EQUITY RESEARCH

RBC Capital Markets

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Sector: Agriculture, Chemicals & Fertilizers

March 8, 2018

Highfield Resources Limited

Inching ever closer...

Our view: We retain our positive view for HFR on the basis that approvals will (eventually) arrive, and a relatively simple project can be developed with a multi-decade production outlook (something lacking elsewhere in small resources).

Key points:

As the clock continues to tick on HFR's permitting and approvals process, we have revised our estimates to reflect commencement of construction in Q1CY19, and production from CY2021 (significantly later than the production date outlined in the initial DFS of Oct 2017). MOP prices appear to have stabilised following declines through 2012-16, with our forecasts broadly flat around current levels.

Permitting/approvals remains the log jam...

Management have sensibly declined to comment on potential outcomes of the approvals process, given the disappointment of what now seems like aggressive targets under the previous management regime. We do, however, understand that **all of the "41+2" expected submissions have been filed** with the authorities, required as part of the consideration to award La Declaración de Impacto Ambiental (DIA). Initial feedback from some of these submissions has been provided to HFR for responses, while the latter submissions (geotechnical/ subsidence and ground water) may yet require further correspondence. Pending a "positive" DIA announcement, we anticipate a mining permit should be forthcoming, before further local permitting can kick off surrounding roads, power etc. Absent specific expertise in the Spanish regulatory landscape, our base assumption is that a DIA is granted. We believe in a non-binary outcome, with additional conditions attached (and further risks of delay) a more likely outcome than an outright rejection.

We remain constructive on the project

In the potash/fertiliser space, we believe HFR is well positioned both geographically to compete against seaborne product, while also remaining small enough to not upset the broader market balance. There appears to be demonstrable local goodwill for the investment into the local community, although we are mindful that this can sometimes have a 'use-by' date in the event that progress does not seem to be made. The additional delays have allowed for ongoing optimization of project development parameters, which may not lower capex costs, but should help to de-risk execution (for example optimal decline development parameters).

Earnings and valuation impact

We have made additional revisions to our estimates to reflect likely first production from 2021, although the 'roll-forward' of our model mitigates significant valuation decline. Our 12-month target price remains static at A$2.00.

Outperform

Speculative Risk

ASX: HFR; AUD 0.92

Price Target AUD 2.00

WHAT'S INSIDE	
☐ Rating/Risk Change	☐ Price Target Change
☑ In-Depth Report	☑ Est. Change
☐ Preview	☐ News Analysis

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
0.55	0.92	2.00	3.00
↓ 40%		↑ 117%	↑ 226%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	319.9	Market Cap (MM):	294
Dividend:	0.00	Yield:	0.0%
NAVPS:	2.01	P/NAVPS:	0.46x
		Enterprise Val. (MM):	777
		Avg. Daily Volume:	100,794

Priced at ASX close on 8th March, 2018.

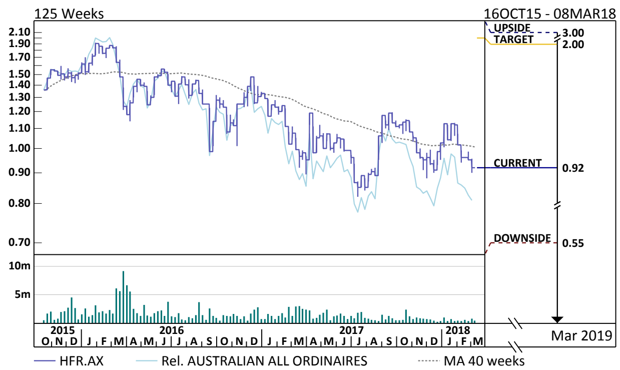
RBC Estimates

FY Jun	2016A	2017E	2018E	2019E
EPS, Adj Diluted	(0.02)	(0.02)	(0.01)	0.00
Prev.		(0.01)	(0.03)	(0.03)
P/AEPS	NM	NM	NM	NM
EBITDA, Adj	(6.2)	(5.0)	(7.0)	(4.0)
Prev.		(4.4)	(8.0)	1.0

All values in AUD unless otherwise noted.

Target/Upside/Downside Scenarios

Exhibit 1: Highfield Resources Limited



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

Target price/base case

Our $2.00 price target is based on a net asset valuation, rounded to the nearest 25 cents. We use our long-term Brazil CFR potash price forecast of $280/tonne and we do not include the potential for salt by-product credits, or any of HFR's other potential extension/expansion projects in our base case valuation.

Upside scenario

We base our upside scenario of $3.00 on a net asset value analysis, assuming a 15% higher potash price than our base case assumption of US$280/t CFR, Brasil.

Downside scenario

We base our downside scenario of $0.55 on a net asset value analysis, assuming a further 12 month delay to the permitting process (and approvals in January 2020) and spot prices into perpetuity.

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. We rate the stock Outperform - albeit with a 'Speculative Risk' prefix, which arises from risks associated with an undeveloped mining project (permitting and construction delays, cost overruns, start-up challenges) and significant sensitivity to potash prices and currency exchange rates.

Potential catalysts

Permitting: Highfield is waiting for the government to approve its Environmental Impact Assessment which is critical to a Mine Concession permit. The process has been delayed - leaving some investors sceptical as to a timely potential resolution.

Financing: Following the A$100M equity financing in May 2015 and preliminary debt financing with four European banks in August 2015, the company is positioned with c.A$68m cash. Clearly this is insufficient to execute on the project, although the company should be able to revisit prior debt options and also consider equity funding with a re-rating in the share price following project approvals.

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 further 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.

HFR: remaining patient as permitting inches forward

HFR continues to complete necessary submissions for permitting approvals at the Muga project in Spain, and we understand that key submissions (and responses) from requires stakeholders have finally reached the relevant government departments. While the pace may be slow, progress is progress, and while the timing (and potential conditions attached) of a DIA may remain unknown, we feel as though HFR is certainly closer now. We would anticipate that any additional news flow surrounding the project could provide a positive catalyst by demonstrating forwards momentum. Similarly, we think the likelihood of outright negative news is limited so long as the process remains objective.

But the project remains, and work continues

Our recent visit to site showed work progressing unabated, with optimisation of potential underground development, marketing/offtake and environmental considerations all being conducted in parallel to the arduous permitting obligations. Perversely this time should result in additional risk mitigation for these aspects of the project, although clearly in the eyes of the market HFR's ability to gain regulatory approvals remains the key milestone.

Despite a tiring investor base, we advocate (more) patience and a fresh look for those not yet involved

Clearly the permitting of this process has disappointed investors up until this point. While we may argue this situation has arisen on the back of ambitious expectations of prior management, the incumbents nonetheless have to deal with the legacy surrounding this issue. The magnitude of the delays to date are likely to have resulted in a stale register, with those holders potentially frustrated, but unlikely to sell, while new investors could remain wary pending some kind of progress around the granting of the DIA and momentum with subsequent permitting. The calibre of the board members, along with key investors on the share registry have arguably assisted in propping up the share price through what has been a disconsolate period – but, again, we stress that with the final submissions, we are closer than ever to a critical milestone in the permitting phase.

With project metrics still appealing…

With relatively modest potash (MOP) forecasts of c.US$280/t, we derive a post-tax, unlevered NPV (10%) of A$661 or c.A$2/share and a corresponding c.21% IRR. This is despite the long lead time to first production, and the gradual ramp up to the nameplate 1.1mt annualised MOP output in FY24. We model direct (mine gate) costs of €125/t, which (when converted into USD) should underpin EBITDA margins of c.50% throughout the life of the project. The critical element remains HFR's unique geographic advantage over larger North American and eastern European peers.

Earnings and valuation impact

We make amendments to our modelling around project timing, and slightly adjust the capex profile to assume c.€270m for pre-production capital, and additional delays to permitting and eventual construction commencing in early 2019 before first production in early 2021. We make no assumptions regarding financing options at this time, which by extension assumes the capital sources to build the project have an equivalent weighted cost of our WACC (10%) and are likely to be through both debt and equity arrangements. We would anticipate an upwards move in the share price around a potential 'positive DIA" announcement, although the potential magnitude of the move is impossible to determine.

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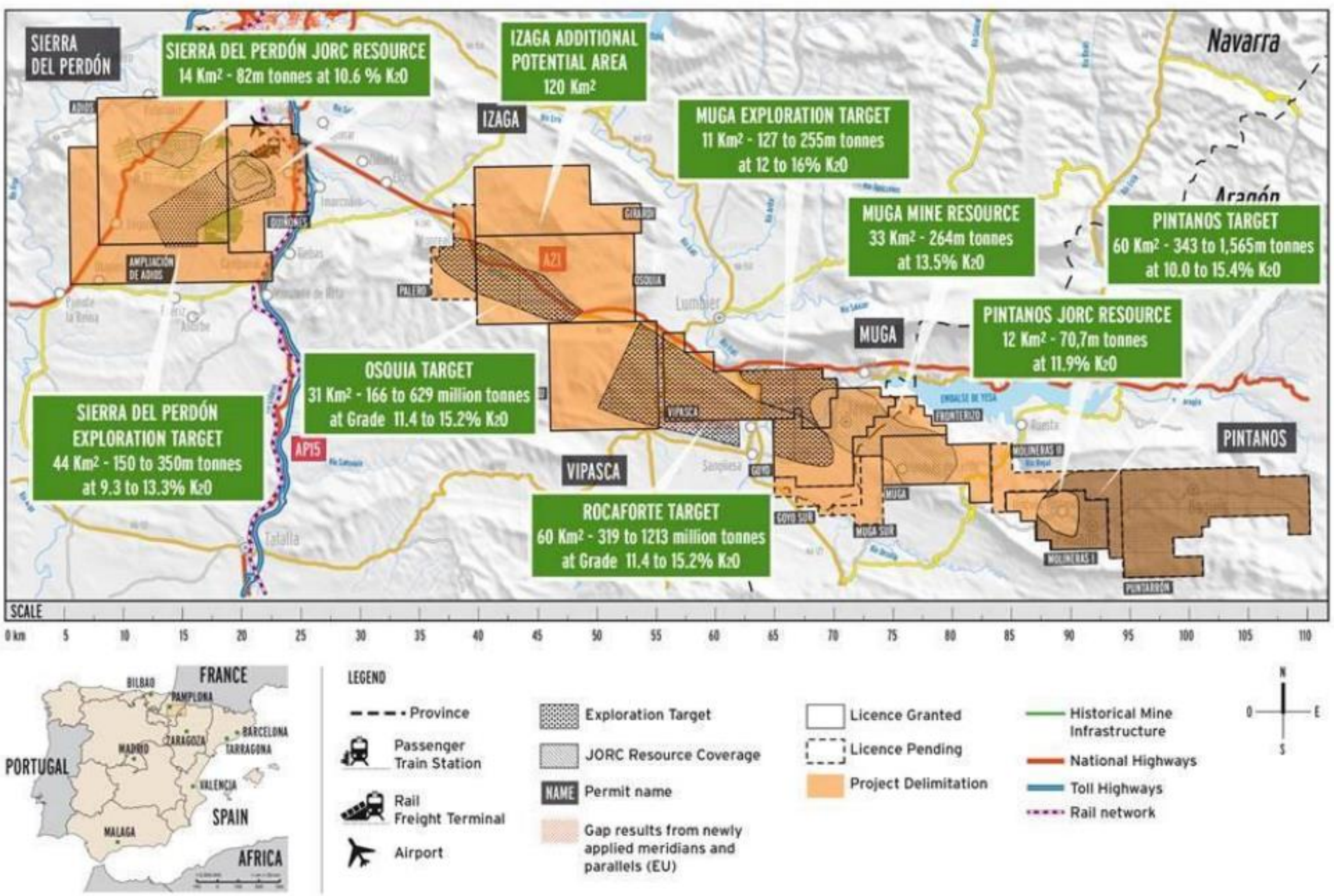
Muga: a high quality potash development project

HFR's high quality Muga Potash project is located in Northern Spain, approximately 50km south east of Pamplona. Logistically, the project is ~135km from the Port of Pasajes (near San Sebastian) and ~220km from the Port of Bilbao, offering gateways to European and North and South American markets. The Muga project has Proven and Probable Reserves of 253Mt at an average grade of 11.5% K_2O (at 30 June 2017).

Exhibit 2: An overview of HFR's tenements in Northern Spain, including the Muga Potash project



Source: Company reports

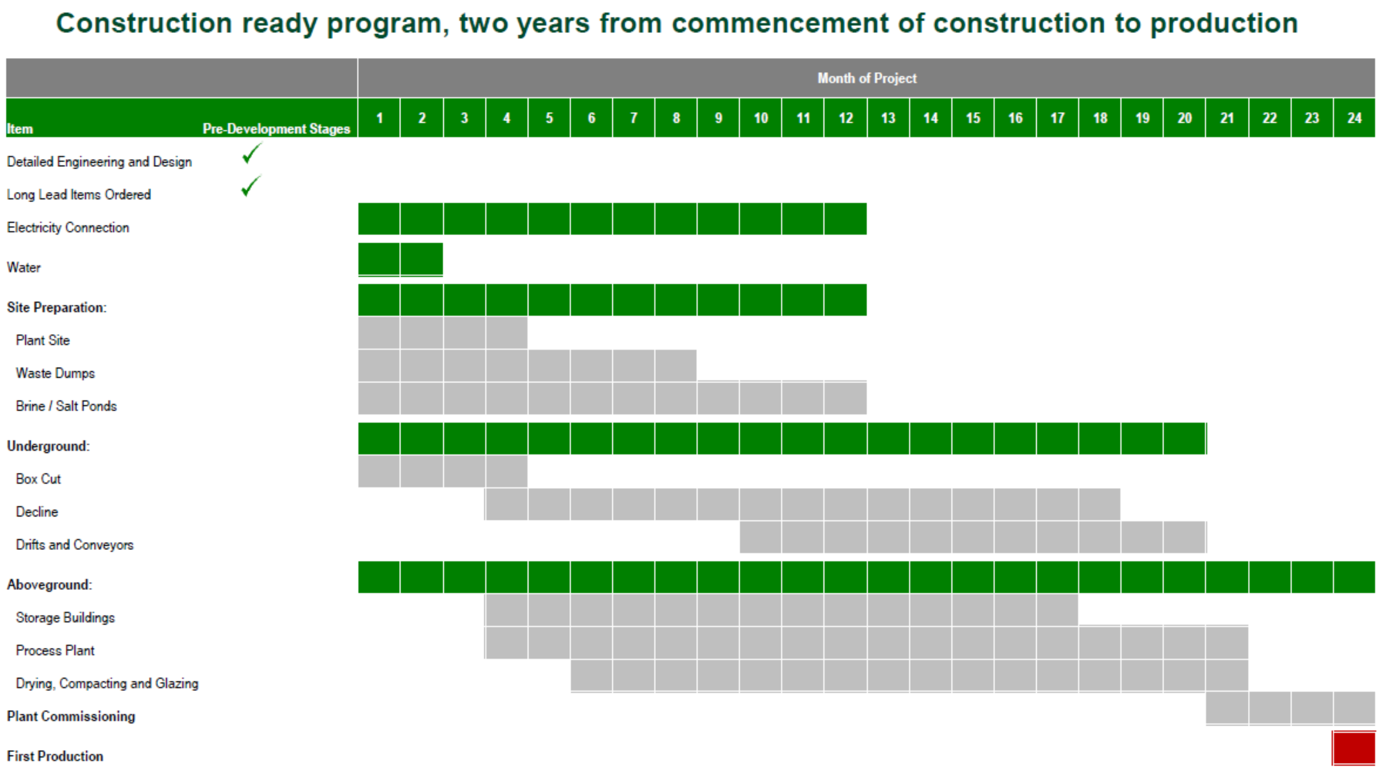
The deposits are relatively shallow in nature (approximately 450m below surface). Ore will be accessed via two straight line declines. The eastern decline will reach mineralisation at approximately 400m below surface, whist the western decline will intercept mineralisation at approximately 450m. The **mining method** will be underground room and pillar mining, utilising continuous miners and road headers, which will result in an average ROM of 6.6Mt per annum. A simple KCI (Potassium Chloride) froth floatation circuit highlights the **processing flowsheet**. The updated DFS (17 November 2015) illustrated average recoveries over the LOM at 88%.

In terms of infrastructure, HFR has non-binding MOUs with both the Port of Pasajes and the Port of Bilbao, whilst no major road and rail upgrades are required. The project will source is electricity from the Grid, with 60MVA of capacity already secured.

Awaiting final approvals

Construction is obviously contingent on the approvals process. This process is currently ongoing with the HFR confident of receiving final environmental approval and mining concession for the Muga Potash project. First production is expected within 24 months from the commencement of construction (Exhibit 3) below.

Exhibit 3: Pending approvals, First production expected within 24 months



Source: Company reports

Approvals remain the key source of uncertainty

Our visit to site in February outlined a company/project that is moving ahead as though there will eventually be a positive permitting decision. We understand that following the first (mandatory) public exposition, the company also conducted a voluntary one through Sept-Oct 2017 which received broadly the same feedback, despite attempts to address concerns from what appeared to be a limited number of stakeholders. More broadly, we believe there is broader support for the project given a relative lack of capital investment into the region/community. HFR remain optimistic it can successfully address residual concerns relating to groundwater and geotechnical/subsidence, which were two of the last pieces of documentation to be submitted/reviewed as part of the DIA process. From our perspective, any potential issues highlighted during our time on site appear manageable without sinking overall project economics, so long HFR is afforded a balanced/objective playing field in which to resolve them. Our view remains that a positive DIA will be granted, although we remain just as unsighted on when this could happen along with what additional conditions may accompany it. To that end, investment risk around a truly 'binary' outcome would seem too conservative.

Outlining our assumptions

We assume approvals are gained in the 2018 December quarter with construction commencing the following quarter. We have assumed that the pre-production capex (RBCe: €270m) is spread evenly over the 24 months prior to production. This initial phase of capex supports a mine with a capacity of 540ktpa K60 MOP. Once production commences (RBCe: 2021 March quarter), we expect the company to begin deploying the second phase of capital (RBCe: €146m) which will expand underground operations – and the associated above ground facilities – to provide an operation capable of producing 1.08Mtpa K60 MOP. We note that given the timing of the DFS and Optimisation study (both completed in 2015), there is upside risk to our capex estimates. In terms of customer segmentation, we assume HFR sells half its product to the South American market, with the other half going to the European market (Exhibit 8 has price profiles).

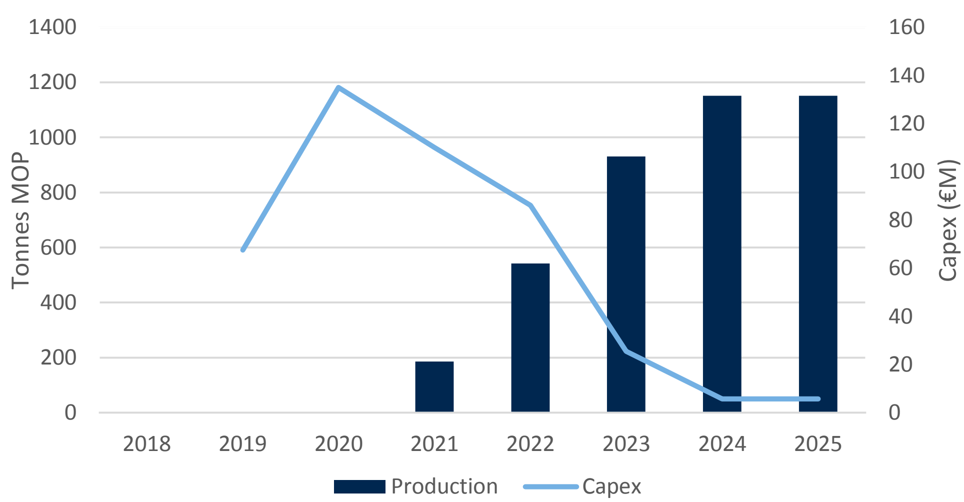
Given the above timeline (and assumptions) we outline our expectation of first production in the 2021 March quarter, ramping up to full capacity (1.08Mtpa K60 MOP) by the 2023 March quarter – over 24 months. The ramp-up will coincide with falling operating costs, towards a LOM average of 125/t MOP – this excludes sustaining capital and D&A.

Exhibit 4: Our key assumptions are outlined in the table below

	Unit	2018	2019	2020	2021	2022	2023	2024	2025
Mined ore	Mt	0.0	0.0	0.0	1.1	3.2	5.5	6.8	6.8
Grade	%	0.0%	0.0%	0.0%	11.5%	11.5%	11.5%	11.5%	11.5%
Recovery	%	0.0%	0.0%	0.0%	88.3%	88.3%	88.3%	88.3%	88.3%
Production	**kt**	**0**	**0**	**0**	**186**	**542**	**931**	**1151**	**1151**
Expansionary Capex	€M	0	68	135	109	83	21	0	0
Sustaining capex	€M	0	0	0	1	3	5	6	6

Source: Company reports, RBC Capital Markets estimates

Exhibit 5: We anticipate a steady ramp-up from first production in the 2021 March quarter to full production in the 2023 June quarter



Source: Company reports, RBC Capital Markets estimates

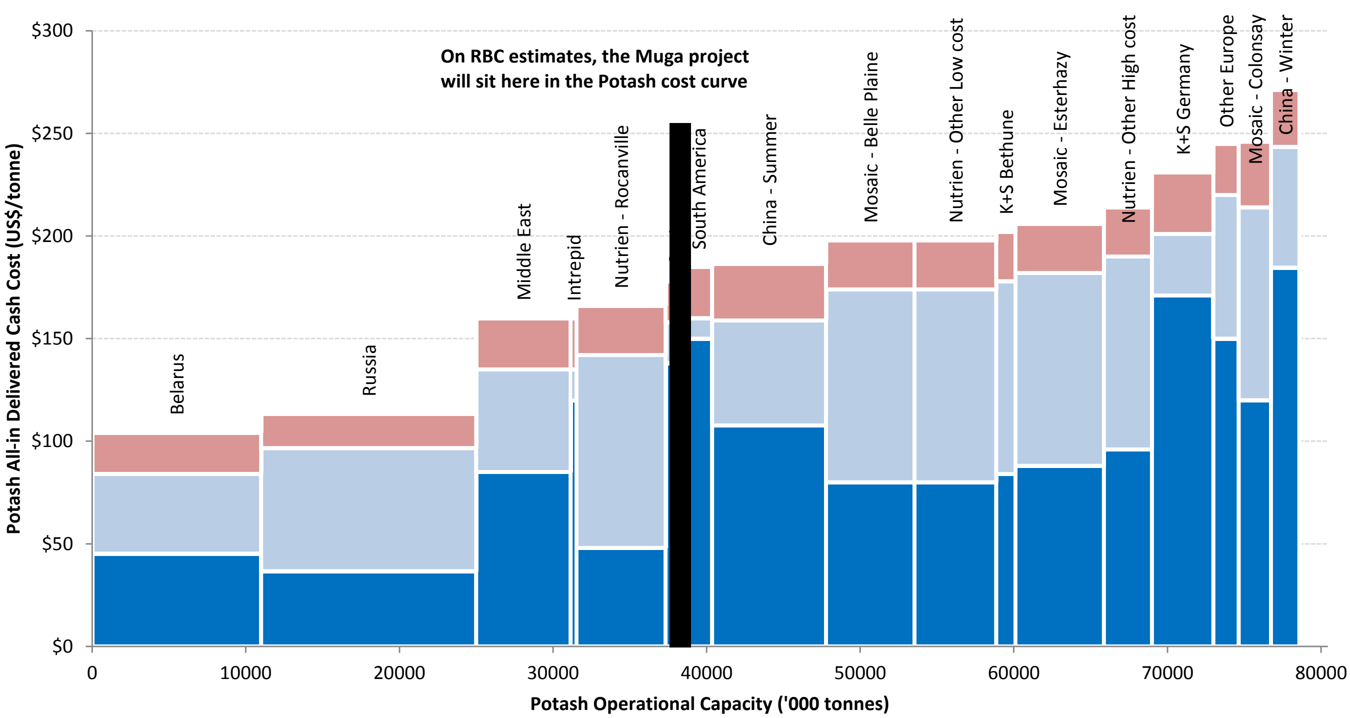
Financing another stepping stone

HFR is currently funded with A$66m in cash, although this will begin to be consumed in the event (*when…*) permits are granted and the company commences early stage spending on site infrastructure. The project itself will require c.€270m in pre-production costs on our estimates, and we expect this would be funded through a mix of debt and equity. We have not (at this stage) made explicit assumptions on the split, given the share price reaction to further regulatory news flow remains uncertain. A significant uplift in equity valuation could result in a higher component of share-based funding. The company has maintained dialogue with the project finance syndicate regarding the €185m facility for the Muga Potash project, and with broadly consistent financial assumptions we anticipate this should at least remain a viable option again in future.

Despite delays, a well-positioned project in the potash universe

Our positive views on HFR (despite the permitting quagmire…) are based upon the advantages this project has in both scale (it is small enough not to upset the global supply/demand balance) and also geography (delivering advantages on freight/shipping into domestic/continental markets). Using RBC estimates, we believe HFR could occupy a position in the second quartile of the cost curve (on a CFR Brazil basis). Obviously from a margin perspective, the company has an opportunity to sit lower on the curve given freight advantages through offtake with local N:P:K fertiliser blending consumers.

Exhibit 6: Muga could occupy the second quartile on a delivered CFR Brazil cost basis…



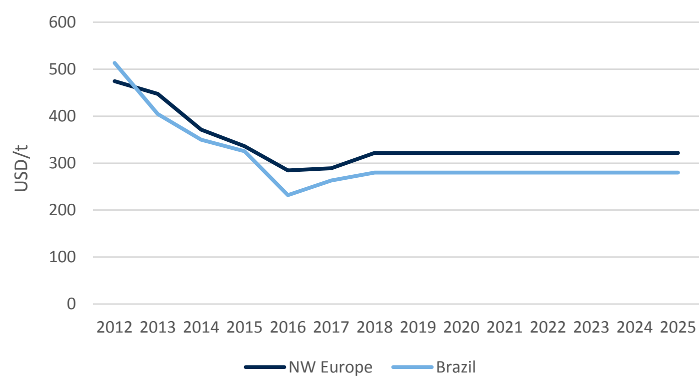
Source: RBC Capital Markets estimates

Our expectations for the potash market

We expect potash fundamentals to remain stable throughout our outlook (US$280/t Brazil compared against spot prices of around US$295 – see RBC Real-time Ferts), following a period of consolidation after the price declines of 2012-2016 (Exhibit 8). Our fundamental analysis assumes steady demand increases offsetting incremental new supply, with the larger players expected to broadly maintain volume discipline in order to defend prices.

We expect demand to be driven primarily by developing regions (China, India, South East Asia and Brazil), whilst increases to supply are expected from Canada and Russia (which also help offset closures and depletion of reserves). Importantly, HFR is well positioned as a niche/small volume player within a geographically constrained region. While mining costs may be broadly in line with peers globally, the company will derive a significant logistical advantage given proximity to continental MOP markets.

Exhibit 7: We expect prices to stabilise throughout our outlook



Source: Company reports, RBC Capital Markets estimates, Factset

We expect HFR to target two proximate markets: Europe and Brazil. Potash prices have been declining since 2012 (bottoming out in 2016), though we have seen some stabilisation in the market recently. We expect this to continue throughout the outlook.

Exhibit 8: RBC Potash S&D outlook

S&D ('000 tonnes)	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Demand	64,222	60,581	60,605	63,143	64,632	66,069	67,557	69,058	70,607	72,205	73,855	75,557
Production	61,545	61,891	60,538	63,732	64,592	65,681	67,798	69,112	70,432	71,763	73,913	75,961
Surplus/Deficit	-2,676	1,311	-67	589	-41	-388	241	54	-175	-442	58	403
Capacity Additions	-667	1,249	-412	3,041	1,660	950	2,225	2,175	1,100	1,700	2,000	1,900
Capacity	69,102	70,351	69,938	72,980	74,640	75,590	77,815	79,990	81,090	82,790	84,790	86,690
Operating Rate	**89%**	**88%**	**87%**	**87%**	**87%**	**87%**	**87%**	**86%**	**87%**	**87%**	**87%**	**88%**
Excess Capacity	7,557	8,459	9,400	9,247	10,048	9,908	10,016	10,877	10,658	11,026	10,877	10,729
Capacity Increase %	-1%	2%	-1%	4%	2%	1%	3%	3%	1%	2%	2%	2%
Demand Increase %	22%	-6%	0%	4%	2%	2%	2%	2%	2%	2%	2%	2%
Potash Midwest	$426	$395	$263	$277	$287	$309	$309	$309	$309	$309	$309	$309
Brazil CFR	$350	$325	$232	$263	$280	$280	$280	$280	$280	$280	$280	$280

Source: Company reports, RBC Capital Markets estimates, Factset

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Still additional upside, but no need to pay up at this time

Whilst we only include the Muga Potash project as part of our SOTP valuation, HFR does have other potential projects within the portfolio which could drive further upside:

- **Vipasca Potash project**: 100% HFR owned and adjacent to the Muga Potash project. The project has potential for potash mineralisation at depth.
- **Pintanos Potash project**: 100% HFR owned and to the South-east of Muga. Mineralisation commences at depths of around 500m. The project currently includes inferred resources of 70.7Mt at 11.9% K_2O.
- **Sierra del Perdon**: 100% HFR owned and north-west of the Muga project. It is a brownfield project, previously operated from the 1960s through to the 1990s. Exploration drilling of more prospective targets is expected through the remainder of FY18. The project includes indicated resources of 41.8Mt at 10.7% K_2O and inferred resources of 40.3Mt at 10.5% K_2O.
- **Additional product offtake**: HFR have identified the potential for further offtake of salt by-products, which could potentially provide an additional (albeit modest) revenue stream.

Production and financial summary

Exhibit 9: RBCe price, fx, volume, earnings and valuation estimates

Australian Mining

Highfield Resources Ltd. (HFR AU): Summary of financials

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Rating:	Outperform
Risk Specifier:	Speculative Risk
Price Target:	2.00
Implied Return (%):	117.4%
Implied Total Return (%):	117.4%

Share price (A$): $0.92 | **Market cap (A$m): $303** | **Enterprise Value (A$m): $340** | **Liquidity (A$m/mth): 0.0**

Priced at: 08/03/18 | **Year to 30 June** | **All AUD unless noted**

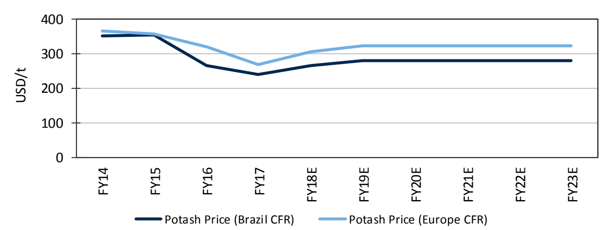
RATIO ANALYSIS		FY17	FY18E	FY19E	FY20E
Earnings - Adjusted	$/sh	($0.02)	($0.01)	($0.00)	($0.01)
P/E Multiple	x	-56.4x	-100.9x	-238.1x	-75.7x
Cash Flow (CFO - capex - explor)	$/sh	($0.01)	($0.00)	($0.00)	($0.01)
P/CF Multiple	x	-69.4x	-205.5x	-238.1x	-75.7x
Free Cash Flow (CFO - CFI - CFF)	$/sh	($0.09)	($0.03)	($0.34)	($0.66)
FCF Yield	%	(9.6%)	(3.3%)	(37.1%)	(71.9%)
Dividends Per Share	$/sh	$0.00	$0.00	$0.00	$0.00
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%
LTD/(Total Cap)	%	0.0%	0.0%	0.0%	0.0%
INCOME STATEMENT		**FY17**	**FY18E**	**FY19E**	**FY20E**
Revenue	M $	$0	$0	$0	$0
Operating Costs	M $	($5)	($7)	($4)	($4)
EBITDA	**M $**	**($5)**	**($7)**	**($4)**	**($4)**
D&A	M $	($0)	$0	$0	$0
EBIT	**M $**	**($6)**	**($7)**	**($4)**	**($4)**
Other Income/Expenses	M $	$0	$4	$3	$0
EBT	**M $**	**($5)**	**($3)**	**($1)**	**($4)**
Taxes	M $	$0	$0	$0	$0
Net Income - Adjusted	**M $**	**($5)**	**($3)**	**($1)**	**($4)**
Adjustments	M $	($1)	$0	$0	$0
Net Income - Reported	**M $**	**($6)**	**($3)**	**($1)**	**($4)**
Weighted average diluted shares	M	324	329	329	329
CASH FLOW STATEMENT		**FY17**	**FY18E**	**FY19E**	**FY20E**
Cash Flows from Operating Activities					
Receipts from customers	M $	$0	$0	$0	$0
Payments to suppliers	M $	($5)	($3)	($4)	($4)
Taxes Paid	M $	$0	$0	$0	$0
Non Recurring/Other	M $	$0	$2	$3	$0
Net Operating Cash flow	**M $**	**($4)**	**($1)**	**($1)**	**($4)**
Cash Flows From Investing Activities					
Capital Expenditure	M $	($0)	($0)	($103)	($206)
Exploration	M $	($24)	($8)	($8)	($8)
Other	M $	$0	$0	$0	$0
Net Investing Cash Flow	**M $**	**($24)**	**($9)**	**($111)**	**($214)**
Cash Flows From Financing Activities					
Equity Issues (net of costs)	M $	$6	$0	$0	$0
Net Borrowings	M $	$0	$0	$0	$0
Dividends Paid & Other	M $	($2)	$2	$0	$0
Net Financing Cash Flow	**M $**	**$4**	**$2**	**$0**	**$0**
Increase (Decrease) in Cash	M $	($24)	($8)	($113)	($218)
Cash at End of Year	**M $**	**$70**	**$62**	**($51)**	**($269)**
Operating Free Cash Flow	M $	($4)	($1)	($105)	($210)
Free Cash Flow	M $	($29)	($10)	($113)	($218)
BALANCE SHEET		**FY17**	**FY18E**	**FY19E**	**FY20E**
Cash & Equivalents	M $	$0	$0	$0	$0
Other Current Assets	M $	$71	$63	($50)	($267)
PP&E & Mining Interests	M $	$0	$0	$103	$309
Other Long Term Assets	M $	$87	$92	$100	$108
Total Assets	**M $**	**$158**	**$155**	**$154**	**$150**
Current Liabilities	M $	$2	$2	$2	$2
Long Term Debt	M $	$0	$0	$0	$0
Other Long Term Liabilities	M $	$0	$0	$0	$0
Total Liabilities	**M $**	**$2**	**$2**	**$2**	**$2**
Shareholder Equity	M $	$156	$153	$152	$148
Total Liabilities & Shareholder Equity	**M $**	**$158**	**$155**	**$154**	**$150**
FINANCIAL RATIOS		**FY17**	**FY18E**	**FY19E**	**FY20E**
Return on Equity (ROE)	%	(4.1%)	(2.0%)	(0.8%)	(2.7%)
Return on Capital (ROIC)	%	(4.0%)	(1.9%)	(0.8%)	(2.7%)

PRICES & EXCHANGE RATES		FY17	FY18E	FY19E	FY20E	LT - 2023E
Potash Price	US$/t	240	265	280	280	280
Exchange rate	AUD:USD	0.75	0.77	0.75	0.76	0.75
EQUITY PRODUCTION & COSTS		**FY17**	**FY18E**	**FY19E**	**FY20E**	**FY21E**
Potash production	kt	0	0	0	0	186
Operating cost	USD/t	0	0	0	0	148

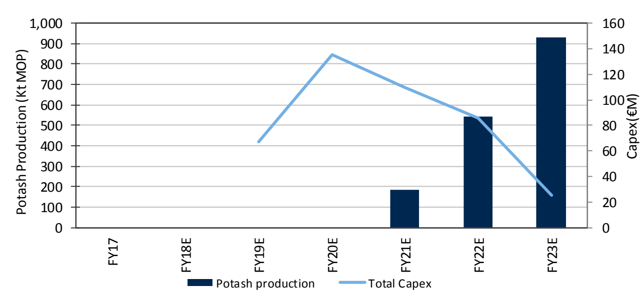
ATTRIBUTABLE RESERVES & RESOURCES	MOP
Muga project	Mt
Proven/Probable Reserve (P&P)	253.7
Measured/Indicated (MM&I) - Inclusive	224.5
Inferred	39.2

CAPEX BREAKDOWN (attrib)		FY17	FY18E	FY19E	FY20E	FY21E
Sustaining Capex	M $	0.0	0.0	0.0	0.0	1.4
Expansionary Capex	M $	0.1	0.0	103.2	205.7	165.3
Exploration	M $	24.3	8.5	8.0	8.0	8.0
Total	**M $**	**24.4**	**8.5**	**111.2**	**213.7**	**174.7**

RBCe POTASH OUTLOOK



GROUP PRODUCTION AND CAPEX PROFILE



NET ASSET VALUE (2017e)	DR (%)	($m)	A$/Sh	NAV (%)
Operating Value				
Muga	10.0%	$650	$1.89	100%
Total		**$650**	**$1.89**	**100%**
Cash and investments (pro-forma)		$68	$0.20	
Cash from options		$10	$0.03	
Corporate G&A		($37)	($0.11)	
Debt		$0	$0.00	
Other		$0	$0.00	
Total Net Asset Value		**$691**	**$2.01**	
P/NAV			**0.46x**	

For RBC Capital Markets Global Mining valuation comparatives, recent research, and other data please see RBC Insight or Bloomberg <RBCR> GO

Source: RBC Capital Markets estimates, company reports, Factset

Source: Company reports, RBC Capital Markets estimates, Factset

Valuation

Our $2.00 price target is based on a asset valuation, rounded to the nearest 25 cents. We use our long-term Brazil CFR potash price forecast of $280/tonne and we do not include the potential for salt by-product credits or of HFR's other projects in our base case valuation. Our Speculative Risk rating is based on risks associated with an undeveloped mining project (permitting and construction delays, cost overruns, start-up challenges) and significant sensitivity to potash prices and currency exchange rates. Our price target supports our Outperform, Speculative Risk rating.

Risks to rating and price target

Potential impediments to our rating and price target include but are not limited to: (1) potential potash price volatility could have a significant impact on our valuation; (2) further 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.

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Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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Distribution of ratings
RBC Capital Markets, Equity Research
As of 31-Dec-2017

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**868**	**52.42**	**281**	**32.37**
HOLD [Sector Perform]	**683**	**41.24**	**155**	**22.69**
SELL [Underperform]	**105**	**6.34**	**8**	**7.62**

Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list; Rtg: Rating.
Created by BlueMatrix

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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Highfield Resources Limited

Valuation

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