Highfield Resources Limited (*ASX: HFR*)

Speculative Buy

Running with a Spanish Potash Bull

$0.26

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Capital Summary

Issued Capital:	95.5m ords
	103m perf
	10m opts
Share Price (*02/11/12*)	**$0.26**
52 week low/high	$0.13 / $0.30
Market Capitalisation (*dil.*[1])	**$54.2m**
Cash (*30/09/12*)	$2.9m

[1] *Fully diluted.*

Directors & Key Management

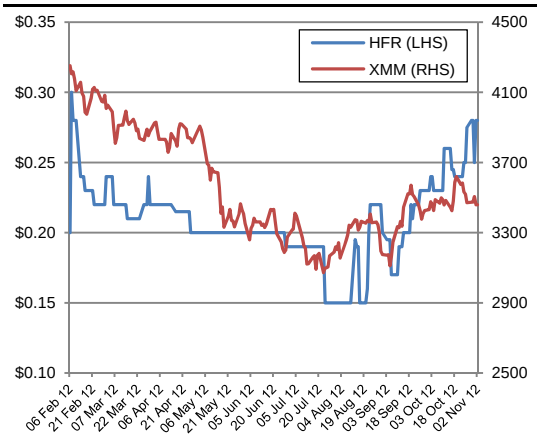
Derek Carter	Non-executive Chairman
Anthony Hall	Managing Director
Pedro Rodriguez	Development Director
Jonathan Murray	Non-executive Director
Scott Funston	Non-executive Director
Aaron Bertolatti	Company Secretary

Major Shareholders

Derek & Carlsa Carter	5,510,752	5.77%
Raul Fernandez	5,510,752	5.77%
Jose Fernandez	5,510,752	5.77%
Pedro Fernandez	5,510,752	5.77%
Celtic Capital Pte Ltd	3,200,000	3.35%

** Top 20 Shareholders hold 62.15%.*

Share Price Graph ($A)



Key Points

- Highfield Resources Limited (*ASX: HFR; "Highfield"*) is an ASX-listed advanced exploration company with high-quality projects in Spain and Australia.
- Highfield's flagship Spanish Potash Project (100% owned) is located in the potash and halite producing Ebro Basin, near Pamplona in northern Spain. Highfield has two projects in the region known as the Navarra and Aragon Projects.
- The Navarra Project contains the historic Sierra del Perdon potash mine that produced ~9.5 Mt of potash (KCl) over 25 years. It offers a near-term development opportunity for Highfield through the extraction of remnant and unmined sylvinite and carnallite resources.
- Highfield is assessing Sierra del Perdon for a solution mining operation following a proven process pathway.
- Significant revenue streams could also be realised from halite (industrial salt), magnesium chloride (from carnallite) and the storage of hydrocarbons in 'salt caverns'.
- Highfield has two additional advanced exploration areas within the Aragon Project. Sylvinite mineralisation has previously been intersected at the project.
- All projects are located near existing infrastructure, including grid electricity, gas pipelines, water, highways, rail and an industrial port. The projects are ideally located to supply Western Europe.
- Highfield also has a greenfield potash project in the Canning Basin, Western Australia that hosts largely untested evaporite sequences.
- Highfield has a project pipeline that could potentially make it a significant player in the European potash and halite sector.
- The highly skilled Board and management team has in-country experience in mining project development.

Our View

We initiate coverage on Highfield Resources Limited. Highfield's flagship Spanish Potash Project has the potential to deliver multiple production centres. An experienced in-country management team will expedite progress on the projects and generate news flow over the coming months. A redevelopment of the Sierra del Perdon mine in a relatively short time frame of 2-3 years looks achievable. During a recent site visit, we were impressed with the amount of existing data on the projects and the infrastructure in the area. This is unparalleled relative to other potash developments in the sector. The resultant reduction in capital expenditure requirements and build-time to commercialisation make the assets competitive on a global scale. While Highfield's proposed production pathway is not without development and implementation risk, it would utilise technologies and mining techniques already implemented in the sector. Consequently, we view there to be considerable value in the stock with multiple milestones offering the opportunity for re-rating. Our initial near-term price target is $0.63/share on the announcement of a maiden resource. Further value would be unlocked as feasibility results start flowing. For these reasons, we recommend Highfield Resources as a Speculative Buy.

Overview

Highfield Resources Ltd (ASX: HFR; "Highfield" or "the Company") is an ASX-listed advanced potash exploration company with projects located in Spain and Australia. Highfield listed on the ASX in February 2012 after raising A$4.4m to advance its McLarty Potash Project in Western Australia and add to its project portfolio through acquisition. After evaluating a number of opportunities in Australia and overseas, Highfield announced in June 2012 the acquisition of advanced potash projects in northern Spain. This asset now represent Highfield's flagship project and presents the company with near-term development opportunities.

Highfield's Spanish Potash Project is located in the potash and halite producing Ebro Basin, adjacent to the town of Pamplona. The project benefits from abundant historical production and exploration data that would take many years and tens of millions of dollars to acquire. The asset is comprised of two areas named the Navarra and Aragon Projects. The Navarra Project contains the historic Sierra del Perdon sylvinite and carnallite mine, located ~10km south of Pamplona. Sierra del Perdon was operated as a conventional underground potash mine producing an average of 365,000 tonnes per year of potash (KCl) for over 25 years (~9.5 Mt of KCl in total). The predominantly sylvinite-bearing rocks being mined were at a competitive average grade of 14.5% K_2O (22.9% KCl). The majority of production at Sierra del Perdon occurred between 1972 and 1983 with production eventually ceasing in 1997 with potash prices at ~US$110/t.

Remnant sylvinite and carnallite resources still exist in the mined sections at Sierra del Person mine in the form of pillars and buffer zones. Significant unmined sylvinite and carnallite resources also exist adjacent to the mined out areas. In combination, these present a near-term development opportunity for Highfield. It is conceivable that the company could commence a low-cost solution mining operation at Sierra del Perdon producing in excess of 200,000 – 250,000 tpa of potash (KCl). Significant additional revenue streams could also be generated from the production of halite (salt), magnesium chloride (from carnallite) and using the 'salt caverns' for underground hydrocarbon storage. The redevelopment of Sierra del Perdon could utilise technologies and mining techniques already employed by Intrepid Potash (IPI.NYS) at its low-cost Moab and HB Solar Solution mines in the U.S. These mines were also conventional underground operations prior to being converted to solution mining operations.

The Aragon Project, located ~35km southeast of Pamplona, has two sylvinite development opportunities named Javier and Pintano. Historical drilling has identified thicknesses of evaporite rocks up to ~20m that contain grades of potash mineralisation up to 15.6% K_2O (24.7% KCl). Based on the historic drilling results, the Aragon project likely contains adequate resources to support a standalone operation. Cash flow generated from a Sierra del Perdon operation could potentially be used to fund a development at the Aragon Project.

A key feature about the Spanish Potash Project that in our view makes it an unparalleled development opportunity is the existing infrastructure in the surrounding region. Sealed roads, transmission lines, gas pipelines, water sources, rail and port infrastructure are accessible from both the Navarra and Aragon Projects. This would dramatically reduce capital expenditure requirements for a project development and reduce the construction time to commercialisation. In our view this increases the economic competitiveness and de-risks the Spanish Projects relative to other potash developments elsewhere in the world.

The development of the Navarra and Aragon projects has the potential to turn Highfield into a significant potash and halite producer in Western Europe. A number of project milestones offer the company potential for re-rating. Our near-term price target of A$0.63 is based on the announcement of a modest maiden resource at the Sierra del Perdon mine. A preliminary DCF valuation of Sierra del Perdon based on potash-only production provides an insight into the potential value of the asset. We acknowledge that the project has additional revenue opportunities that we have not accounted for in our modelling. We see further value being unlocked in Highfield as additional resources are defined and financing or feasibility results are released to the market.

Spanish Potash Projects

Flagship projects are in potash producing Ebro Basin, northern Spain

In June 2012, Highfield announced the option to acquire a 100% interest in two potash projects located in northern Spain. The projects are proximal to the northern centre of Pamplona in the Provinces of Navarra and Aragon (*Fig. 1*). The licences are located in the potash producing Ebro basin and consist of six granted tenements covering 430km^2. The Navarra potash project ("*Navarra*"), previously referred to by the company as the Sierra del Perdon project, includes a former operating potash mine. Highfield's highest priority is to bring the mine back into production within 2-3 years. The Aragon potash project, formerly known as Javier–Pintano, is a high-quality advanced exploration area. Both projects have been the focus of previous mining or exploration activities and consequently have a considerable amount of data collected on them. This has allowed Highfield to identify four potential production bases on the projects, two at the Navarra Project associated with Sierra del Perdon and two at the Aragon Project. Additional exploration licence applications have been submitted with the Navarra and Aragon administrative bodies, providing Highfield with a dominant tenement position is western Ebro basin.

Acquisition Terms

Spain projects purchased with shares, the majority of which are related to project milestones

As consideration for the acquisition of Navarra, Highfield has approved the allotment and issue of the following to KCL Resources Ltd shareholders for 100% interest in the Spanish projects:

(a) 50,000,000 Ordinary Shares for 100% of the Spanish Projects; and

(b) 51,500,000 Class A Performance Shares upon successful completion of a JORC Indicated Resource of:
   (i) 150 million tonnes of potash at or above 13% K_2O by content; or
   (ii) 125 million tonnes of potash at or above 14% K_2O by content; or
   (iii) 100 million tonnes of potash at or above 15% K_2O by content; or
   (iv) 75 million tonnes of potash at or above 17% K_2O by content; or
   (v) 50 million tonnes of potash at or above 20% K_2O by content, on the Navarra Potash Project.

(c) 51,500,000 Class B Performance Shares upon successful completion of all approvals and utility contracts required to construct and operate a 500,000 tonnes of potash per annum potash mine on the Project (including all required Government approvals, water and energy contracts).

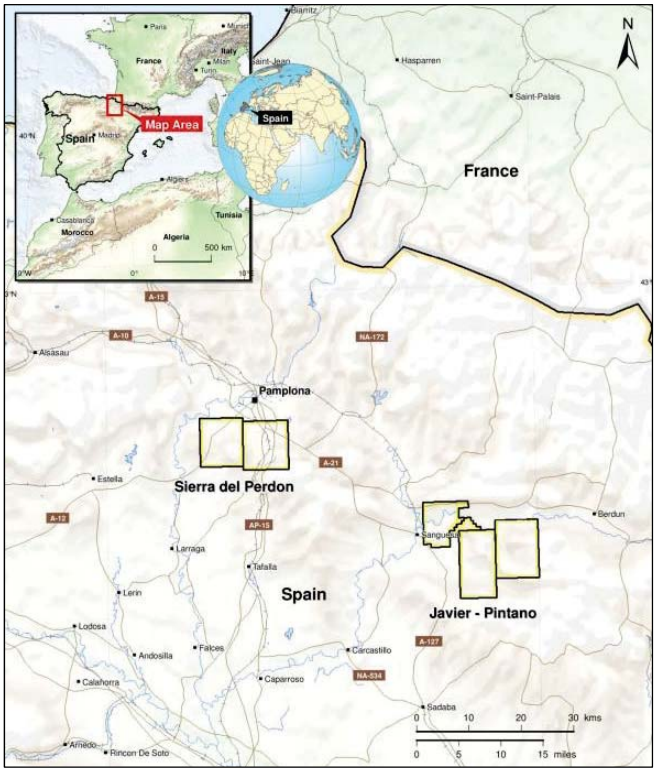


Figure 1. Location map of the Spanish Potash Project.

Background

Highfield has a significant tenement position in the potash and halite producing western Ebro Basin

The Spanish projects occur within the Navarra sub-basin of the Ebro basin, an east-west trending foreland sedimentary basin located south of the Pyrenees. The stratigraphy of the Ebro basin is dominated by a thick sequence of evaporitic marine sediments including limestone, marl, gypsum, halite and potassium salts overlain by basin-fill sequences. Tectonism and deformation subsequently altered the basin geometry. Faulting and broad fold structures have now variably exposed the evaporitic sequences across the basin.

The Ebro basin has been a centre for evaporite mining (including potash and halite) for centuries. Halite mining near the town of Zaragoza dates back to the Middle Ages and continues today at the Maria del Carmen mine which has enough halite reserves for another 500 years of mining. Sales Monzón S.A. has also been operating a halite solution mining operation adjacent to Highfield's project region since 1992.

The Ebro Basin has a long history of production

Historic and contemporary potash mining operations within the Ebro basin occur in the Provinces of Navarra (Navarra Sub-basin) and Catalonia (Catalan Sub-basin) (*Fig. 2*). Iberpotash, a business unit of ICL Fertilizers, currently operates two mines and a processing facility at Cabanasas and Suria in Catalonia where over 1 million tonnes of red potash is produced per year. Iberpotash's operations are conveniently located near the major potash consumptions areas of the European Union. Historic potash mining also occurred at Sierra del Perdon near Pamplona and is the site where Highfield is aiming to recommence production.

North Rim Exploration Ltd ("*North Rim*"), a Saskatchewan-based geoscience and engineering consulting firm, conducted a preliminary property review and summary report on Highfield's Spanish Project (*report included in Highfield's Notice of Annual General Meeting, 5th September 2012*). The report was based on documentation of potash exploration and mining activities on the Ebro Basin, academic reports and publically available information. Information from the North Rim report has been utilised in this report and is enhanced by additional information attained during a site visit by Taylor Collison in early October 2012.

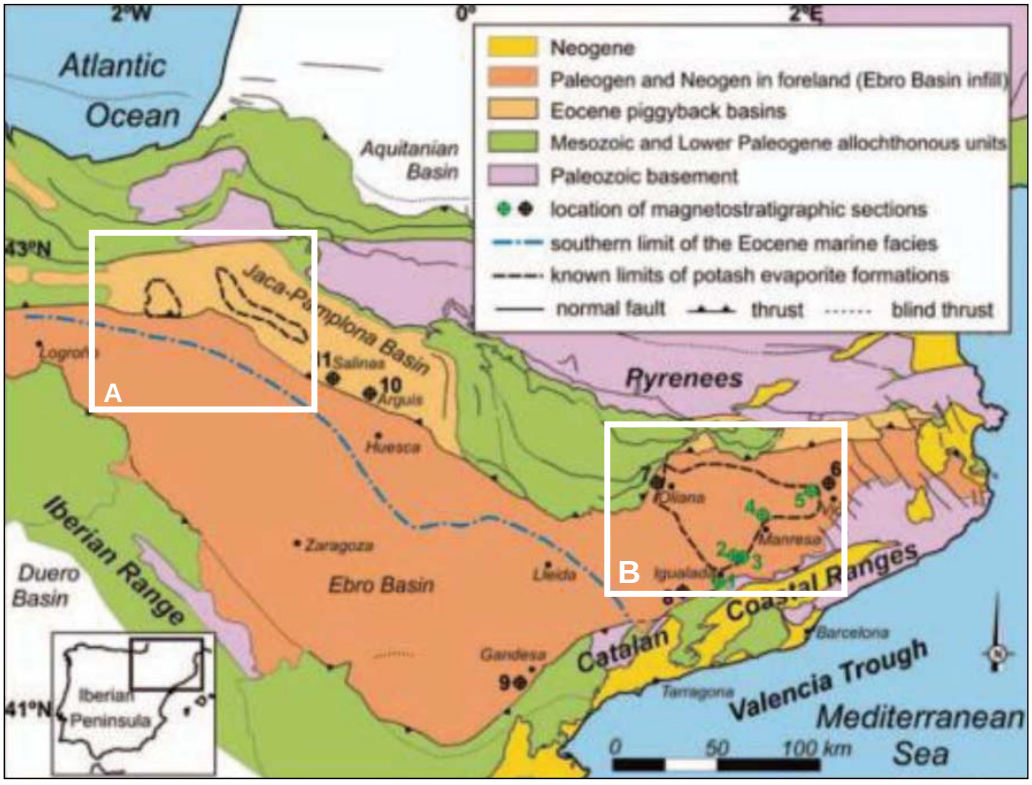


Figure 2. Ebro Basin, northern Spain, highlighting general locations of Navarra Sub-basin (A: Highfield Resources) and Catalan Sub-basin (B: Iberpotash) (Source: Company release).

Navarra Project

Navarra Project encapsulates a historic potash mine in Sierra del Perdon

The Navarra Project consists of two adjacent granted licences and one licence application, located ~10 km south of Pamplona. The licences encapsulate an area which was historically mined for potash as a conventional underground operation. The Sierra del Perdon mine began production in 1963 and became a significant potash producer between 1972 and 1997, producing on average 365,000 tonnes of potash (KCl) per year. In the first 10 years of the operation, KCl production was well in excess of 400,000 tonnes per year. In the earlier years, both sylvinite and carnallite were mined but subsequently only the sylvinite was extracted. The mine closed in 1997 as potash prices declined to around US$110 per tonne. Saldosa – Salinas de Navarra currently processes the halite tailings from Sierra del Perdon, producing a variety of salt products for food, agriculture and industrial purposes.

Sierra del Perdon has been subdivided into six mining blocks (Blocks A through F) separated by fault structures. Blocks A, B, C and E were areas of historic mining with significant remnant reserves still remaining in Block B. Blocks D and F are unmined and consequently offer substantial resource potential (*Source: Company release*) (*Fig. 3*). On this basis, two potential production centres have been identified by Highfield at the Navarra Project – the remnant reserve areas (Blocks A, B, C and E) and the unmined areas (Blocks D and F).

Historical records

Abundant mine and production records exist on the mine

A considerable amount of historical data has been collected from the Sierra del Perdon site administration building and government libraries including: historical mining and production data; seismic data; geological reports; geological maps; drill hole data (~50,000m); and general maps showing decline and mine shaft locations. It is estimated that these data sets are worth tens of millions of dollars and would have taken many years to acquire. Some of the historical records are patchy such as the full mining and production data. This is further confounded by the absence of original assay or geophysical wireline data.

The mine production records reflects the quality of the Sierra del Perdon deposit and offers the greatest insight into what potential still exists. A greater understanding is still required about the geology of the deposit and how the different mining blocks relate to each other but these challenges are not viewed to be significant. A reinterpretation of all historical records, including seismic reflection data, is currently underway and will assist with modelling the deposit, planning exploration programmes and calculating a maiden JORC resource.

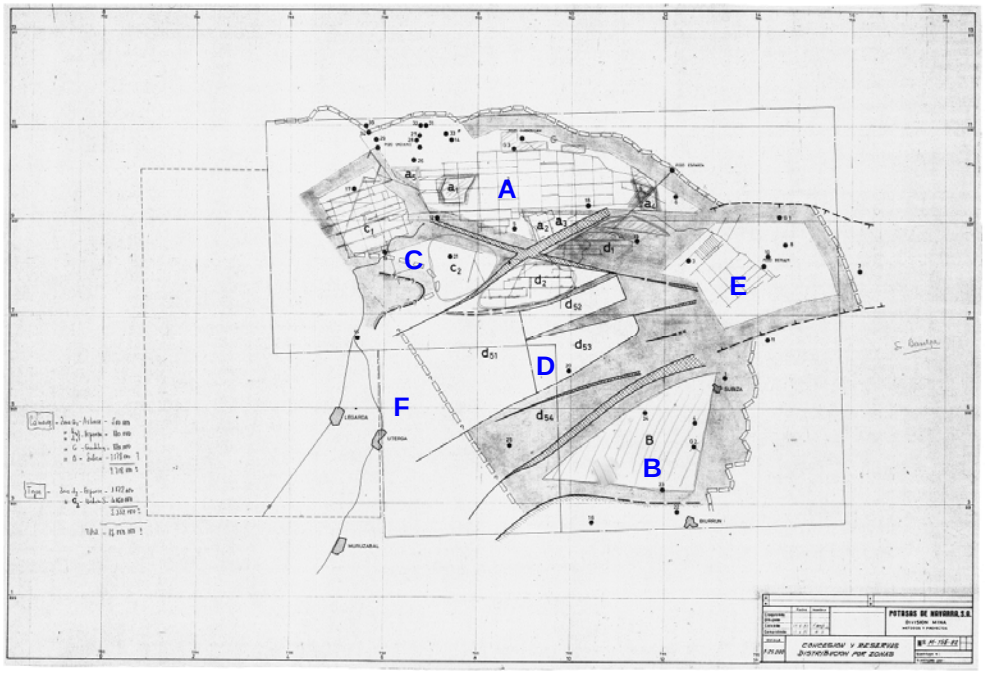


Figure 3. Mine plan of historic Sierra del Perdon mine. Mining block (A–F) locations highlighted (Source: Company release).

Resources

Multiple reserve calculations have been made for Sierra del Perdon over the life of the mine. As with the other historical records, inconsistencies and the omission of specific details make it difficult to convert these to JORC-compliant resources. Production data and mine plan maps offer the greatest insight into the deposit, its remaining resources and overall economic viability. The sylvite bed that was mined had an average thickness of ~1.85m while the carnallite bed thickness was in the order of ~10m. Accounting for the potash resource only, during the period from 1972 – 1997 an average of 365,000 tonnes of KCl was produced per year at an average grade of 14.5% K_2O (or 22.9% KCl) for ~9.5Mt of recoverable KCl (*Source: company data*).

Substantial resources with good grade remain within Sierra del Perdon

Underground mine pillars and remnant sylvinite reserves in Blocks A, B, C and E are interpreted to contain sufficient reserves to be the focus of an initial exploitation site. The unmined Blocks D and F offer greater reserve potential and would underpin the viability of a long-life mining operation at Sierra del Perdon. A sylvinite exploration target (non-JORC) in excess of 50Mt at ~15% K_2O is viewed as a starting point. An even larger carnallite resource still remains to be exploited from the deposit and potentially could be an order of magnitude greater than the sylvinite resource, albeit at a slightly lower grade (~12% K_2O).

Aragon Project

The Aragon Project, located ~35km southeast of Pamplona near town of Sangüesa, consists of four exploration licences and three licence applications (*Fig. 4*). Similar to the Navarra Project, extensive historical data sets exist for the project including data from 16 drill holes and seismic reflection data. The seismic interpretations were noted by North Rim to be of poor quality and consequently the data is being reprocessed and reinterpreted. The drill hole data, which includes assay data, core photos and wireline logs, is good quality and allows correlations to be made across the project area with a high degree of confidence. Several geological reports and geological maps have also been completed on the area.

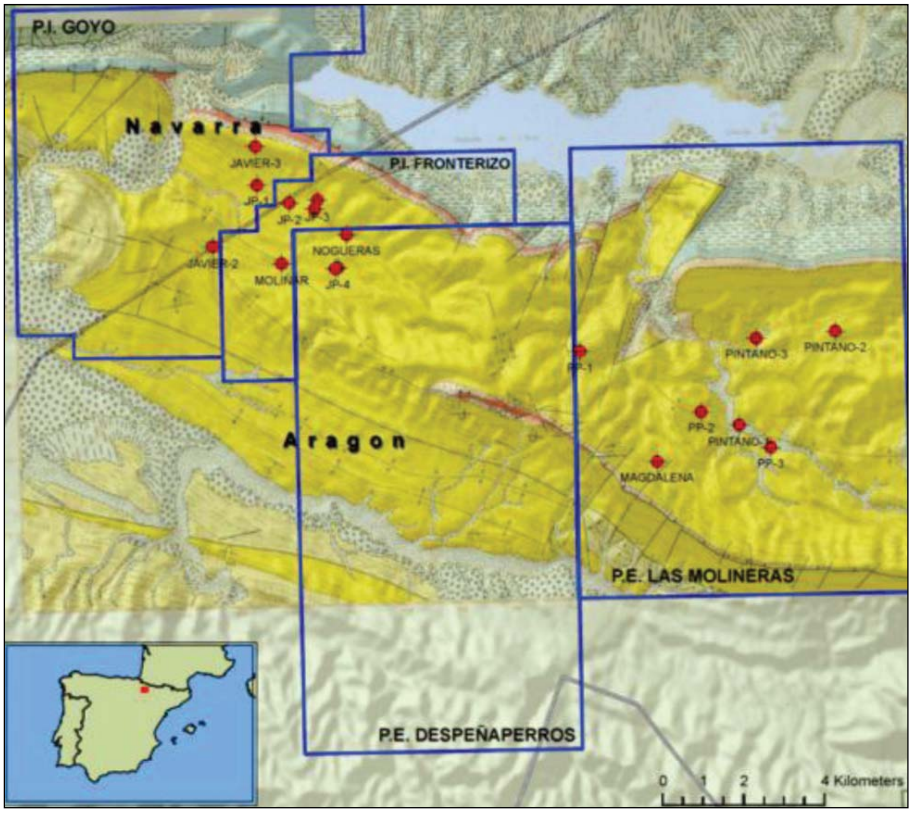


Figure 4. Aragon Project area highlighting exploration licences (blue) and drill hole localities (red dots). The prospective potash units (red) outcrop in some localities and are overlain by marl and limestone sequences (yellow) elsewhere (Source: Company release).

Historical records

Abundant historical exploration data exists for the Aragon Project

Potash mineralisation at Aragon is solely in the form of sylvinite. The thickness of the potash-bearing intervals is variable, ranging between ~3m and 20m. Variations in thickness can occur over relatively short distances suggesting a degree of structural complexity. Previous exploration on the Aragon project identified two main sites of potash mineralisation, called Javier and Pintano. The greatest prospectivity occurs at the Pintano region in the east of the project area. Two relatively shallow sylvinite beds with a combined thickness of ~20m have been intersected. Grade multiplied by thickness contouring indicates that the southeastern area is the most prospective region (*Source: North Rim report*). In drill hole *PP-3*, a 3.46m sylvinite interval grading 8% K_2O (12.7% KCl) was intersected at 779.8m. Beneath this, a more substantial interval was intersected with a thickness of 17.5m grading 11.3% K_2O (17.9% KCl) from 791.4m. Grades as high as 15.6% K_2O (24.7% KCl) have been intersected elsewhere on the project.

Resource estimates

Two areas have been identified at Aragon with the potential for resource defintiion

Based on the two areas of the project that have been drill tested and the average grades intersected, an exploration target (non-JORC) in the order of 50Mt @ ~12% K_2O (~19% KCl) is conceivable at the Aragon project. The recoverable portion of any resource may be complicated by the content of insoluble materials (clay, anhydrite and potentially polyhalite) that has been documented in the historical assay data. Insoluble contents of over 20% were reported in 44% of the samples grading more than 5% K_2O (*Source: North Rim report*). This may be problematic from a mining perspective depending on the geological relationship between the potash mineralisation and the insolubles.

Seismic data reprocessing and reinterpretation will enable the geological model for the Aragon project to be refined and a JORC-compliant resource to be calculated. A minor drilling programme would confirm potash mineralisation thicknesses and grades. It would also allow studies to be conducted to determine the geological association of the potash mineralisation and the insolubles. It is conceivable that two production centres could be established at the Aragon project on the assumption that economic resources could be established at Javier and Pintano.

Infrastructure & Community

Outstanding infrastructure exists in the region

Highfield's potash projects have significant infrastructure and locality advantages relative to other potash projects elsewhere in the world. Its location proximal to Pamplona enables any project activities to capitalise on existing infrastructure such as well maintained sealed roads (including dual carriageways), transmission lines (*Fig.* 5a), telecommunications and a readily available labour force. Local communities are also supportive of mining operations. This is exemplified by an active limestone quarry that is operating in full view of Sierra del Perdon (*Fig. 5b*). This operation is also a significant employer in the local community.

Local community is supportive of mining operations and job creation

Any development in the region would also benefit from major infrastructure, including a gas pipeline that runs through both projects which could be used for additional power generation, existing wind power generators and multiple water sources (reservoirs). The major Port of Bilbao is also located ~80km northwest of the project area which could act as an export hub. Bilbao is serviced by roads rated for 30 tonne trucks which would be ample for the amount of potash concentrate that the projects could potentially produce.

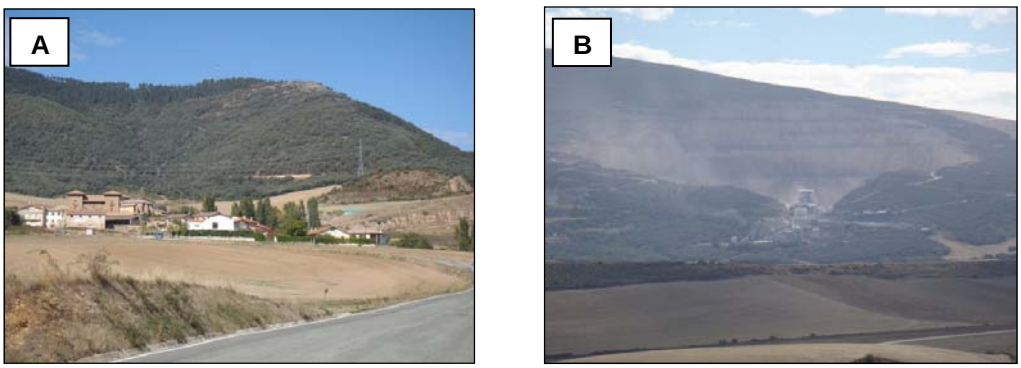


Figure 5. (A) Operating limestone quarry; and (B) Power transmission lines adjacent to Sierra del Perdon.

Development option

Highfield could redevelop the Sierra del Perdon mine using existing technologies and mining techniques

A redevelopment of the Sierra del Perdon potash mine, or an exploitation of an unmined resource in the region, could potentially follow the same development and production path as that of Intrepid Potash (*NYSE: IPI*) at the HB Solar Solution Mine in New Mexico. The HB development utilises solution mining of remnant potash pillars in a discontinued conventional underground mine. The potash is dissolved into solution, pumped to the surface and then the potash-bearing salts are crystallised from the brine by solar evaporation. Intrepid plan on producing 150,000–200,000 tpa of KCl over a 28 year mine life. Construction at HB commenced in early 2012 and is anticipated to take 12–18 months to complete at a budgeted cost US$200–230m. Production costs are estimated to be US$60–80/t making HB one of the lowest cost potash producers in North America.

Intrepid Potash has already proven the solution mining and solar evaporation production pathway at the Moab Mine in Utah. Moab was also operated as a conventional underground mine. It now produces in the order of 100,000 tpa of KCl and has a remaining mine life of 125 years based on current production rates and remaining reserves. Assuming Highfield follow a similar redevelopment pathway as at Moab and HB, it would be in a favourable position to commence production at modest rates in a relatively short time frame. This could also be done at capital costs that are orders of magnitude less than potash developments elsewhere in the world. Cash flow generated from an initial operation at Sierra del Perdon could be used to fund subsequent developments.

Australian Potash Project

McLarty Project

Grassroots greenfields exploration project in prospective Canning Basin

The McLarty Project is Highfield's greenfield exploration project located in the Canning Basin in northwest Australia. The project comprises three contiguous exploration tenements located to the south of the Kimberley region. The Canning Basin contains extensive accumulations of evaporitic sediments considered prospective for potash mineralisation. The McLarty Project is centred in the McLarty Sub-basin, where the prospective Mallowa Salt unit is interpreted to be between 500 – 700m deep. The sub-horizontal geometry of the prospective units makes the project favourable for extraction should an economic resource be proven. Highfield have identified two high ranking targets that it has selected for drill testing. The company has obtained the necessary heritage approvals from the Ngurrara Native Title Claimant Group and access arrangements negotiated.

Peer Comparison and Valuation

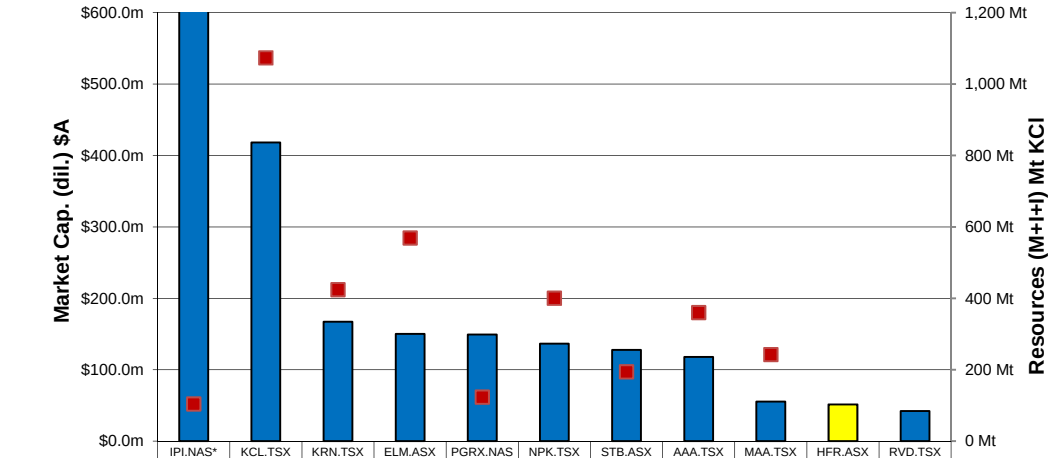
Comparison

The near-term milestone of a maiden resource will require a re-rating of the company

Figure 6 shows market capitalisations (diluted) and measured, indicated and inferred resource tonnes of contained potash (KCl) for a number of ASX, TSX and North American listed producers and developers. These comparisons can be used as a rough guide for a generic valuation of Highfield. Excluding the one producer (*Intrepid: IPI.NAS*) and the takeover target (*Potash Corp: KCL.TSX*), the potash developers with an established resource trade at market capitalisations (diluted) between A$55.4m and A$167.1m (average A$129.1m). Assuming Highfield will approximately match the market capitalisation average of the listed peers upon announcing a maiden resource, the company would need to be re-rated. Based on its current fully diluted issued capital, ***we set our initial valuation for Highfield at A$0.63/share on attaining this milestone.***

Key points relevant to the aforementioned generic valuation are the size of the resources established for the comparable companies, their proposed annual production output and the capital expenditure required to being the operations into production (*Table 1*). These factors are considered to have a major influence on market capitalisations. It is noted that the companies propose to produce in excess of 1Mtpa of potash (KCl) concentrate from substantial resource bases. Such large operations are required in order to make the projects economically attractive given the substantial capital expenditures required. Consequently, these companies have significantly greater risk profiles relative to Highfield due to the size of a potential development at Sierra del Perdon. The following section will highlight that highly competitive returns can be generated by Highfield from a modest sized operation

(~250,000 tpa KCl). Based on Intrepid's HB Solar Solution development, such a mine would be considerably less capital intensive (~US$200-230m) and relatively low-cost (US$60-80/t). *Consequently, any advancement beyond resource definition at Sierra del Perdon would unlock additional value in the company.*



	IPI.NAS*	KCL.TSX	KRN.TSX	ELM.ASX	PGRX.NAS	NPK.TSX	STB.ASX	AAA.TSX	MAA.TSX	HFR.ASX	RVD.TSX
Mark. Cap. (dil.) A$m	$1,579.3m	$418.3m	$167.1m	$150.1m	$149.3m	$136.4m	$127.7m	$117.9m	$55.4m	$51.4m	$42.1m
M+I+I Resource (Mt KCl)	104 Mt	1,073 Mt	424 Mt	569 Mt	123 Mt	400 Mt	194 Mt	360 Mt	242 Mt		
Grade - K2O	14.2% K2O	17.1% K2O	12.0% K2O	15.9% K2O	10.4% K2O	8.92% K2O	11.4% K2O	12.1% K2O	11.95% K2O		

*Figure 6. Market Capitalisation (fully diluted) (bars) and Resources (M+I+I) tonnes potash (KCl) for producers and developers. Conversion to AUD$ at FX rates at the time of writing: AUDCAD = 1.0376; AUDUSD = 1.0375 (Source: IRESS, company presentations). * Intrepid Potash (IPI.NAS) market capitalisation is A$1,585.5m; only Proven and Probable Reserves stated.*

Table 1. Comparable company project parameters (Source: Company presentations).

Company	Code	Market Cap. (dil.) A$	Project	Country	Mining	KCl output	Res. M+I+I t KCl	CapEx	Mine Life	NPV	IRR	Disc. Rate
South Boulder	STB.ASX	$123.3m	Colluli	Eritrea	Open pit	1 Mtpa MoP	194 Mt	AUD$ 740m	20 yrs	A$1,330m[1]	40.6%	12%
Elemental	ELM.ASX	$150.2m	Sintoukola	Rep. of Congo	U/G	2 Mtpa MoP	569 Mt	US$ 1,850m	23 yrs	US$3,900[1]	29.3%	10%
Karnalyte	KRN.TSX	$169.0m	Wynyard	Canada	Solution	2.125 Mtpa MoP	424 Mt	CAD$ 2,000m	60 yrs	C$1,694m[2]	21.4%	10%
Prospect Global	PGRX.NAS	$149.9m	Holbrook Basin	U.S. - Arizona	U/G	2 Mtpa MoP	123 Mt	US$ 1,977m	40 yrs	US$3,818m[1]	39.7%	10%
Allana Potash	AAA.TSX	$121.8m	Dallol	Ethiopa	Solution	1 Mtpa MoP	360 Mt	US$ 795m	30 yrs	U$ 1,800m[2]	35%	12%
Mag Industries	MAA.TSX	$55.6m	Mengo	Rep. of Congo	Solution	1.2 Mtpa MoP	242 Mt	US$ 723m	N/A	N/A	N/A	N/A

[1] *Pre-tax.* [2] *Post-tax.*

Project Valuation

Revenue streams could be generated from multiple products

A preliminary DCF valuation has been calculated for a project based on the redevelopment of the Sierra del Perdon mine using similar project parameters to Intrepid's HB Solar Solution Mine (*see above 'Development Option' section*). The key parameters of the model are listed in *Table 2*. It needs to be highlighted that this valuation is based on one production centre producing 250,000t of KCl from sylvinite and carnallite. Sierra del Perdon also has the potential to generate significant revenue streams from halite and magnesium chloride production. To put this in perspective, ~3 tonnes of halite would be produced for every 1 tonne of potash (KCl). Consequently, ~750,000tpa of halite production (wholesale price in the EU of ~€70-80/t) is not accounted for in the DCF model and so it should be viewed as a minimum project valuation.

Advancing towards a feasibility study will unlock additional value in the company

The project as modelled generates an attractive NPV of US$373.4m and an IRR of 46% over a 26 year mine life. Operating cash flows are also substantial at US$77.1m/yr. Assuming the development requires an equity contribution of 30% ($69m) and equity is issued at $1.30/share, ***the project would generate a NPV/share of $1.44 (non-risked)***. Given the current macroeconomic situation in Europe and the already established infrastructure in the area, it is anticipated that a Sierra del Perdon redevelopment and operation could be achieved with more favourable capex and opex parameters than those modelled.

A modest potash-only operation would generate attractive returns

Table 2. Preliminary DCF valuation of a hypothetical 250,000 tpa KCl operation at the redeveloped Sierra del Perdon mine.

Capital Expenditure	
Total Initial Capex (US$)	230,000,000
Sustaining Capital (US$/yr)	1,500,000
Grants on Capex (%)	5%
Mining	
Resource (tonnes)	26,500,000
Grade (% KCl)	15.2%
Contained KCl (MoP) (tonnes)	6,376,819
Production rate (KCl t/yr)	250,000
Mine life (years)	26
Costs	
Opex (US$/t KCl)	80
G & A (US$/yr)	1,500,000
Royalties (%)	0%
Sales	
KCl (MoP) (US$ per tonne)	450
Finance	
Debt:Equity (%)	70%
Total debt required for CapEx (US$)	161,000,000
Total equity required for CapEx (US$)	69,000,000
Interest rate (%)	6.8%
Corporate tax rate (%)	30%
Mining tax allowance (% of Gross rev.)	15%

VALUATION	
Discount rate (%)	10%
NPV - levered (US$)	373,454,855
IRR	46%
Mine life (yrs)	26
Annual Pre-Tax Cash Flow (EBITDA) US$	77,115,385
Annual Net Cash Flow (levered) US$	65,228,962
Shareholder equity required (US$)	69,000,000
Placement Price (A$)*	***$1.30***
Shares For Equity Capex @ Placement Price	53,076,923
Fully Diluted Shares (pre-development)	205,500,000
Fully Diluted Shares (post-development)	258,576,923
NPV/SHARE (non-risked)	**$1.44**

** assuming AUD:USD parity*

Company Valuation

Highfield has multiple projects that have development potential

The value that could be unlocked in Highfield's Spanish Projects is substantial. The company has already identified four areas that could potentially be developed into production centres. The tenements and application areas are considered very prospective for additional evaporitic sequences of sylvinite, halite and carnallite accumulations. The Navarra Sub-basin has the potential to develop into a 1 Mtpa production centre for fertiliser and halite products. Given Highfield's substantial tenement position in the region, it is well positioned to benefit from economic evaporite accumulations in the area. In addition, Highfield's McLarty Project in Western Australia could also unlock additional value in the company through the definition of economic resources. As an example of the market value of a significant potash producer, Intrepid Potash (*IPI.NYS*) produces approximately 800,000 tpa of KCl and has a market capitalisation of ~US$1.68b.

Risks

We consider the main risks at Highfield's Spanish Potash Project to be:

- Exploration/Geological – potash accumulations can be disturbed by so-called salt "anomalies" and potentially represents an area which is generally not suitable for mining. Salt anomalies can substantially reduce the thickness and grade of the potash mineralised zone resulting in ore of undesirable composition being fed into the mill. Faulting and other structural geology complexities can affect the potash-bearing units. A combination of seismic reflection studies and examination of drill core is often sufficient in identifying potentially anomalous ground. However, unless extremely detailed (3D) investigations are made, the full lateral extent of anomalies may not be known.

There are potential risks associated with project resource evaluation and development

- Resource/Reserves – reserve estimates depend on many assumptions that may be inaccurate, which could materially adversely affect the quantities and value of reserves.
- Funding – current macroeconomic conditions may impact on the company's ability to raise additional funds through equity in the short-term. This may impact on Highfield's future exploration activities. Should the Spanish projects prove to be economic, accessing funds for development may also be challenging in the current economic environment given the capital intensiveness of the mining industry.
- Mining – the grade of ore that is mined may vary from projections due to complex geology and mineralogy of potash reserves. This could adversely affect potash production and financial results. In addition, mining is complex and hazardous and can experience production disruptions. The nature of solution mining operations makes them vulnerable to such disruptions.
- Processing – Magnesium concentrations in excess of 0.25% Mg may decrease the efficiency of potash flotation plants. Given the carnallite contents of the Navarra Project, this potentially may

pose a risk. That said, carnallite solution mines (e.g. DEUSA International) and developments (e.g. Karnalyte resources) are relatively common, so this is not viewed as a major risk as long as carnallite processing is taken into account during the early stages of feasibility studies.

The long-term supply-demand equation in the potash market could affect project viability

- Marketing – potash sales are subject to price and demand volatility resulting from periodic imbalances in supply and demand. This may impact on project modelling. Aggressive pricing strategies by competitors could also adversely affect sales and profitability. The seasonal demand for potash products and the consequent variations in cash flows may have an adverse effect on our operating results and make the share price volatile.
- Business – as a potash-only explorer and potential developer, Highfield is not diversified and a decrease in the demand for potash or an increase in potash supply could have a material adverse effect on its financial condition.
- Permitting – any mining development will need the appropriate approvals before construction can commence. Furthermore, changes in laws and regulations may periodically affect the mining industry and changes in enforcement practices could have an adverse effect on operations. Given Spain's current economic situation and its need to promote economic activities, risks associated with permitting are largely viewed to be mitigated.
- Liquidity – Highfield is currently a tightly held stock which has an impact on trading. As the company accelerates its exploration and development activities, it will need to issue more equity which will help alleviate some of the liquidity issues.
- Soverign Risk – the current economic circumstances in Spain have resulted in social unrest which may result in government changes in the near future. A change in government may potentially result in delays to exploration and development activities on the projects.

Board and Management

Experienced Board and Management team with Spanish project development experience

The Board and Management at Highfield are highly experienced in the resource sector, with backgrounds in law, financial management, business development, corporate strategy, exploration and mining. Crucially, the company has a strong proven capability in the mining industry in Spain in the fields of project feasibility and development. An In-country office and management team, led by Pedro Rodriguez, will help the company quickly progress the projects and access the necessary labour as the project progresses through the various stages. Highfield has the necessary experienced personnel to expedite the exploration and development of the Spanish Potash Project.

Recommendation

Highfield Resources is recommended as a Speculative Buy

Highfield Resource is uniquely placed as a junior exploration company with a dominant tenement position in a producing potash basin located in Spain. Remnant reserves at the disused Sierra del Perdon potash mine offer immediate potential for the development of a solution mining operation akin to an operating mine and development of Intrepid Potash in the U.S. We view there to be three near-term drivers for share price appreciation in Highfield: the announcement of a maiden resource(s), discussions with development partners or off-take companies and feasibility study results on one or more of its projects. For these reasons, *we see significant value in the stock and initiate our coverage of Highfield as Speculative Buy*.

Board & Management

Derek Carter (BSc, MSc, FAusIMM(CP)) – Non Executive Chairman
A geologist with over 40 years experience in exploration and development, including nearly 20 years in management of ASX listed exploration companies. Derek has held senior positions in the Shell Group of Companies, including Chief Geologist in Spain and was the Managing Director of the ASX listed Minotaur Resources from its inception in 1993 to 2010.

Anthony Hall (BBus, LLB (Hons), ACSA) – Managing Director
A qualified lawyer and company secretary with over 15 years commercial experience in venture capital, risk management, strategy and business development. Prior to his appointment he was Head of Strategy and Business Development for the solar energy division of an ASX listed top 50 corporation.

Pedro Rodriguez (BSc, MSc) – Development Director
A geologist with over 30 years experience in mining services in Spain working with six international mining companies over that period including Billiton International, Navan-Almagrera and Newmont. Most recently Pedro had direct responsibility to the Board of Directors of ALMAGRERA SA for delivering a mining chemical complex with more than 460 direct employees and sales greater than US$50m pa.

Mark Arundell (BSc (Hons), MEconGeol) – Lead Consultant
A geologist with over 25 years experience with companies such as Rio Tinto and North Ltd, including being principal geologist for Rio Tinto Exploration's Industrial Minerals Exploration division in Australia. Mark has consulted on potash projects for a number of clients across six continents.

Jonathan Murray (LLB (Hons)) – Non Executive Director
A lawyer with over 15 years commercial experience in equity capital markets, takeovers, project acquisition and divestments, corporate governance, commercial law and strategy. Jonathan has extensive global networks and is a director of multiple ASX listed entities.

Scott Funston (BBus, CA, ACSA) – Non Executive Director
A chartered accountant with over 10 years experience in the mining industry and accounting profession. Scott has expertise is in financial management and general corporate advice. Scott is a Director and Company Secretary of multiple ASX listed entities.

Aaron Bertolatti (BCom, CA, ACSA) – Company Secretary
A chartered accountant with over 8 years experience in the mining industry and accounting profession. Aaron has both local and international experience, having worked offshore for a period of his career and is the Company Secretary of multiple ASX listed entities.

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