

ASX Release
25 January 2017

DECEMBER 2016 QUARTERLY ACTIVITIES REPORT

Overview

- Detailed design and engineering of Muga Project continues to progress well
- Final reports for the environmental approval submitted by the relevant referral institutions to the Spanish environmental regulatory body, MAPAMA
- Formal notification received from MAPAMA requesting Highfield's responses to items raised by the relevant referral institutions
- No new items or areas of concern identified by MAPAMA in its correspondence with the Company
- Discussions with Project Finance banks and other financial institutions continue-
- Drilling to test exploration target commenced at Pintanos Potash Project
- Work underway on developing and advancing internal systems and processes to prepare for construction

Financial Status:

- Cash at bank as at 31 December 2016: A\$77.8m.

Plans for March Quarter 2017:

Muga Potash Mine:

- Prepare and submit responses to items identified by MAPAMA
- Continue to compile documents for the approval process and prepare for the commencement of construction once approvals are received
- Engagement of consultant to assist with preparation and process management for potential mining contract at Muga

Other Projects:

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

Highfield Resources Ltd.

ACN 153 918 257
ASX: HFR

Issued Capital

322.0 million shares
50.8 million options
50.0 Performance B Shares

Registered Office

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Directors

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).

Permitting Update

As previously reported, the Ministry of Agriculture, Fishing, Food and Environment (MAPAMA) had requested the input of a number of regional and other referral authorities on a variety of issues with respect to Muga. MAPAMA is the body responsible for the award of the Declaración de Impacto Ambiental (DIA) for the Project. During the period, the last of these referral body reports were submitted to MAPAMA and it has assimilated the contents of these reports.

On the 16th of December 2016, the Company received formal written notification from MAPAMA requesting responses to the matters raised by the referral authorities. Importantly, the request from MAPAMA contains no new items or areas of concern for the Company. MAPAMA has requested that the Company prepares its response within three months.

Highfield continues to remain confident of receiving its DIA and subsequent Mining Concession for the Muga Project.

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.

Detailed engineering design continues as planned, with expert consultants working alongside the 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.

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 on 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).

Financing Discussions

During the quarter, the Company continued its dialogue with its Project Finance syndicate with respect to the credit approved €185 million facility for Muga. It also engaged with other potential providers of capital.

Highfield remains confident of having full debt financing requirements in place on or immediately post receipt of approvals to support a final investment decision and the commencement of construction.

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 ten seismic profiles completed in the late 1980s.

Drilling to test the Exploration Target commenced during the December quarter with one diamond drill hole completed and a second hole due to be drilled in the next quarter. Results are expected in the coming months.

Other Projects

The Company has three additional 100%-owned projects in the basin (see Figure 1) – Sierra del Perdón, Vipasca and Izaga.

Limited work was carried out on these projects during the Quarter.

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

Cash Position

As at 31 December 2016, the Company had A\$77.8 million in cash on its balance sheet.

For more information:

Highfield Resources

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Head of Corporate Development
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Table 1: Summary of Highfield's Mineral Interests as at 31 December 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	Borneau	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 to 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.

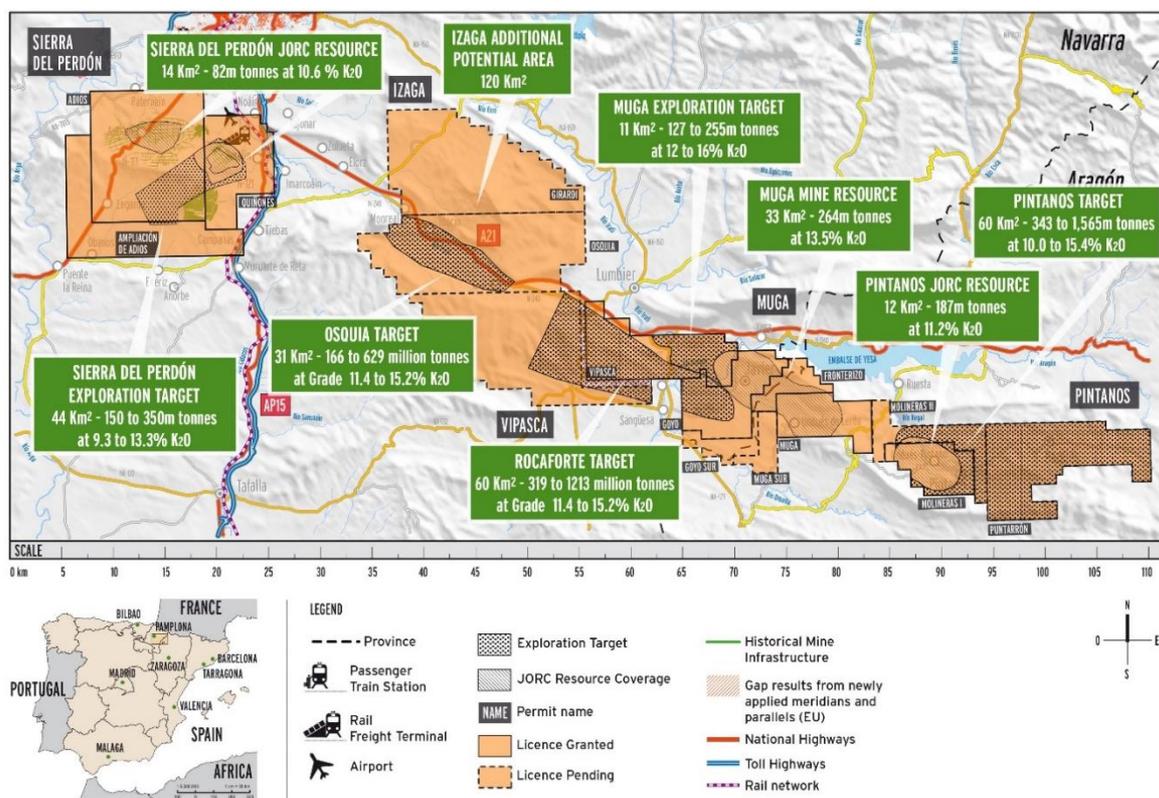


Figure 1: Location of Highfield's Muga, Vipasca, Pintanos, Izaga and Sierra del Perdón Projects in Northern Spain *

**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*

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

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

Name of entity

HIGHFIELD RESOURCES LIMITED

ABN

51 153 918 257

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(5,657)	(14,117)
(b) development	-	-
(c) production	-	-
(d) staff costs	(111)	(293)
(e) administration and corporate costs	(1,161)	(1,957)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	56	195
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(6,873)	(16,172)

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

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	2,533	2,835
3.4	Transaction costs related to issues of shares, convertible notes or options	(18)	(22)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	2,515	2,813

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	82,916	93,932
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(6,873)	(16,172)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,515	2,813
4.5	Effect of movement in exchange rates on cash held	(717)	(2,732)
4.6	Cash and cash equivalents at end of period	77,841	77,841

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	77,841	74,054
5.2 Call deposits	-	8,862
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)	77,841	82,916

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	\$319
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Payments for Directors consulting fees and Directors salaries - \$319k

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

N/A

Mining exploration entity and oil and gas exploration entity quarterly report

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

N/A

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	844
9.2 Development	7,534
9.3 Production	-
9.4 Staff costs	309
9.5 Administration and corporate costs	446
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	9,133

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

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



(CFO)

Date: 25 January 2017

Print name: Mike Norris

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.