are higher than the 9% we use to value larger, more established current producers and reflect the greater uncertainty associated with an undeveloped project. We use our long-term Brazil CFR potash price forecast of \$370/tonne and we do not include the potential for salt by-product credits in our valuation.

Upside scenario

We base our \$5.20 upside scenario on a combined NAV and forward EV/EBITDA analysis. Our upside \$5.31 NAV assumes that the Muga, Sierra del Perdon, and Muga/Vipasca Extension projects are successfully brought to production on time and with better operating parameters. Our upside \$5.36 EV/EBITDA valuation assumes that the Muga, Muga/Vipasca Extension, and Sierra del Perdon projects are brought into production through 2021 and Highfield is valued on an 8x EV/EBITDA basis, below the 8.5x we use to value current producers, discounted back 10% annually.

Downside scenario

We base our \$0.85 downside scenario on a combined NAV and EV/production tonne peer-comparison. Our downside \$1.08 NAV assumes that Muga project permitting and construction are significantly delayed, with lower-than-expected operating parameters when in production. Our downside \$0.65 EV/production tonne valuation is based on a peer comparison of junior potash developing companies and applies \$25/tonne of potential potash production.

Investment summary

We believe Highfield’s potash properties located in Spain are among the best undeveloped greenfield projects globally, with near-surface mineralization, low-capex, and competitive costs. We think there is significant potential upside, balanced by greater risk normally associated with early-stage projects.

Potential catalysts

Financing: Following the A\$100M equity financing in May 2015, we believe the next financing steps will be to secure the remaining capex requirements (~EUR200M) for Muga Phase 1 either through debt (most likely) and/or strategic partnerships.

Permitting: Highfield submitted its mine concession application to the federal and regional governments in December 2014 and expects to receive approval in 4Q/15. Critically, the application includes the Environmental Impact Assessment, which in our view is the major permitting hurdle. We note that the previous submission of a very comprehensive Memoria Resumen (essentially a pre-Environmental Impact Assessment) received constructive feedback that was incorporated in the December application.

Construction: Highfield expects to start construction of its Muga project in 4Q/15. The company has initiated the procurement process with vendors and is expected to be ready for construction shortly after receiving government approval. We assume construction starts in 1Q/16 in our model.

Investment risks

Potash price volatility: Our Highfield valuation is very sensitive to changes in the realized potash price, which is influenced by the market price (primarily Brazil and Europe CFR) and the price discount received by Highfield due to marketing and contract costs.

Potential delays from permitting and construction: The Muga project has not yet received final approval from the government and there is potential for permitting and/or construction delays that could negatively impact our valuation.

Capital or operating cost challenges: We believe industry-low capex costs are a significant benefit and operating costs will be very competitive. However, we note that capital cost overruns are common with early-stage projects, and potash mining and processing can be challenging.

Currency volatility: Highfield's properties are located in Spain and it plans to sell potash in Europe and Brazil. Our valuation is very sensitive to changes in the USD/EUR and USD/AUD exchange rates.



Valuation

Base case valuation

We rate Highfield Resources shares **Outperform, Speculative Risk with a \$2.75 price target**. We value Highfield based on a sum-of-the parts NAV analysis and apply an 11% discount rate for the Muga project, 13% for Sierra del Perdon, and 15% for Muga/Vipasca Extension. These discount rates are higher than the 9% we use to value larger, more established current producers and reflect the greater uncertainty associated with undeveloped projects. Additionally, we use our long-term Brazil CFR potash price forecast of US\$370/tonne.

Our Muga project valuation is based on parameters that are more conservative than the DFS and include: lower ore grade and mill recovery; higher capital cost estimates based on higher FX and potential cost inflation; a later start-date to account for potential permitting or construction delays; higher operating costs due to lower grade/recovery and to account for potential unforeseen challenges; and a more moderate potash price forecast.

Our Sierra del Perdon project valuation assumes a potential 495Kt project at the previously mined property. Compared to the scoping study, we model more conservative recovery and grades, and higher costs (both capex and opex) due to potential challenges with processing carnallite ore.

Our Muga/Vipasca Extension project valuation assumes a potential 573Kt project based on resource extension northwest of the current Muga project. We model slightly lower resource and grade compared to the company's exploration target, and a recovery rate similar to the Muga project. We also assume higher per-tonne capex compared to the Muga project due to potentially deeper mineralization which may require shaft access.

Exhibit 2: Highfield Resources valuation – Price Target \$2.75

Valuation Parameters – RBC vs. HFR

Valuation Parameters	HFR			RBC Estimates		
	Muga DFS	SDP	Muga Extension	Muga	SDP	Muga/Vipasca Extension
Benchmarks - Long term						
USD/EUR	1.05	1.05	-	1.15	1.15	1.15
Brazil Potash CFR (US\$/tonne)	\$383	\$383	-	\$370	\$370	\$370
Europe Potash CFR (US\$/tonne)	\$373	\$373	-	\$352	\$352	\$352
Production						
Reserve (million tonnes)	138.0	63.0	127 - 255	138.7	66.5	70.1
Grade (%)	12.75%	12.00%	14 - 16%	12.50%	11.50%	13.00%
Mined Ore Capacity/year	6.30	3.15	-	6.30	3.15	3.15
Recovery (%)	84%	83%	-	83%	82%	84%
Production Capacity ('000 tonnes)	1,123	520	-	1,089	495	573
Start Date	2Q/17	2Q/18	-	4Q/17	2Q/19	2Q/20
Price (US\$/tonne)						
Price discount (%)	-10%	-10%	-	-10%	-10%	-10%
FOB Spanish Port realized Price ¹²	\$335	\$335	-	\$318	\$318	\$318
Costs (US\$/tonne)²						
Mining Costs	\$37	\$42	-	\$47	\$51	\$44
Processing Costs	\$43	\$42	-	\$50	\$55	\$47
Total Operating Costs	\$80	\$84	-	\$96	\$106	\$92
Transport to Port	\$18	\$15	-	\$17	\$17	\$17
Sustaining Capex	\$8	\$11	-	\$12	\$18	\$18
Tax Rate (%)	25%	25%	-	25%	25%	25%
Capex (US\$M)	\$354	\$233	-	\$426	\$299	\$345
Valuation						
NPV 10% (US\$M)	\$1,420	\$527	-	\$648	\$145	\$200
NPV 11% (US\$M)	-	-	-	\$565	\$115	\$161
NPV 13% (US\$M)	-	-	-	\$428	\$66	\$102
IRR	51%	39%	-	29%	17%	19%

HFR NAV Valuation

Net Asset Value			
Projects	NAV	Discount	Value
Muga	\$565	11%	\$565
Sierra del Perdon	\$66	13%	\$66
Muga-Vipasca Extension	\$58	15%	\$58
Total (US\$M)	\$690	-	\$690
Balance Sheet			
Cash			\$119
Cash from options			\$22
Total NAV (US\$M)			\$830
Shares outstanding			
Current shares			310
Performance shares			52
Options			37
Fully diluted shares			399
Net Asset Value per Share			
NAV/share (US\$)			\$2.08
USD/AUD			0.75
NAV/share (AUD\$)			\$2.77

Note: 1) Realized price calculated as sales weighted benchmark price minus 10% discount (sales costs and contract discounts) and ocean freight costs. 2) HFR DFS NPV uses nominal prices and escalates price and costs by 2.2%/year beyond 2020, which increases absolute dollar margin and NPV.

Source: Company reports, RBC Capital Markets estimates



Spot price scenario valuation

We base our spot price scenario valuation using the same technical parameters as our base case valuation – same grade, recovery rates, production start date, capex, opex – but we lower our potash price forecast to current spot prices – Brazil \$315/tonne, Europe \$350/tonne, US NOLA \$330/tonne. Our spot price scenario valuation arrives at \$1.99/sh.

Exhibit 3: Spot price scenario remains very attractive

Valuation Parameters – RBC vs. HFR

Valuation Parameters	HFR			RBC Estimates		
	Muga DFS	SDP	Muga Extension	Muga	SDP	Muga/Vipasca Extension
Benchmarks - Long term						
USD/EUR	1.05	1.05	-	1.15	1.15	1.15
Brazil Potash CFR (US\$/tonne)	\$383	\$383	-	\$315	\$315	\$315
Europe Potash CFR (US\$/tonne)	\$373	\$373	-	\$350	\$350	\$350
Production						
Reserve (million tonnes)	138.0	63.0	127 - 255	138.7	66.5	70.1
Grade (%)	12.75%	12.00%	14 - 16%	12.50%	11.50%	13.00%
Mined Ore Capacity/year	6.30	3.15	-	6.30	3.15	3.15
Recovery (%)	84%	83%	-	83%	82%	84%
Production Capacity ('000 tonnes)	1,123	520	-	1,089	495	573
Start Date	2Q/17	2Q/18	-	4Q/17	2Q/19	2Q/20
Price (US\$/tonne)						
Price discount (%)	-10%	-10%	-	-10%	-10%	-10%
FOB Spanish Port realized Price ¹²	\$335	\$335	-	\$289	\$289	\$289
Costs (US\$/tonne)²						
Mining Costs	\$37	\$42	-	\$47	\$51	\$44
Processing Costs	\$43	\$42	-	\$50	\$55	\$47
Total Operating Costs	\$80	\$84	-	\$96	\$106	\$92
Transport to Port	\$18	\$15	-	\$17	\$17	\$17
Sustaining Capex	\$8	\$11	-	\$12	\$18	\$18
Tax Rate (%)	25%	25%	-	25%	25%	25%
Capex (US\$M)	\$354	\$233	-	\$426	\$299	\$345
Valuation						
NPV 10% (US\$M)	\$1,420	\$527	-	\$489	\$81	\$131
NPV 11% (US\$M)	-	-	-	\$419	\$57	\$100
NPV 13% (US\$M)	-	-	-	\$306	\$18	\$52
IRR	51%	39%	-	25%	14%	16%

HFR NAV Valuation

Net Asset Value			
Projects	NAV	Discount	Value
Muga	\$419	11%	\$419
Sierra del Perdon	\$18	13%	\$18
Muga-Vipasca Extension	\$18	15%	\$18
Total (US\$M)	\$455	-	\$455
Balance Sheet			
Cash			\$119
Cash from options			\$22
Total NAV (US\$M)			\$596
Shares outstanding			
Current shares			310
Performance shares			52
Options			37
Fully diluted shares			399
Net Asset Value per Share			
NAV/share (US\$)			\$1.49
USD/AUD			0.75
NAV/share (AUD\$)			\$1.99

Note: 1) Realized price calculated as sales weighted benchmark price minus 10% discount (sales costs and contract discounts) and ocean freight costs. 2) HFR DFS NPV uses nominal prices and escalates price and costs by 2.2%/year beyond 2020, which increases absolute dollar margin and NPV.

Source: Company reports, RBC Capital Markets estimates



Upside scenario valuation

We base our upside scenario on a combined NAV and forward EV/EBITDA analysis and arrive at \$5.20/sh.

Our upside NAV analysis assumes that Muga, Sierra del Perdon, and Muga/Vipasca are successfully brought into production on time and on budget, with higher operating parameters (higher grade, higher recovery, lower costs). We continue to use our long-term Brazil CFR potash price of US\$370/tonne while assuming a better netback price due to a lower price discount. We apply a 10% discount rate to the Muga project and 11% to the Sierra del Perdon and Muga/Vipasca Extension projects to reflect higher potential success.

Exhibit 4: Upside NAV analysis assumes successful Muga project ramp and higher potential success at expansions

Upside NAV parameters

Valuation Parameters	RBC Upside		
	Muga	Sierra del Perdon	Muga/Vipasca Extension
Production			
Grade (%)	13.0%	11.8%	13.0%
Recovery (%)	85%	83%	85%
Production Capacity ('000 tonnes)	1,160	512	580
Start Date	2Q/17	3Q/18	4Q/19
Price (US\$/tonne)			
Price discount (%)	-7.5%	-7.5%	-7.5%
Realized Price	\$327	\$327	\$327
Costs (US\$/tonne)			
Total Operating Costs	\$84	\$99	\$84
Sustaining Capex	\$8	\$12	\$15
Capex (US\$M)	\$385	\$253	\$288
Valuation			
NPV 10% (US\$M)	\$954	\$266	\$312
NPV 11% (US\$M)	\$850	\$228	\$267
NPV 13% (US\$M)	\$679	\$165	\$194
IRR	40%	24%	28%

Upside NAV valuation

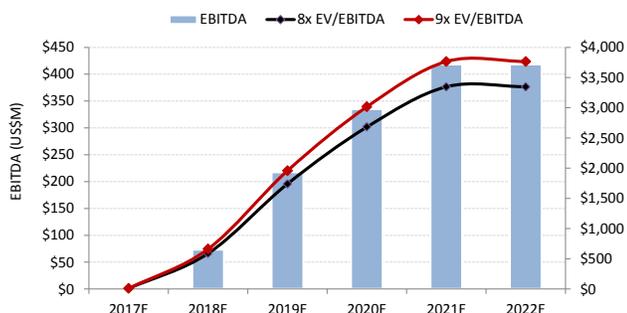
Net Asset Value			
Projects	NAV	Discount	Value
Muga	\$954	10%	\$954
Sierra del Perdon	\$228	11%	\$228
Muga-Vipasca Extension	\$267	11%	\$267
Total (US\$M)	\$1,449	-	\$1,449
Balance Sheet			
Cash			\$119
Cash from options			\$22
Total NAV (US\$M)			\$1,590
Fully diluted shares			
			399
Net Asset Value per Share			
NAV/share (US\$)			\$3.98
USD/AUD			0.75
NAV/share (AUD\$)			\$5.31

Source: Company reports, RBC Capital Markets estimates

Our upside EV/EBITDA analysis assumes that the Muga, Muga/Vipasca Extension, and Sierra del Perdon projects are brought into production through 2021 and that Highfield is valued on an earnings basis similar to current producers. We currently use 8.5x to value potash producing assets from Agrium, PotashCorp, and Mosaic. In our Highfield upside EV/EBITDA analysis, we use a more conservative 8x multiple and discount back 10% annually to 2015.

Exhibit 5: Upside EV/EBITDA analysis assumes that Highfield is valued on an earnings basis similar to current producers

EBITDA could be very significant in upside scenario



Source: Company reports, RBC Capital Markets estimates

Upside EV/EBITDA valuation

Implied MV (US\$M)	2019E	2020E	2021E
EV - Undiscounted			
8x EV/EBITDA	\$1,720	\$2,652	\$3,314
9x EV/EBITDA	\$1,828	\$2,818	\$3,521
EV - Discounted to 2015 (10%)			
8x EV/EBITDA	\$1,175	\$1,647	\$1,871
9x EV/EBITDA	\$1,248	\$1,750	\$1,988
MV/sh - Discounted to 2015 (10%)			
8x EV/EBITDA	\$3.30	\$4.48	\$5.04
9x EV/EBITDA	\$3.13	\$4.38	\$4.98



Downside scenario valuation

We base our downside scenario on a combined NAV and EV/production tonne peer-comparison analysis and arrive at \$0.85/sh.

Our downside NAV analysis assumes that the Muga project is significantly delayed, with lower-than-expected operating parameters (lower grade, lower recovery, higher costs), and uses a 13% discount rate for valuation. We continue to use our long-term Brazil CFR potash price of US\$370/tonne while assuming a lower netback price due to a less favourable price discount. Additionally, we assume zero value for the Sierra del Perdon and Muga/Vipasca Extension projects. However, we point out that even in our downside scenario, all three projects yield an IRR above 10% and could still result in a positive return.

Exhibit 6: Downside NAV analysis assumes significantly delayed Muga start-up and lower potential success at expansions

Downside NAV parameters				Downside NAV valuation			
Valuation Parameters	RBC Downside			Net Asset Value			
	Muga	Sierra del Perdon	Muga/Vipasca Extension	Projects	NAV	Discount	Value
Production				Muga	\$183	11%	\$183
Grade (%)	12.0%	11.0%	12.0%	Sierra del Perdon	(\$33)	13%	\$0
Recovery (%)	82%	81%	82%	Muga-Vipasca Extension	(\$46)	15%	\$0
Production Capacity ('000 tonnes)	1,033	468	517	Total (US\$M)	\$104	-	\$183
Start Date	3Q/18	4Q/19	4Q/20	Balance Sheet			
Price (US\$/tonne)				Cash			\$119
Price discount (%)	-12.5%	-12.5%	-12.5%	Cash from options			\$22
Realized Price	\$309	\$309	\$309	Total NAV (US\$M)			\$324
Costs (US\$/tonne)				Fully diluted shares			399
Total Operating Costs	\$109	\$120	\$109	Net Asset Value per Share			
Sustaining Capex	\$15	\$22	\$23	NAV/share (US\$)			\$0.81
Capex (US\$M)	\$529	\$345	\$397	USD/AUD			0.75
Valuation				NAV/share (AUD\$)			\$1.08
NPV 10% (US\$M)	\$353	\$22	\$41				
NPV 11% (US\$M)	\$288	\$0	\$17				
NPV 13% (US\$M)	\$183	-\$33	-\$21				
IRR	19%	11%	12%				

Source: Company reports, RBC Capital Markets estimates

Our downside EV/production tonne analysis is based on a peer comparison of junior potash developing companies and applies US\$25/tonne of potential potash production. We believe an EV/production tonne of potash is more appropriate than EV/resource tonne (valuation range too wide and resource quality too varied) and EV/tonne of other potassium production (different niche markets, unproven chemistries, different margins).

Exhibit 7: Downside EV/production tonne values Highfield against junior potash developers on potential production

Junior potash developer peer comparison						Downside EV/tonne analysis			
	Resource (M tonnes K2O)		Production ('000 tonnes)		Enterprise Value (US\$M)	EV/tonne (US\$)		EV/production (US\$)	
	Sylvinitic	Total	Potash	Total		Sylvinitic	Total	Potash	Total
Allana Potash	74	388	1,000	2,000	\$120	\$1.61	\$0.31	\$120	\$60
Elemental Minerals	217	360	2,000	2,000	\$36	\$0.17	\$0.10	\$18	\$18
Encanto	222	222	2,800	2,800	\$24	\$0.11	\$0.11	\$9	\$9
Sirius Minerals	0	319	0	6,500	\$551	-	\$1.72	-	\$85
South Boulder	21	88	0	850	\$37	\$1.74	\$0.42	-	\$44
Verde Potash	0	296	0	330	\$6	-	\$0.02	-	\$19
Western Potash	480	480	2,800	2,800	\$33	\$0.07	\$0.07	\$12	\$12
Total	1,015	2,154	8,600	17,280	\$807	\$0.25	\$0.37	\$25	\$47
Highfield Resources	58	64	2,218	2,218	\$282	\$4.87	\$4.38	\$127	\$127

HFR Peer Multiple Valuation			
HFR Resource (M tonnes K2O)		HFR Production ('000 tonnes)	
Sylvinitic	58	Potash	2,218
Valuation (US\$)		Valuation (US\$)	
Peer EV/tonne	\$0.25	Peer EV/production	\$25
Enterprise Value (US\$M)	\$14	Enterprise Value (US\$M)	\$55
Market Value (EV + Cash)	\$155	Market Value (EV + Cash)	\$196
Fully diluted shares	399	Fully diluted shares	399
EV/share	\$0.04	EV/share	\$0.14
MV/share	\$0.39	MV/share	\$0.49
EV/share (AUD\$)	\$0.05	EV/share (AUD\$)	\$0.18
MV/share (AUD\$)	\$0.52	MV/share (AUD\$)	\$0.65

Source: Company reports, RBC Capital Markets estimates Note: Priced as of August 24, 2015



Model

Exhibit 8: HFR Muga Model

Muga	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<i>US\$ millions unless noted</i>												
Production												
Capacity ('000 tonnes)	0	0	0	0	817	1,089	1,089	1,089	1,089	1,089	1,089	1,089
Utilization (%)	0%	0%	0%	0%	42%	69%	100%	100%	100%	100%	100%	100%
Production ('000 tonnes)	0	0	0	0	340	749	1,089	1,089	1,089	1,089	1,089	1,089
Sales Vol. ('000 tonnes)												
Brazil	0	0	0	0	153	337	490	490	490	490	490	490
Europe	0	0	0	0	153	337	490	490	490	490	490	490
Other	0	0	0	0	34	75	109	109	109	109	109	109
Total	0	0	0	0	340	749	1,089	1,089	1,089	1,089	1,089	1,089
Realized Price												
Realized Price (US\$/tonne)												
Brazil	\$302	\$305	\$295	\$310	\$318	\$318	\$318	\$318	\$318	\$318	\$318	\$318
Europe	\$351	\$317	\$289	\$304	\$312	\$312	\$312	\$312	\$312	\$312	\$312	\$312
US	\$326	\$341	\$310	\$332	\$342	\$342	\$342	\$342	\$342	\$342	\$342	\$342
Average Price	\$326	\$321	\$298	\$315	\$318	\$318	\$318	\$318	\$318	\$318	\$318	\$318
Revenue (US\$M)												
Brazil	\$0	\$0	\$0	\$0	\$49	\$107	\$156	\$156	\$156	\$156	\$156	\$156
Europe	\$0	\$0	\$0	\$0	\$48	\$105	\$153	\$153	\$153	\$153	\$153	\$153
US	\$0	\$0	\$0	\$0	\$12	\$26	\$37	\$37	\$37	\$37	\$37	\$37
Total Net Revenue (US\$M)	\$0	\$0	\$0	\$0	\$108	\$238	\$346	\$346	\$346	\$346	\$346	\$346
Cost of Goods (US\$M)												
COGS per tonne (US\$/tonne)	\$0	\$0	\$0	\$0	\$235	\$169	\$133	\$132	\$132	\$132	\$131	\$131
Cash COGS per tonne (US\$/tonne)	\$0	\$0	\$0	\$0	\$197	\$141	\$114	\$114	\$114	\$114	\$114	\$114
COGS per tonne (EUR€/tonne)	€ 0	€ 0	€ 0	€ 0	€ 204	€ 147	€ 115	€ 115	€ 115	€ 115	€ 114	€ 114
Cash COGS per tonne (EUR€/tonne)	€ 0	€ 0	€ 0	€ 0	€ 172	€ 123	€ 99	€ 99	€ 99	€ 99	€ 99	€ 99
Earnings Summary (US\$M)												
Gross Revenue	\$0	\$0	\$0	\$0	\$112	\$246	\$358	\$358	\$358	\$358	\$358	\$358
Freight	\$0	\$0	\$0	\$0	(\$4)	(\$8)	(\$11)	(\$11)	(\$11)	(\$11)	(\$11)	(\$11)
Revenue	\$0	\$0	\$0	\$0	\$108	\$238	\$346	\$346	\$346	\$346	\$346	\$346
Cost of Goods	\$0	\$0	\$0	\$0	(\$80)	(\$126)	(\$145)	(\$144)	(\$144)	(\$143)	(\$143)	(\$143)
Gross Profit	\$0	\$0	\$0	\$0	\$28	\$112	\$202	\$202	\$202	\$203	\$203	\$203
Gross Profit (%)	-	-	-	-	26%	47%	58%	58%	58%	59%	59%	59%
SG&A	\$0	\$0	\$0	\$0	(\$4)	(\$8)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)
EBIT	\$0	\$0	\$0	\$0	\$24	\$103	\$189	\$190	\$190	\$191	\$191	\$191
DD&A	\$0	\$0	\$0	\$0	\$13	\$21	\$21	\$20	\$20	\$20	\$19	\$19
EBITDA	\$0	\$0	\$0	\$0	\$37	\$124	\$210	\$210	\$210	\$210	\$210	\$210
Tax	\$0	\$0	\$0	\$0	(\$6)	(\$26)	(\$47)	(\$47)	(\$48)	(\$48)	(\$48)	(\$48)
Tax Rate	0%	0%	0%	0%	25%	25%	25%	25%	25%	25%	25%	25%
Cash Flow (US\$M)												
Capex (US\$M)												
Expansion	\$0	\$0	\$35	\$173	\$161	\$58	\$0	\$0	\$0	\$0	\$0	\$0
Sustaining	\$0	\$0	\$0	\$0	\$10	\$13	\$13	\$13	\$13	\$13	\$13	\$13
Total	\$0	\$0	\$35	\$173	\$171	\$70	\$13	\$13	\$13	\$13	\$13	\$13
Accumulated Capex	\$0	\$0	\$35	\$207	\$369	\$420	\$411	\$404	\$396	\$390	\$383	\$377
Operating Cash flow	\$0	\$0	\$0	\$0	\$31	\$98	\$163	\$163	\$163	\$163	\$162	\$162
Capex	\$0	\$0	(\$35)	(\$173)	(\$171)	(\$70)	(\$13)	(\$13)	(\$13)	(\$13)	(\$13)	(\$13)
Free Cash Flow	\$0	\$0	(\$35)	(\$173)	(\$140)	\$28	\$150	\$150	\$150	\$150	\$150	\$150

Source: Company reports, RBC Capital Markets estimates



Exhibit 9: HFR Earnings Model

Earnings Model												
<i>AUD\$ millions unless noted</i>	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$135.2	\$309.7	\$606.6	\$814.3	\$856.9	\$856.9	\$856.9	\$856.9
Interest received	\$0.2	\$0.8	\$6.8	\$1.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$13.4	\$36.1	\$59.8
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Net Revenue	\$0.2	\$0.8	\$6.8	\$1.9	\$135.2	\$309.7	\$606.6	\$814.3	\$856.9	\$870.4	\$893.1	\$916.8
Cost of Goods	\$0.0	\$0.0	\$0.0	\$0.0	(\$100.0)	(\$171.4)	(\$278.5)	(\$359.9)	(\$370.9)	(\$369.9)	(\$368.9)	(\$368.0)
G&A	(\$5.1)	(\$10.6)	(\$10.0)	(\$10.0)	(\$14.7)	(\$20.8)	(\$31.2)	(\$38.5)	(\$40.0)	(\$40.0)	(\$40.0)	(\$40.0)
Impairment	(\$0.7)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Gain/loss on FX	\$0.1	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
EBITDA	(\$5.5)	(\$9.6)	(\$3.2)	(\$8.1)	\$36.4	\$144.6	\$338.4	\$473.6	\$507.8	\$521.2	\$543.9	\$567.6
DD&A	(\$0.0)	(\$0.0)	\$0.0	\$0.0	(\$16.0)	(\$27.1)	(\$41.6)	(\$57.7)	(\$61.7)	(\$60.7)	(\$59.7)	(\$58.8)
EBIT	(\$5.5)	(\$9.6)	(\$3.2)	(\$8.1)	\$20.4	\$117.5	\$296.8	\$415.9	\$446.1	\$460.5	\$484.2	\$508.8
Taxes	\$0.0	\$0.0	\$0.0	\$0.0	(\$7.3)	(\$29.4)	(\$74.2)	(\$104.0)	(\$111.5)	(\$115.1)	(\$121.0)	(\$127.2)
Tax Rate	0%	0%	0%	0%	36%	25%	25%	25%	25%	25%	25%	25%
Net Income	(\$5.5)	(\$9.6)	(\$3.2)	(\$8.1)	\$13.1	\$88.1	\$222.6	\$311.9	\$334.6	\$345.4	\$363.1	\$381.6
Weighted avg. basic shares	92	223	348	360	360	360	360	360	360	360	360	360
EPS	(\$0.06)	(\$0.04)	(\$0.01)	(\$0.02)	\$0.04	\$0.24	\$0.62	\$0.87	\$0.93	\$0.96	\$1.01	\$1.06

Source: Company reports, RBC Capital Markets estimates

Exhibit 10: HFR Cash Flow Model

Cash Flow												
<i>AUD\$ millions unless noted</i>	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	\$0.2	\$0.5	\$6.8	\$1.9	\$135.2	\$309.7	\$606.6	\$814.3	\$856.9	\$870.4	\$893.1	\$916.8
COGS	\$0.0	\$0.0	\$0.0	\$0.0	(\$100.0)	(\$171.4)	(\$278.5)	(\$359.9)	(\$370.9)	(\$369.9)	(\$368.9)	(\$368.0)
Payments/SG&A	(\$4.4)	(\$5.6)	(\$4.0)	(\$4.0)	(\$8.7)	(\$14.8)	(\$25.2)	(\$32.5)	(\$34.0)	(\$34.0)	(\$34.0)	(\$34.0)
Taxes	\$0.0	\$1.7	\$0.0	\$0.0	(\$7.3)	(\$29.4)	(\$74.2)	(\$104.0)	(\$111.5)	(\$115.1)	(\$121.0)	(\$127.2)
D&A	\$0.0	\$0.0	\$0.0	\$0.0	\$16.0	\$27.1	\$41.6	\$57.7	\$61.7	\$60.7	\$59.7	\$58.8
Operating Cash Flow	(\$4.2)	(\$3.3)	\$2.8	(\$2.1)	\$35.1	\$121.2	\$270.2	\$375.6	\$402.3	\$412.1	\$428.9	\$446.4
Purchase of PP&E	(\$0.1)	(\$0.3)	(\$34.5)	(\$172.5)	(\$354.6)	(\$383.0)	(\$145.1)	(\$32.1)	(\$60.8)	(\$32.1)	(\$32.1)	(\$32.1)
Payments for investments	(\$4.2)	(\$9.5)	(\$8.0)	(\$8.0)	(\$8.0)	(\$8.0)	(\$8.0)	(\$8.0)	(\$8.0)	(\$8.0)	(\$8.0)	(\$8.0)
Investing Cash Flow	(\$4.3)	(\$9.8)	(\$42.5)	(\$180.5)	(\$362.6)	(\$391.0)	(\$153.1)	(\$40.1)	(\$68.8)	(\$40.1)	(\$40.1)	(\$40.1)
Proceeds from share issuance	\$14.6	\$123.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Proceeds from option issuance	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Payments for share issue costs	(\$0.7)	(\$4.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Financing Cash Flow	\$14.0	\$119.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
FX	\$0.0	\$0.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Change in Cash	\$5.5	\$107.0	(\$39.7)	(\$182.6)	(\$327.4)	(\$269.8)	\$117.1	\$335.5	\$333.4	\$372.0	\$388.8	\$406.3

Source: Company reports, RBC Capital Markets estimates



Exhibit 11: HFR Balance Sheet Model

Balance Sheet												
<i>AUD\$ millions unless noted</i>	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Assets												
Cash and equivalents	\$11.6	\$118.8	\$79.1	(\$103.5)	(\$430.9)	(\$700.7)	(\$583.6)	(\$248.0)	\$85.4	\$457.4	\$846.2	\$1,252.5
Other receivables	\$1.4	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5
Current Assets	\$13.0	\$121.3	\$81.6	(\$101.0)	(\$428.4)	(\$698.2)	(\$581.1)	(\$245.6)	\$87.9	\$459.9	\$848.7	\$1,255.0
Other receivables	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
PP&E	\$0.1	\$0.3	\$34.8	\$207.3	\$545.9	\$901.8	\$1,005.3	\$979.7	\$978.8	\$950.2	\$922.5	\$895.8
Deferred explor. & eval. expenditure	\$39.7	\$49.3	\$57.3	\$65.3	\$73.3	\$81.3	\$89.3	\$97.3	\$105.3	\$113.3	\$121.3	\$129.3
Total Assets	\$52.8	\$170.9	\$173.8	\$171.7	\$190.8	\$284.9	\$513.6	\$831.5	\$1,172.1	\$1,523.4	\$1,892.6	\$2,280.2
Liabilities + Shareholders Equity												
Trade and other payables	\$2.0	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9
Total Liabilities	\$2.0	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9
Issued capital	\$34.8	\$157.9	\$157.9	\$157.9	\$157.9	\$157.9	\$157.9	\$157.9	\$157.9	\$157.9	\$157.9	\$157.9
Reserves	\$25.5	\$29.7	\$29.7	\$29.7	\$29.7	\$29.7	\$29.7	\$29.7	\$29.7	\$29.7	\$29.7	\$29.7
Accumulated losses	(\$9.4)	(\$17.6)	(\$14.7)	(\$16.8)	\$2.3	\$96.4	\$325.1	\$643.0	\$983.5	\$1,334.9	\$1,704.1	\$2,091.7
Shareholders Equity	\$50.9	\$170.0	\$172.8	\$170.7	\$189.9	\$284.0	\$512.6	\$830.5	\$1,171.1	\$1,522.5	\$1,891.6	\$2,279.2
Total Liabilities + Shareholders Equity	\$52.8	\$170.9	\$173.8	\$171.7	\$190.8	\$284.9	\$513.6	\$831.5	\$1,172.1	\$1,523.4	\$1,892.6	\$2,280.2

Source: Company reports, RBC Capital Markets estimates



Valuation

Our \$2.75 price target is based on a sum-of-the parts net asset value analysis and applies an 11% discount rate for the Muga project, 13% for Sierra del Perdon, and 15% for Muga/Vipasca Extension. These discount rates are higher than the 9% we use to value larger, more established current producers and reflect the greater uncertainty associated with an undeveloped project. We use our long-term Brazil CFR potash price forecast of \$370/tonne and we do not include the potential for salt by-product credits in our valuation.

Price target impediments

Potential impediments to our price target include but are not limited to: (1) potential potash price volatility could have a significant impact on our valuation; (2) potential delays in permitting and approvals or construction could push back our estimated production start date; (3) potential capital cost overruns or higher-than-expected operating costs; (4) changes in the USD/EUR and USD/AUD exchange rates could directly impact our valuation; and (5) potential future equity financing could be dilutive.

Company description

Highfield Resources is an Australia-based potash exploration and development company with three properties in Navarre, Spain: Muga-Vipasca, Sierra del Perdon, and Los Pintanos. The company is currently focused on developing the Muga project and is awaiting approval to begin construction. The project is expected to produce 1.1Mt per year when fully ramped up and will target the European and South American potash markets.



VALUATION	2014	2015E	2016E	2017E
EPS, adjusted	(0.06)	(0.04)	(0.01)	(0.02)
CFPS, adjusted	(0.05)	(0.01)	0.01	(0.01)
P/CFPS	NM	NM	151.7x	NM
Dividend Per Share	0	0	0	0
Dividend Yield	0	0	0	0
INCOME STATEMENT	2014	2015E	2016E	2017E
Revenue	0.2	0.8	6.8	1.9
Adjusted EBITDA	(5.5)	(9.6)	(3.2)	(8.1)
Net Income	(5.5)	(9.6)	(3.2)	(8.1)
Weighted Avg Share Outstanding, F.D.	91.6	223.2	347.8	360.3
CASH FLOW	2014	2015E	2016E	2017E
Operating Cash Flow	(4.2)	(3.3)	2.8	(2.1)
Capex	(0.1)	(0.3)	(34.5)	(172.5)
Free Cash Flow	(4.3)	(4.3)	(4.3)	(4.3)
Net Change in Cash	5.5	107.0	(39.7)	(182.6)

Source: Company reports, RBC Capital Markets estimates



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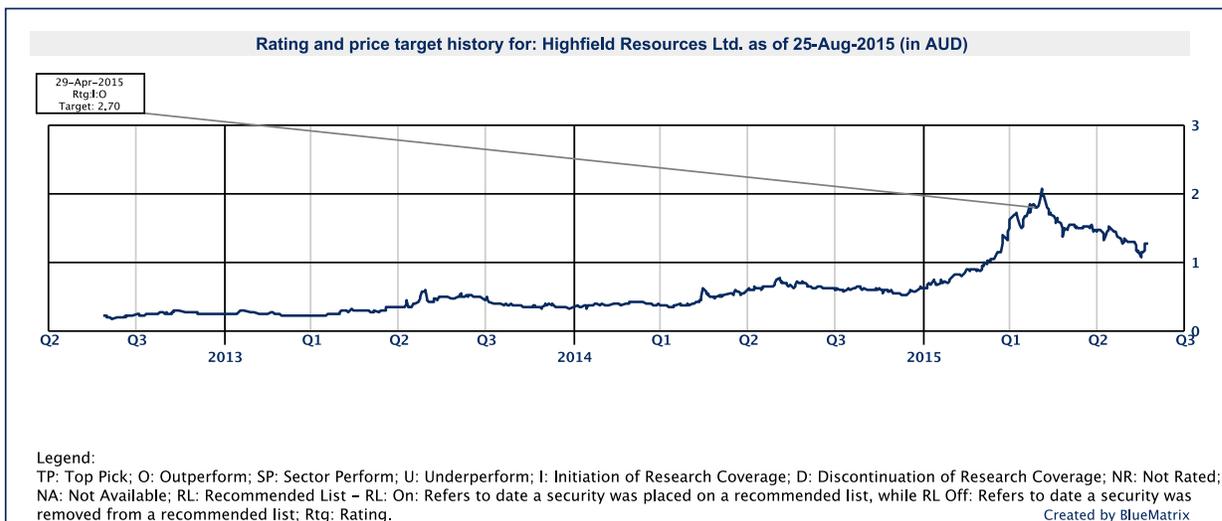
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			Count	Percent
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