



Annual Report

30 June 2016

highfieldresources.com.au

ABN 51 153 918 257



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Corporate Directory

Directors

Mr. Derek Carter (Non-Executive Chairman)
Mr. Peter Albert (Managing Director)
Ms. Pauline Carr (Non-Executive Chairman)
Mr. Richard Crookes (Non-Executive Director)
Mr. Jim Dietz (Non-Executive Director)
Mr. Owen Hegarty (Non-Executive Director)

Company Secretary

Mr. Donald Stephens

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NEDLANDS WA 6009

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Auditors

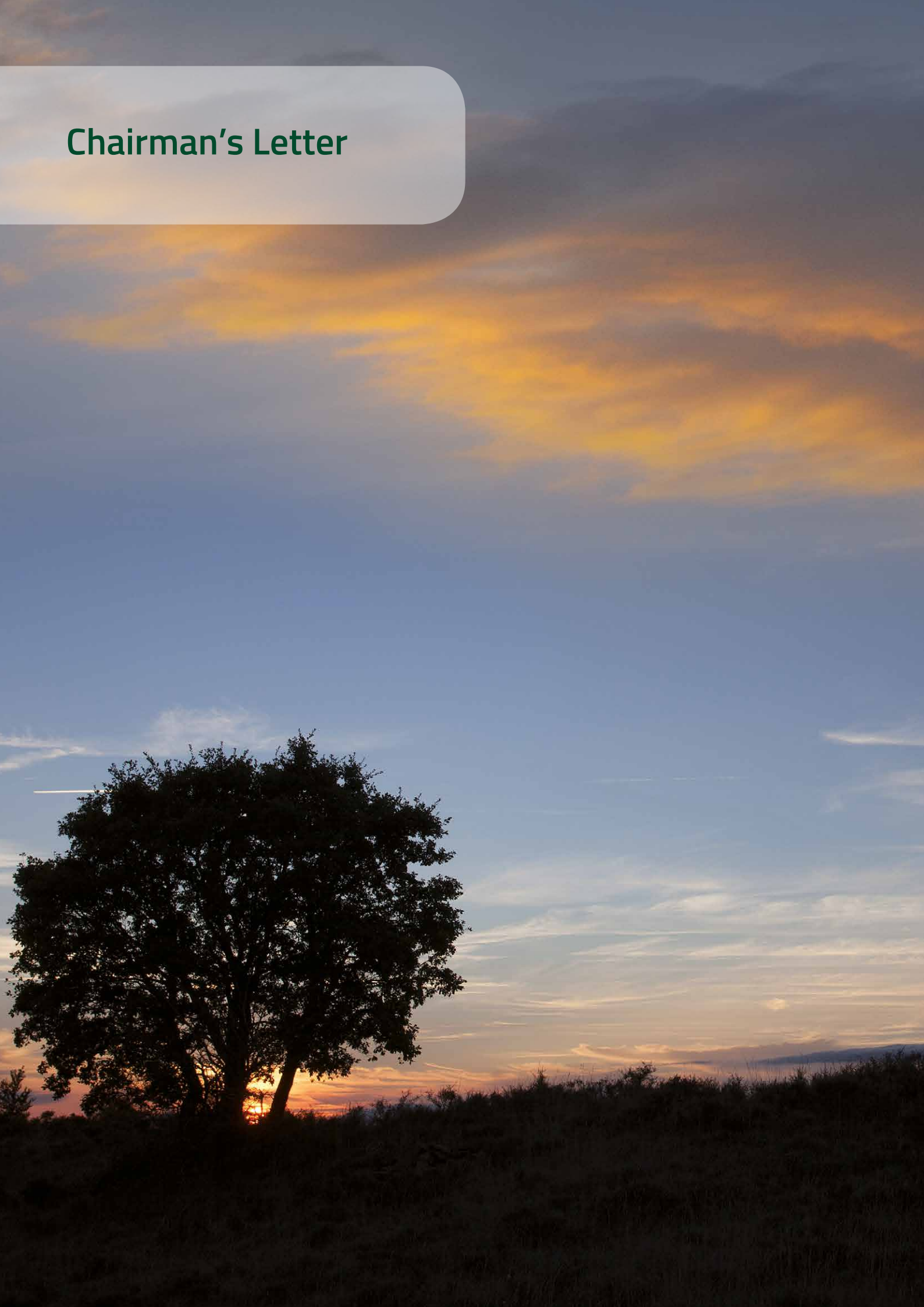
HLB Mann Judd
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PERTH WA 6000

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Stock Exchange

Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
ASX Code: HFR

Chairman's Letter





Dear Shareholders

In June of 2016, we announced that Peter Albert would join the Highfield Resources Group as Managing Director and Chief Executive Officer. Peter is an international mining executive with an outstanding track record in mine building, operations and sustainability. He has over 30 years' experience in project management, construction, operations, ESG (Environmental, Social and Governance performance) as well as corporate strategy in Australia, Asia, Africa and Europe. I welcome him as Managing Director and look forward to working with him in the development of our various projects. Peter's appointment comes as we move into the construction phase of the Muga project. Former Managing Director Anthony Hall, proposed and planned this change in recognition of the different phases of the Company's growth.

Peter commences his role now that the Company has lodged the applications and documentation necessary for the granting of the numerous approvals required to mine and produce potash at Muga. The process has taken longer than expected but we remain confident of receiving the most critical approvals shortly.

Another important aspect for Highfield is the potash market. Like most agricultural commodities, and commodities in general, pricing for potash (MOP) was subdued in the financial year. Importantly, however, pricing appears to have bottomed in the second quarter of the current calendar year and has since rebounded by around 10% off the back of supply constraint. Population growth and the move towards higher protein diets continue to provide positive macro demand drivers with demand in the current calendar year expected to be at similar levels to 2014 which was the largest year on record.

To achieve our aims, the Company was very active during the period and completed the following key activities:

- Release of an optimisation study for the Muga Mine in November 2015 that increased the mine life from 24 to 47 years, increased annual production to 1.08m tonnes per annum and allowed for further expansion in the base design;
- The announcement of various MOUs for potash offtake from the Mine;
- The announcement of an MOU with Cargill Inc to explore opportunities to work together to sell salt into large North American markets;
- Positive progress with respect to the project finance facility for the Muga Mine;
- The signing of a letter of intent to work with Spanish based, global construction company Acciona to construct the Muga Mine; and
- The completion of a positive scoping study for a project to convert some of the potash produced at the Muga Mine into the speciality fertiliser, SOP (potassium sulphate).

In addition to the above, the Company also:

- Retains over A\$85 million in cash;
- Has no debt; and
- Retains control of four additional potash-bearing sub basins, all of which have similar geological settings to that at Muga, and all of which are 100% owned by Highfield.

In achieving these milestones, the Company is favorably positioned to commence development and ultimately mining activities. This of course could only be possible through the tireless work of the Board, Management and employees and I would like to thank all of them for their efforts. My particular thanks go to Anthony Hall and Pedro Rodriguez, without whom the Company would not be in such a strong position.

Finally, I would like to thank all our shareholders for their continued support and I look forward to further success next year.

Yours faithfully,

Derek Carter
Chairman



Directors' Report





Derek Carter



Peter Albert



Richard Crookes



Pauline Carr



Jim Dietz



Owen Hegarty



Anthony Hall



Pedro Rodriguez



Donald Stephens

The Directors present their report for Highfield Resources Limited (“Highfield Resources”, “Highfield” or “the Company”) and its subsidiaries (“the Group”) for the year ended 30 June 2016.

DIRECTORS

The names, qualifications and experience of the Company’s Directors in office during the year and until the date of this report are as follows. Directors were in office for the entire year unless otherwise stated.

Mr. Derek Carter

Non-Executive Chairman, BSc, MSc, FAusIMM(CP)

Mr. Carter has over 40 years’ experience in exploration and mining geology and management. He held senior positions in the Shell Group of Companies and Burmine Ltd before founding Minotaur Gold Ltd in 1993. He is currently Chairman of Minotaur Exploration Ltd and a former Chairman of Petratherm Ltd (resigned March 2014). He is a former board member of Intrepid Mines Ltd (resigned November 2015), Mithril Resources Ltd (resigned December 2014) and Toro Energy Ltd (resigned November 2012), all ASX listed companies.

Mr. Carter is a former President of the South Australian Chamber of Mines and Energy, former board member of the Australian Gold Council, is a member of the South Australian Resources Development Board and the South Australian Minerals and Energy Council, and a former Chairman of the Minerals Exploration Advisory Group. He was awarded AMEC’s Prospector of the Year Award (jointly) in 2003 and is a Centenary Medallist.

Mr. Peter Albert (appointed 1 September 2016)

Managing Director, BSc (Hons), EMBA, FAusIMM, MIOM3, CEng

Mr. Albert has over 30 years’ experience in project management, general management and operations management in mining and minerals processing in Australia, Africa and Asia. Mr. Albert is a metallurgist and holds an Executive MBA degree. He is a Member of the Institute of Materials, Minerals and Mining (London), a Fellow of the Australasian Institute of Mining and Metallurgy (“AusIMM”) and a Chartered Engineer. Mr. Albert was awarded the “Mining CEO of the Year” at the 2012 Asia Mining Congress. Mr. Albert was also awarded the “Mining Executive of the Year” at the 2013 Asia Mining Congress.

Before joining the Company, Mr. Albert held CEO roles with two Hong Kong listed organisations, Jinchuan Group International Resources Company and G-Resources Group. He has held leadership and senior executive roles with OZ Minerals Limited, Oxiana Limited, Shell-Billiton (Australia), Aker Kvaerner (Australia) and Johannesburg Consolidated Investments (South Africa).

Mr. Richard Crookes

Non-Executive Director, BSc (Geology), Grad Dip Applied Finance

Mr. Crookes has over 28 years' experience in the resources and investments industries. He is a geologist by training having worked in the industry most recently as the Chief Geologist and Mining Manager of Ernest Henry Mining in Australia (now Glencore). Prior to Mr. Crookes joining EMR Capital as an Investment Director he was an Executive Director in Macquarie Bank's Metals Energy Capital (MEC) Division where he managed all aspects of the Bank's principal investments in mining and metals companies as well as the origination of numerous Project Finance transactions. Mr. Crookes has extensive experience in deal origination, evaluation, structuring, post-acquisition management, client relationship management, marketing and execution of investment entry and exits for both private and public resources companies in Australia and overseas.

Ms. Pauline Carr (appointed 30 October 2015)

Non-Executive Director, BEcon, MBA, FAICD, AGIA

Ms. Carr has over 25 years' commercial experience in management, corporate governance and compliance, mergers and acquisitions, investor and stakeholder relations and corporate restructures. She currently provides business improvement, compliance, risk management, project management and corporate governance solutions to executive management teams internationally. Prior to this, Ms. Carr held senior positions with ASX listed Newmont Asia Pacific and Normandy Mining Limited and worked for a number of years in the oil and gas sector with Exxon Mobil. She sits on several Boards and is Deputy Chairman of the Minerals Economic Advisory Council.

Mr. Jim Dietz (appointed 23 November 2015)

Non-Executive Director, B.Eng (Chem), M.Eng (Chem)

Mr. Dietz has over 42 years' experience in the fertiliser, chemical and petroleum industries, primarily in senior operational roles. From 2000 until 2010, he was Chief Operating Officer of Potash Corporation of Saskatchewan ("PotashCorp"), the world's largest fertiliser company. Prior to that position, Mr. Dietz held a variety of other senior management roles, including President of Nitrogen, during his 17 year career with PotashCorp. During that time, Mr. Dietz was responsible for global operations as well as Safety, Health, and Environment performance and Procurement. Mr. Dietz also represented PotashCorp on the Board of Directors of Arab Potash Company. Mr. Dietz is a Chemical Engineer and holds both a Masters and Bachelors designation from the Ohio State University.

Mr. Owen Hegarty

Non-Executive Director, BEc (Hons), FAusIMM

Mr. Hegarty has over 40 years' experience in the global mining industry. He spent 25 years with Rio Tinto where he was Managing Director of Rio Tinto Asia and Managing Director of the Group's Australian copper and gold business. He was the founder and CEO of Oxiana Limited Group which grew from a small exploration company to a multi-billion dollar Asia Pacific focused base and precious metals producer, developer and explorer.

Mr. Hegarty is the Chairman of specialist resources private equity firm, EMR Capital, Highfield's largest shareholder and cornerstone investor. In 2006, Mr. Hegarty was awarded the AusIMM Institute Medal and in 2008 the G.J. Stokes Memorial Award for his achievements and leadership in the mining industry.

Mr. Hegarty is a director of various listed and unlisted resources companies including Fortescue Metals Group Ltd, Tigers Realm Coal Limited and EMR Capital. Mr Hegarty is a former Director of the AusIMM and Hong Kong listed G-Resources Group Ltd.

Mr. Anthony Hall (resigned 31 August 2016)

Chief Executive Officer, BBus, LLB (Hons), AGIA

Mr. Hall has 20 years' broad commercial experience in venture capital, strategy, risk management, legal services, company secretarial and compliance. He was the founding Managing Director of Highfield Resources in October 2011 and has held that role ever since. Prior to October 2011 he was Head of Strategy and Business Development of Lend Lease Solar (part of the ASX listed Lend Lease Company (Lend Lease)). In this role he was responsible for setting the strategy of the newly created entity and positioning the entity for growth in the emerging renewable energy market in Australia.

During his employment with Lend Lease, Mr. Hall worked in the venture capital subsidiary where his responsibilities included setting investment strategies in targeted market sectors, reviewing and assessing global entities involved in these sectors, executing investments in these entities and ongoing involvement in investee entities. He was also Head of Risk for the Australian development business and held in-house legal and company secretarial roles.

Mr. Hall has a Bachelor of Laws with honours and a Bachelor of Business degree from the University of Technology, Sydney, a graduate diploma in Applied Finance and Investment from the Financial Services Institute of Australia and is a legal practitioner of the Supreme Court of NSW and an Associate of the Governance Institute of Australia.

Mr. Pedro Rodriguez (resigned 1 August 2016)

Managing Director, BBus, LLB (Hons), AGIA

Mr. Rodriguez has over 35 years' experience in mining services in Spain. Over his career Mr. Rodriguez has worked with six international mining companies in Spain (Peñarrolla Spain-SMMPE, Billiton International, Navan-Almagrera, Newmont Spain, Ormonde Mining and Heemskirk Consolidated Limited). His roles ranged from exploration geologist to Managing Director of Navan's Spanish business where he was responsible for the development and operations of mines in Spain.

Mr Rodriguez has been with Highfield Resources since October 2012 as the Company's Development Director. Prior to his appointment with the Company he 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 of over US\$50 million per annum. The complex presently produces more than 1.4 million tonnes per annum of polymetallic minerals of copper, zinc and lead, and 300,000 tonnes per annum of sulphuric acid.

COMPANY SECRETARY

Mr. Donald Stephens, BA(Acc), CA

Mr. Stephens has over 25 years' experience in the accounting, mining and services industries, including 14 years as a partner of HLB Mann Judd (SA), a firm of Chartered Accountants. He is a Chartered Accountant and corporate adviser specialising in small cap ASX listed entities.

Mr. Stephens is a director of Mithril Resources Limited, Petratherm Limited and Lawson Gold Limited. Additionally he is Company Secretary of Mithril Resources Limited and Minotaur Exploration Limited and various other unlisted public companies. Mr Stephens is a former Director of Papyrus Australia Limited (resigned 24 August 2015), Reproductive Health Science Limited (resigned 1 September 2015) and Crest Minerals Ltd (resigned February 2016).



Interests in the securities of the Company

As at the date of this report, the interests of the Directors in the securities of Highfield Resources Limited are:

Director	Ordinary Shares	Class B Performance Shares	Options – exercisable at \$0.40 each on or before 31-May-17	Options – exercisable at \$0.75 each on or before 11-Sep-18	Options – exercisable at \$2.00 each on or before 30-Jun-19
Derek Carter	8,321,504	5,510,752	1,500,000	1,500,000	1,000,000
Peter Albert	78,000	-	-	-	-
Owen Hegarty	-	-	-	-	-
Richard Crookes	-	-	-	-	-
Pauline Carr	-	-	-	-	1,000,000
Jim Dietz	-	-	-	-	-

Results of operations

The Company's net loss after taxation attributable to the members of Highfield Resources for the year to 30 June 2016 was \$10,623,123 (2015: \$9,436,325).

Dividends

No dividend was paid or declared by the Company during the year and up to the date of this report.

Corporate structure

Highfield Resources Limited is a company limited by shares, which is incorporated and domiciled in Australia.

Nature of operations and principal activities

The principal activity of the Company during the financial year was mineral exploration and progressing the development of its flagship Muga Potash Project.

Review of operations

Highfield Resources is a potash company listed on the Australian Securities Exchange with five 100% owned advanced potash projects located in Spain's potash producing Ebro Basin.

Muga Potash Project

The Company's flagship Muga Potash Project is targeting the relatively shallow sylvinitic beds in the Muga Project area that covers about 80km². Mineralisation commences at depths from surface of less than 200 metres and is therefore 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.

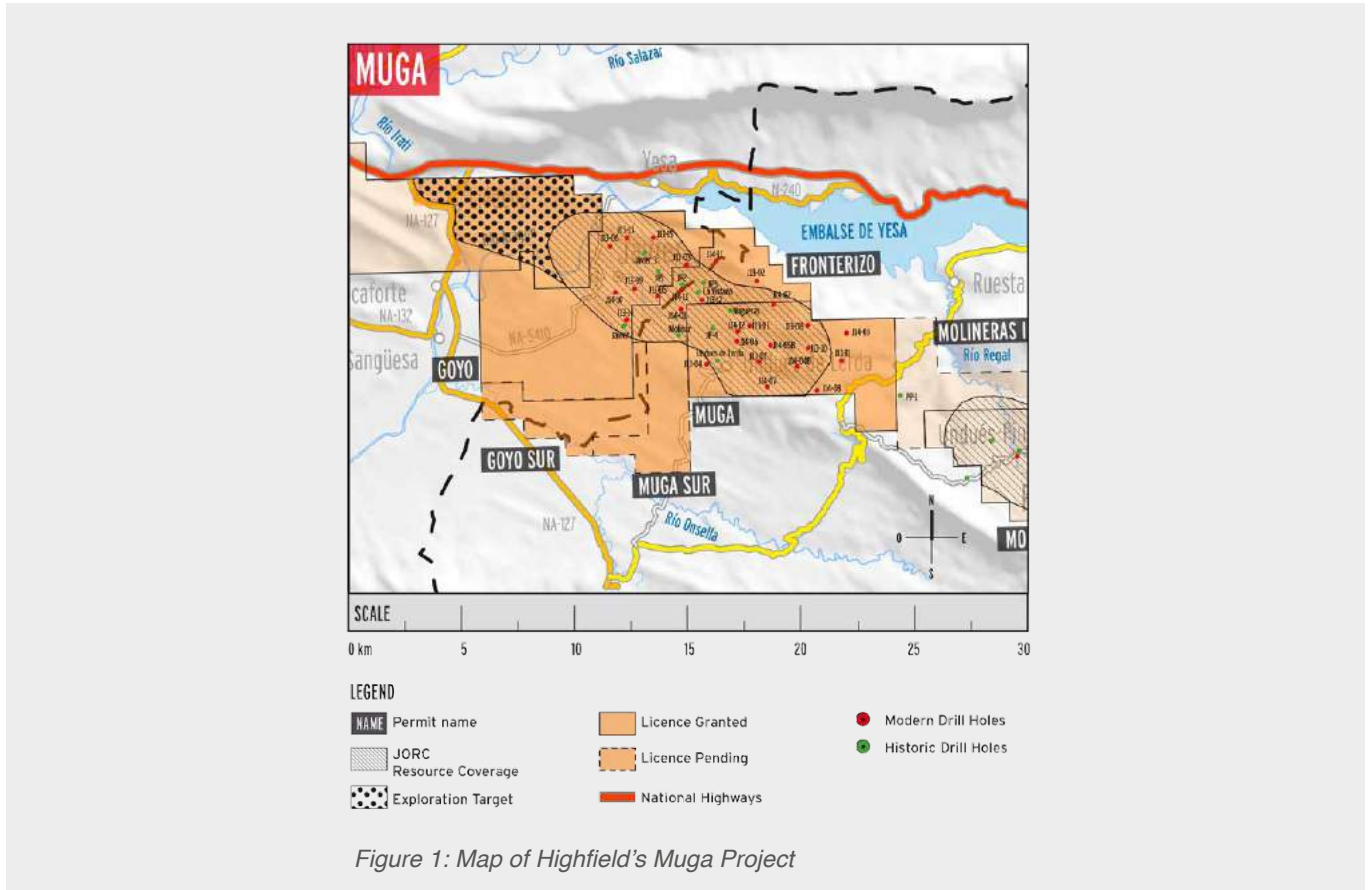


Figure 1: Map of Highfield's Muga Project

Muga Mine approvals process

On 7 April 2016, the Company provided the following update with respect to the Project:

1. The Spanish Central Government's Department of Agriculture, Food and Environment in Madrid (Ministerio de Agricultura, Alimentación and Medio Ambiente or "MAGRAMA") continues to review the environmental and social impact assessment of the Project on behalf of the Project's referral authority, the Spanish Central Government's Department of Industry, Energy and Tourism (Ministerio de Industria, Energía y Turismo or "MINETUR").
2. Executives from the Company met with executives from MAGRAMA in Madrid on 5 April 2016. At this meeting, Company executives were advised that it was possible for MAGRAMA to issue the environmental impact declaration ("Declaración de Impacto Ambiental" or "DIA") during the current caretaker Government period.
3. As confirmed by Spanish legal advice received, under the Environment Assessment Act (the "Act"), MAGRAMA has a period of four months plus a possible two month extension in which to issue a positive or negative DIA.
4. This timeline commenced for the Project on 24 November 2015.
5. The Act does not include an Administrative Silence provision. Consistent with this, if an environmental impact declaration is not made by MAGRAMA for the Project within the relevant six month period it is not deemed to be a positive or negative declaration under the Act.
6. Since the undecided Spanish Central Government elections on 20 December 2015, MAGRAMA has issued DIAs for other projects and MAGRAMA has confirmed it is possible for DIAs to be issued during the current caretaker Government period.
7. The Company continues to work actively with all stakeholders to progress the Project.

Further Spanish Government elections were held on 26 June 2016. As at the date of this report, a new Government had not been formed and the Government continues to operate in caretaker mode with there being a chance a third round of elections will be held in December 2016.

Subsequent to the meeting of 5 April 2016 the Company has continued to work constructively with the Environment Department in Madrid and other involved central and local government departments. The Company continues to be confident of receiving a positive outcome from MAGRMA and shortly thereafter a mining concession from MINETUR.

Muga Mine optimisation study

On 17 November 2015, the Company announced the results of the Muga Mine Optimisation Study.

As part of preparing Muga for construction, Highfield completed further optimisation of the project with a focus on underground design and equipment selection to improve operational efficiencies. Initiatives and outcomes included:

- Altering the mine plan to include an additional sylvinitic seam (Capa A) resulting in an increased mine life from 24 to 47 years. This excludes any potential upside from the substantial Exploration Target;
- Electing to use a combination of continuous miners and road headers to increase productivity in production and infrastructure development;
- Increasing the number of main infrastructure galleries in the mine plan from one to three to reduce ramp up risk and increase likely operational efficiency;
- Increasing the size of the underground conveyor belt system to cater for an increase in underground tonnage and to enable better expansion options;
- Increasing the size of underground storage to enable more flexibility in smoothing grade profile to the processing plant;
- Increasing the size of the conveyor belt to surface in one decline to 1,500 tonnes per hour of material;
- Increasing the size and flexibility of the processing plant to deal with higher throughput of material;
- Altering mine and process plant design to enable a phase 2 expansion to deliver a constant 90k tonnes of granular K60 per month (1.08m tonnes per annum) for the balance of the revised 47-year mine life; and
- Factoring in potential mine expansion into design to allow seamless expansion of production in the future.

The optimisation initiatives increased the phase 1 pre-production capex by approximately 7%, from €249.5m (€243.4m plus €6.1m escalation) to €267m. Phase 2 capex, which expands production from 540k tonnes per annum to full run-rate production of 1.08 million tonnes per annum, is €145M including contingency. NPV₁₀ and NPV₈ for the Phase 2 operations both increased due to the additional mine life to US\$1.46bn and US\$2.04bn respectively.

When at full production, the Company expects to employ over 800 people in full time positions. Highfield's operations are expected to create an additional 3,500 indirect jobs in the local economy.

More information on the optimised mine plan can be found in the ASX Announcement dated 17 November 2015.

Resource and Ore Reserve Upgrade

Highfield's independent competent persons, Consultores Independientes en Gestión de Recursos Naturales S.A ("CRN"), calculated an upgraded Mineral Resource Estimate ("MRE") which included the results of geotechnical drill holes (refer ASX announcement dated 29 May 2015), and was an update of the MRE calculated by Agapito Associates, Inc. ("Agapito") (refer ASX Release of 24 February 2015).

CRN issued an upgraded JORC Code-compliant Measured and Indicated Mineral Resource Estimate of 224.5m tonnes of sylvinitic at an average grade of 13.4% K₂O based on an 8.0% K₂O-in-sylvinitic cutoff grade at a minimum 1.5 metres bed true thickness (Table 2). The estimate also included beds thinner than 1.5 metres where the grade-thickness product exceeds 12.0% K₂O-in-sylvinitic-m, thus satisfying the 8.0% K₂O-in-sylvinitic grade equivalency at 1.5 metres.

More details can be found in the Company's ASX announcement released 17 November 2015.

Collaboration agreement with Acciona

On 29 December 2015, Highfield announced it had entered into a collaboration agreement with Acciona Infraestructuras (“Acciona”), part of the Acciona Group of Companies, to construct the Muga Potash Mine.

Acciona is a Spanish headquartered company which has multiple operations and projects in Spain and in many other jurisdictions around the world.

Under the collaboration agreement, Acciona continues to work with Highfield to prepare a submission to construct the mine and installations under a guaranteed maximum price contract where it is responsible for program, cost and quality risk.

Partnering with Acciona is designed to reduce delivery risk to ensure that the mine will be built on time and within budget. The outsourced arrangement is not expected to increase cost.

The parties have also agreed to deliver the project in accordance with the Company’s Fair Procurement Policy that gives preference to local suppliers and contractors where possible.

Signing of Power Supply Agreement

On 24 September 2015, the Company signed a formal agreement with Iberdrola Distribución, the Region’s principal electrical utility, for the provision of all site power supplies. The agreement includes the initial construction works supply and the permanent high voltage (66kV) supply.

MOUs Signed for Offtake from Muga

Subsequent to year-end, on 26 July 2016, the Company announced it had signed non-binding MOUs for offtake with Keytrade AG, Ameropa AG and Trammo AG (together “the Traders”) covering up to 600,000 metric tonnes of K60 MOP per annum produced from its Muga Potash Mine.

Upon signing of formal documentation for these MOUs, Highfield will have achieved a key condition precedent proposed by the mandated lead arrangers for the Project Finance Facility of the Muga Potash Mine. This facility is in the final stages of negotiation.

The Traders all have deep experience in the global fertiliser market across the three recognised macronutrients – potassium, nitrogen and phosphate. Importantly for Highfield, they all have recent and ongoing experience marketing potash in Highfield’s European target markets on an ad-hoc basis for incumbent producers. Highfield remains focused on those markets that deliver it the maximum possible margin, where it has clear logistical and margin advantages over its peers.

Project finance process

In August 2015, the Company announced a project finance mandate with four Mandated Lead Arrangers (“MLAs”) for long-term project facilities of up to €222m to fund the construction of the Project. As at the end of the year, credit approvals from three MLAs had been received subject to satisfactory documentation and finalisation of due diligence.

Due diligence is close to completion and final facility discussions are in progress.



Vipasca potash project

The Vipasca Project area includes the majority of the Vipasca permit, the entire Borneau permit and half of the Osquia permit. The focus is on the deeper higher-grade potash mineralisation that occurs in the P1 and P2 potash bed in the Muga sub-basin that runs along strike to the north-west into the Vipasca permit area.

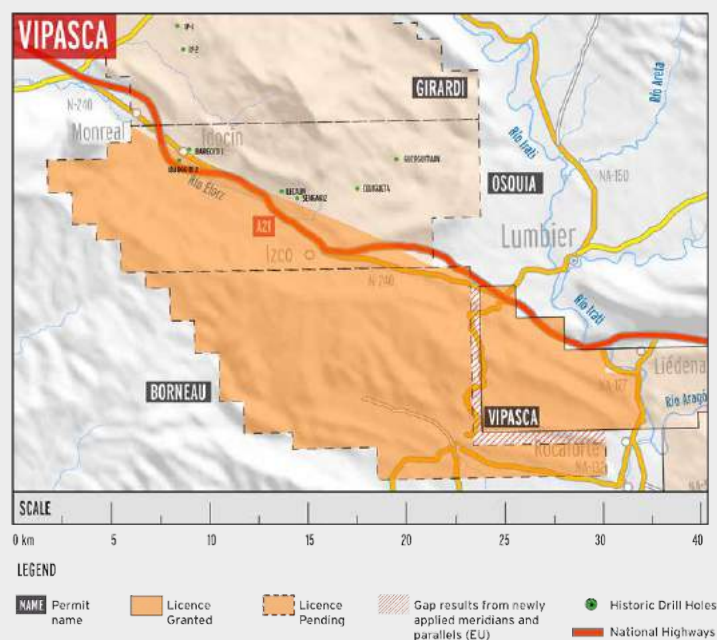


Figure 2: Map of Highfield's Vipasca Project

Vipasca Exploration Target*

On 6 August 2015, the Company released an Exploration Target for the Vipasca Project, which is located adjacent to its flagship Muga Project, immediately to the west.

The Vipasca Exploration Target was divided into two areas: the Rocafort Target, which covers an area of approximately 60km²; and the Osquia Target with an area of approximately 31km². The total Vipasca Exploration Target* totalled between 483 and 1,838 million tonnes at a grade of between 11.4% and 15.2% K₂O.

More details can be found in the Company's ASX Announcement dated 6 August 2015.

***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.**

Pintanos potash project

Highfield's 100%-owned Pintanos Project abuts the Muga Project and covers an area of 65km². Depths from surface to mineralisation commence at around 500m. The Company is building on substantial historical potash exploration information which includes 7 drill holes and 10 seismic profiles completed in the late 1980s.

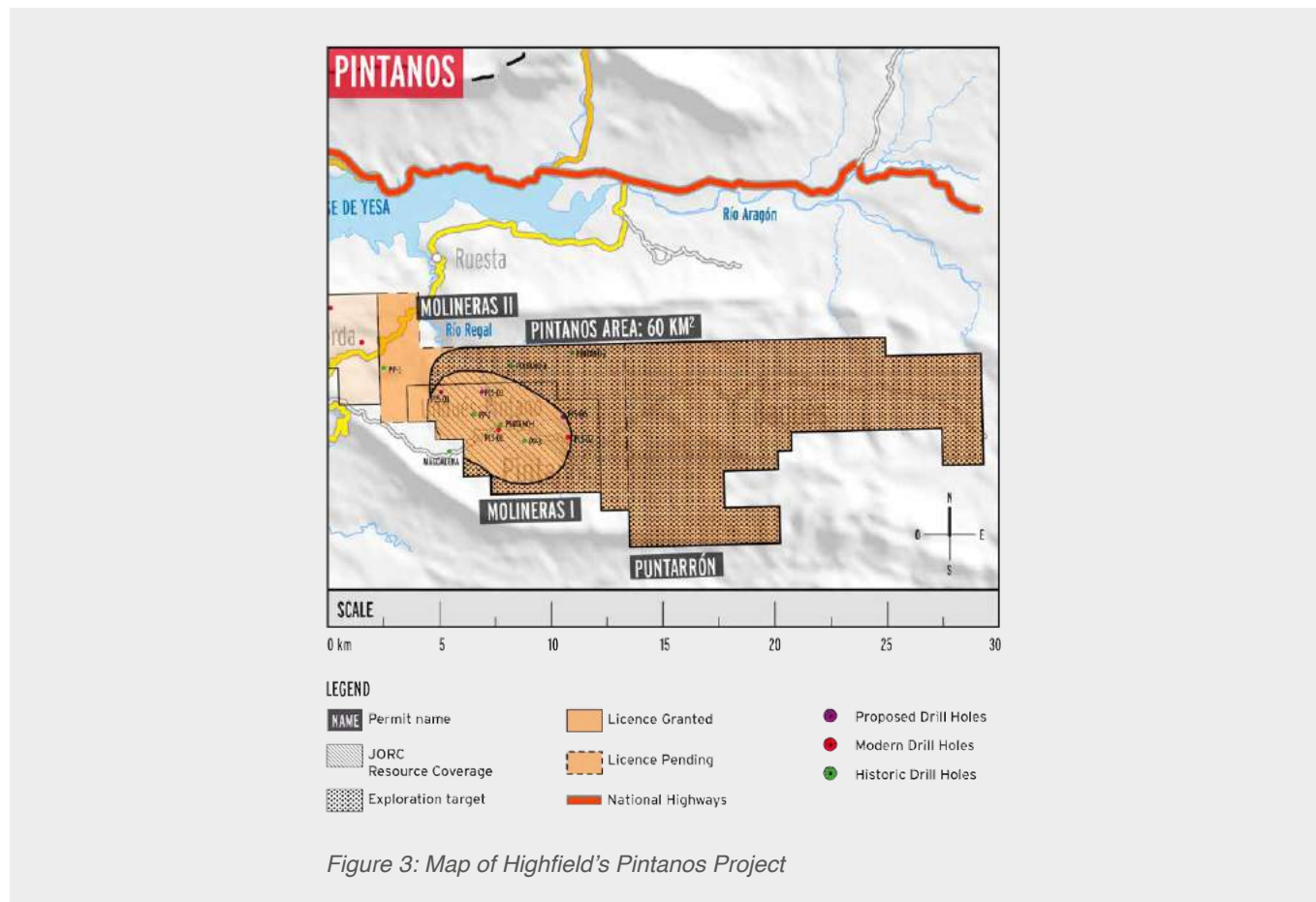


Figure 3: Map of Highfield's Pintanos Project

Pintanos Exploration Target**

On 2 September 2015, the Company released an Exploration Target for the Pintanos Project, which is located adjacent to its flagship Muga Project, immediately to the east.

The Exploration Target covers 60km² and includes the three investigation permits which form the Pintanos Project. The geological continuity and mineralisation within the Pintanos Project area have been proven through a number of historical drill holes, recent drill holes conducted by Highfield, geochemical assay results, geophysical wireline logging, and reinterpretation of seismic data. Strong continuity of potash mineralisation is evident based on these key data points.

The total Pintanos Exploration Target** totalled between 343 and 1,565 million tonnes at a grade of between 10.0% and 15.4% K₂O.

More details can be found in the Company's ASX Announcement dated 2 September 2015.

****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.**

Sierra del Perdón potash project

Highfield's 100%-owned Sierra del Perdón Project is located less than 10km from Pamplona and is within 40km of the Company's flagship Muga Project. Sierra del Perdón is a brownfield project which has hosted two former operating potash mines. The evaporite was historically mined, primarily for sylvinite but also for carnallite, before the mine closure in late 1996 due to relatively low potash prices of around US\$100/tonne. There is potential for potash exploitation in new, unmined areas in the Sierra del Perdón Project area and for limited additional production from brownfield (adjacent to historically mined) areas.

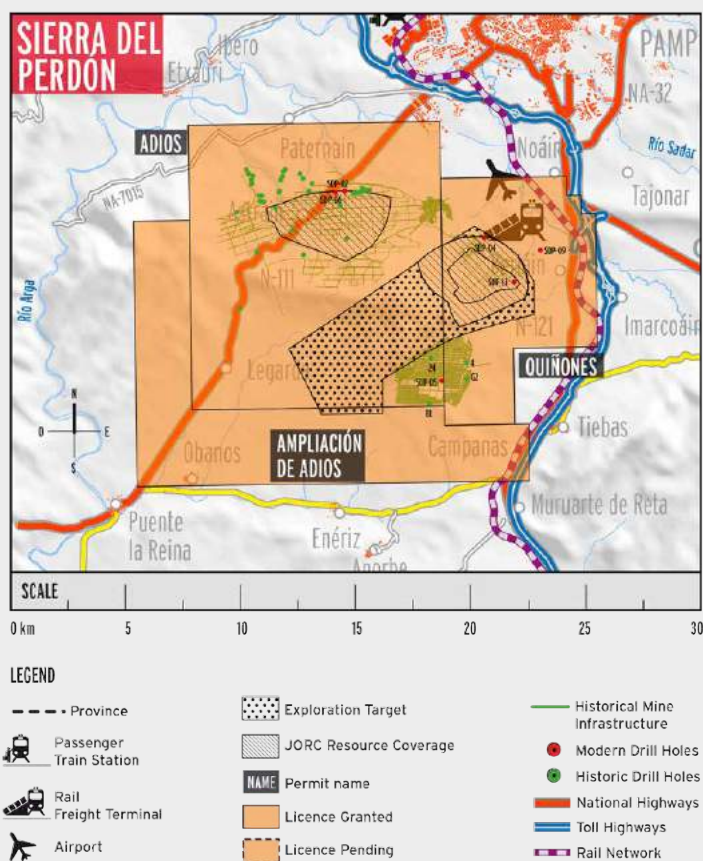


Figure 4: Map of Highfield's Sierra del Perdón Project

Izaga potash project

The Izaga Project covers an area of more than 100km², where historic drill holes and 2D seismic show a relatively continuous evaporite with drill hole intersects containing potash. With further positive exploration results, the Project could display similar attributes to the Muga Project.

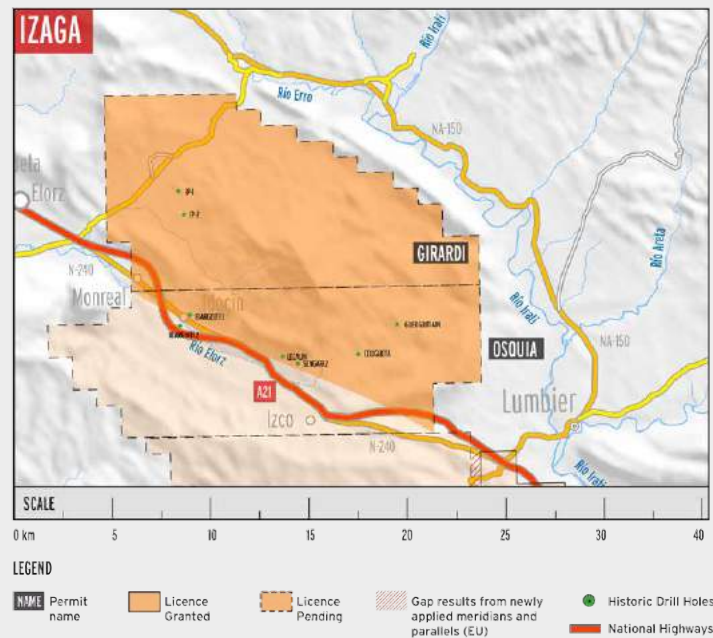


Figure 5: Map of Highfield's Izaga Project

SOP project

As part of the Company's aspirations to become a significant global potash producer, it is exploring options to convert some of its potash production (MOP or KCl) to the specialty fertiliser SOP (K₂SO₄). With the significant premium in SOP over MOP in the United States, the Company believes there is a potential opportunity to earn a substantial additional margin from converting some of its MOP production to SOP.

On 23 June 2016, the Company completed a positive SOP Project Scoping Study to enhance margins from the flagship Muga Potash Mine.

- Scoping Study completed for a complementary, staged 500,000 tonnes per annum SOP operation that demonstrates the potential to convert around 40% of the MOP (430,000 tonnes per annum) produced annually from the Muga Potash Mine into SOP
- Total capex for the operation estimated at US\$147m (inclusive of a 20% contingency) with pre-production capex estimated at less than US\$100m for the first phase of 250,000 tonnes per annum
- Operating costs estimated at US\$370 per tonne FOB Spanish Atlantic Port that assumes an MOP input price of US\$287 per tonne preserving the Muga Mine's robust financial metrics
- Technologically proven Mannheim process selected to take advantage of captive MOP supply close to the proposed site, low cost sulphuric acid, available on-port site options, low-cost natural gas and nearby limestone for hydrochloric acid (HCl) by-product treatment
- Business case modelled on realistic long term SOP premium to MOP of US\$250 per tonne, materially below the current 1Q16 US market SOP premium of over US\$400 per tonne as reported on a delivered basis

- Strategically located to sell product into high-priced US markets where there would be a significant cost advantage to customers over the current dominant supplier
- Non-binding MOUs already signed for port sites, sulphuric acid supply, limestone, direct HCl sales and calcium chloride by-product offtake

As the approvals process for Highfield's Muga Potash Mine in Spain nears completion, the Company has commenced evaluating downstream options to enhance margins and diversify its product offering. The Study considers the option of converting around 40% of the MOP from Muga to SOP noting the Company has an additional four MOP projects that are expected to have similar characteristics to the Muga Potash Mine.

SOP is a low-chloride fertiliser that has typically enjoyed a premium price relative to MOP. SOP has a lower K₂O content (c. 50% vs. 60% for MOP), but it also has significant sulphur content. It is used for higher value chlorine intolerant crops such as soft fruits, vegetables, turf, and tobacco.

The Company reviewed and conducted a trade-off analysis on a number of potential technologies to produce SOP from MOP including ion exchange and crystallisation technologies. Due to its low technical risk, capital cost, and well understood operating cost profile, the Company selected the Mannheim process as its preferred processing route.

The Study highlighted that the key drivers of the favourable economics of Mannheim SOP production include:

- A captive source of MOP within close proximity to the Mannheim furnace by land;
- Low-cost sulphuric acid within close proximity to the project;
- Proximity to export ports and end customers;
- Available on-dock port land with available gas and steam; and
- Proximity to consumers of hydrochloric acid and alternative limestone related options to convert it into a high margin derivative product.

The Study has been reviewed by an independent expert with experience of building, commissioning and running Mannheim SOP facilities.

Basin wide potash production and logistics scheme

The Company is investigating options to maximise the value of potash and salt mineralisation across its basin-wide project portfolio.

The Company has the potential to produce and sell salt as a by-product to the potash operations. As reported on 11 August 2016, the Company has entered into a non-binding MOU with Cargill Incorporated for the potential sale of salt by Highfield to Cargill in the USA.

As reported in the Quarterly Activities Report dated 30 October 2015, global engineering consultancy, AECOM, has been appointed to provide support to the Company's engineering team and will report on multiple transport options including rail extensions and slurry pipelines to a railhead. This process is ongoing.

Geoalcali Foundation

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.

Projects

The Company's community engagement program continues to be well received. A regional primary schools' clever fertiliser use program was launched during the quarter. This program is expected to reach over 2,000 school children in the region in the current financial year.

The Geoalcali Foundation now provides ongoing support to over 15 community projects and since its inauguration in September 2014 has been involved in over 70 community projects.

Corporate

Confirmation of ISO compliance

On 8 September 2015 Geocalci SL, the Spanish operating entity of the Company, achieved ISO compliant certification for its Integrated Management System including all aspects of environmental management to ISO 14001: 2004, quality management to ISO 9001: 2008, health and safety management to OHSAS 18001: 2007 and management systems for sustainable mining to UNE 22480. The systems were implemented during late 2013 and 2014 and were positively audited by TÜV Rheinland Ibérica on 29 June 2015.

Aside from being an essential part of the operational management of the Company, the certification incrementally supports the Company's intention to become a point of reference for best practice mining and mineral processing activity in Spain, and will help to support the undertakings made as part of the permitting process.

Human resources

The Company continues to hire in key positions for its project delivery team in anticipation of the commencement of construction. Appointments during the year include:

- Mike Norris as Chief Financial Officer
- Pablo Moreno as Global Head of Sales and Marketing
- Javier Olloqui as Head of Human Resources

Directors

The Company announced that Mr. Peter Albert will join the Highfield Resources Group as Managing Director and Chief Executive Officer with effect from 1 September 2016.

Mr. Albert's appointment comes as the Company moves into the construction phase of its flagship Muga Potash Mine and after a decision by the Company's current Managing Director, Mr. Anthony Hall, not to continue into the construction phase in his current role and to return to Australia. The decision to appoint Mr. Albert as the incoming Managing Director and CEO was made following an extensive global search using an independent recruitment firm.

Mr. Albert is an international mining executive with an outstanding track record in mine building, operations and sustainability. He has over 30 years' experience in project management, construction, operations, ESG (Environmental, Social and Governance performance) as well as corporate strategy in Australia, Asia, Africa and Europe.

During the year, the Company also announced the appointment of Ms. Pauline Carr as an independent Non-Executive Director. Ms. Carr is an experienced mining executive with over 25 years' commercial experience in the fields of management, corporate governance and compliance, mergers and acquisitions, investor and stakeholder relations and corporate restructures.

The Company also appointed Mr. James "Jim" F. Dietz as an independent Non-Executive Director during the year. Mr. Dietz has more than 40 years of experience in the fertiliser, chemical and petroleum industries, primarily in senior operational roles. From 2000 to 2010 he was Chief Operating Officer ("COO") of Potash Corporation of Saskatchewan ("PotashCorp"), the world's largest fertiliser company, as part of a 17-year tenure with the company. He was responsible for global operations, safety, health and environment performance and procurement. Mr. Dietz is a chemical engineer and holds a Masters and Bachelors designation from Ohio State University.

Inclusion in S&P/ASX 300 Index

On 4 September 2015, S&P Dow Jones announced that the Company would be included in the S&P/ASX 300 Index, effective 18 September 2015 after market close.

Annual review of ore reserves and mineral resources

In accordance with ASX Listing Rule 5, the Company has performed an annual review of all JORC-compliant ore reserves and mineral resources as at 30 June 2016.

Muga project

A maiden Ore Reserve for the Muga Project was calculated as part of the Definitive Feasibility Study as released to the ASX on 30 March 2015.

An updated Ore Reserve for the Muga Project was calculated as part of the project optimisation released to the ASX on 17 November 2015. The Company considers this Ore Reserve to be accurate as at 30 June 2016.

Table 1: Muga Ore Reserves Summary

	30-JUN-16		30-JUN-15		30-JUN-14	
	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)
Proved	81.6	11.7%	28.6	12.7%	N/A	
Probable	172.1	11.4%	117.5	12.7%	N/A	
PROVED & PROBABLE RESERVES	253.7	11.5%	146.0	12.7%	N/A	

Highfield released an update to the existing JORC-compliant Mineral Resource Estimate ("MRE) to the ASX on 24 February 2015.

A further update to this MRE was released to the ASX as part of the project optimisation study on 17 November 2015. The Company considers this MRE to be accurate as at 30 June 2016. The MRE includes all Ore Reserves shown above in Table 1.

Table 2: Muga Mineral Resources Summary

	30-JUN-16		30-JUN-15		30-JUN-14	
	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)
Measured	75.1	13.6%	42.5	11.8%	17.4	11.3%
Indicated	149.4	13.3%	196.8	11.2%	139.9	11.3%
TOTAL MEASURED & INDICATED	224.5	13.4%	239.3	11.3%	157.3	11.3%
Inferred	39.2	13.8%	63.1	12.2%	111.3	11.1%
TOTAL	263.7	13.5%	302.4	11.5%	268.6	11.2%

Sierra del Perdón project

Highfield released a maiden MRE for the Sierra del Perdón Project to the ASX on 7 April 2015. The Company considers this MRE to be accurate as at 30 June 2016.

Table 3: Sierra del Perdón Mineral Resources Summary

	30-JUN-16		30-JUN-15		30-JUN-14	
	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)
Measured	N/A	N/A	N/A		N/A	
Indicated	41.8	10.7%	41.8	10.7%		N/A
TOTAL MEASURED & INDICATED	41.8	10.7%	41.8	10.7%		N/A
Inferred	40.3	10.5%	40.3	10.5%		N/A
TOTAL	82.1	10.6%	82.1	10.6%		N/A

Pintanos project

Highfield released a maiden MRE for the Pintanos Project to the ASX on 20 November 2013. The Company considers this MRE to be accurate as at 30 June 2016.

Table 4: Pintanos Mineral Resources Summary

	30-JUN-16		30-JUN-15		30-JUN-14	
	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)
Measured	N/A		N/A		N/A	
Indicated	N/A		N/A		N/A	
TOTAL MEASURED & INDICATED	N/A		N/A		N/A	
Inferred	187.0	11.2%	187.0	11.2%	187.0	11.2%
TOTAL	187.0	11.2%	187.0	11.2%	187.0	11.2%

Summary

A summary of Highfield's total Ore Reserves and Mineral Resources is shown below.

Table 5: Highfield Total Ore Reserves Summary (all projects)

	30-JUN-16		30-JUN-15		30-JUN-14	
	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)
Proved	81.6	11.7%	28.6	12.7%		N/A
Probable	172.1	11.4%	117.5	12.7%		N/A
PROVED & PROBABLE RESERVES	253.7	11.5%	146.0	12.7%		N/A

Table 6: Highfield Total Mineral Resources Summary (all projects)

The MRE includes all Ore Reserves shown above in Table 5.

	30-JUN-16		30-JUN-15		30-JUN-14	
	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)	Tonnes In-Place (Mt)	K ₂ O (%)
Measured	75.1	13.6%	42.5	11.8%	17.4	11.3%
Indicated	191.2	12.7%	238.6	11.1%	139.9	11.3%
TOTAL MEASURED & INDICATED	266.3	13.0%	281.1	11.2%	157.3	11.3%
Inferred	266.5	11.5%	290.4	11.3%	298.3	11.2%
TOTAL	532.8	12.2%	571.5	11.3%	455.6	11.2%

Corporate Governance – resources and reserve calculations

Due to the nature, stage and size of the Company's existing operations, the Company believes there would be no efficiencies or additional governance benefits gained by establishing a separate mineral resources and reserves committee responsible for reviewing and monitoring the Company's processes for calculating mineral resources and reserves and for ensuring that the appropriate internal controls are applied to such calculations. However, the Company ensures that all Mineral Resource calculations are prepared by a competent, senior geologist and are reviewed and verified independently by a qualified person. In addition, the existing composition of the Highfield Board of Directors includes two qualified geologists.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the financial year, other than as set out in this report.

Significant events after the reporting date

Mr. Pedro Rodriguez resigned as a Director of the Company on 1 August 2016.

On 15 August 2016, the Company issued 3,850,000 unlisted options to staff and consultants pursuant to the Company's Employee Share Option Scheme. The options are exercisable at \$2.50 each on or before 30 June 2019.

153,333 unlisted options with an exercise price of \$0.75 and expiring on 30 June 2018, were exercised on 17 August 2016. The Company received funds totalling \$115,000 upon conversion.

Mr. Peter Albert was appointed as Managing Director effective 1 September 2016 following the resignation of Mr. Anthony Hall on 31 August 2016.

250,000 unlisted options with an exercise price of \$0.75 and expiring on 30 June 2018, were exercised on 7 September 2016. The Company received funds totalling \$187,500 upon conversion.

Likely developments and expected results of operations

The Directors have excluded from this report any further information on the likely developments in the operations of the Company and the expected results of those operations in future financial years, as the Directors believe that it would be speculative and prejudicial to the interests of the Company.

Environmental regulations and performance

The operations of the Company are presently subject to environmental regulation under the laws of the Commonwealth of Australia and the Kingdom of Spain. The Company has been at all times in full environmental compliance with the conditions of its licences.

Share options

As at the date of this report there were 56,721,667 unissued ordinary shares under options. The details of the options are as follows:

Number	Exercise Price \$	Expiry Date
4,400,000	\$0.20	01-Nov-16
4,000,000	\$0.20	19-Oct-16
2,400,000	\$0.30	31-Jan-17
7,000,000	\$0.40	31-May-17
500,000	\$0.60	30-Jun-17
500,000	\$0.60	31-Jan-17
3,846,667	\$0.75	30-Jun-18
9,500,000	\$0.75	11-Sep-18
750,000	\$1.00	30-Jun-18
4,000,000	\$1.25	30-Jun-18
15,225,000	\$2.00	30-Jun-19
4,600,000	\$2.50	30-Jun-19
56,721,667		

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

500,000 options with an exercise price of \$0.75, expiring on 30 June 2018 were exercised during the financial year.

Indemnification and insurance of directors and officers

The Company has made an agreement indemnifying all the Directors and officers of the Company against all losses or liabilities incurred by each Director or officer in their capacity as Directors or officers of the Company to the extent permitted by the Corporations Act 2001. The indemnification specifically excludes wilful acts of negligence.

The Company paid insurance premiums in respect of Directors' and Officers' Liability Insurance contracts for current officers of the Company, including officers of the Company's controlled entities. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group. The total amount of insurance premiums paid has not been disclosed due to confidentiality reasons.

Directors' meetings

During the financial year, in addition to regular Board discussions, the number of meetings of Directors held during the year and the number of meetings attended by each Director were as follows:

Director	Number of Meetings Eligible to Attend	Number of Meetings Attended
Derek Carter	12	12
Pauline Carr	9	9
Richard Crookes	12	12
Jim Dietz	8	6
Anthony Hall	12	12
Owen Hegarty	12	10
Pedro Rodriguez	12	12

Proceedings on behalf of company

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Highfield Resources Limited support and adhere to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that Highfield Resources is in compliance to the extent possible with those guidelines, which are of importance and add value to the commercial operation of an ASX 300 listed resources development company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company.

The Company has established a set of corporate governance policies and procedures and these can be found within the Company's Code of Business Ethics and Conduct located on the Company's website: highfieldresources.com.au.

Auditor independence and non-audit services

Section 307C of the Corporations Act 2001 requires the Company's auditor to provide the Directors of Highfield Resources with an Independence Declaration in relation to the audit of the financial report. A copy of that declaration is included at page 90 of the annual report. There were no non-audit services provided by the Company's auditor.

Audited remuneration report

This report, which forms part of the Directors' report, outlines the remuneration arrangements in place for the key management personnel (KMP) of Highfield Resources Limited for the financial year ended 30 June 2016. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for KMP who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group.

Details of Directors and Key Management Personnel

Directors

Derek Carter	Non-Executive Chairman
Pauline Carr	Non-Executive Director (appointed 30 October 2015)
Richard Crookes	Non-Executive Director
Jim Dietz	Non-Executive Director (appointed 23 November 2015)
Anthony Hall	Managing Director (resigned 31 August 2016)
Owen Hegarty	Non-Executive Director
Pedro Rodriguez	Executive Director (resigned 1 August 2016)

Key Management

John Claverley	General Manager
Hayden Locke	Head of Corporate Development
Mike Norris	Chief Financial Officer (appointed 23 November 2015)
Mike Schlumpberger	Executive General Manager – Operations
Donald Stephens	Company Secretary

Remuneration Policy

The Board is responsible for determining and reviewing compensation arrangements for the Directors and key management personnel of the Group. The broad policy is to ensure that remuneration properly reflects the individuals' duties and responsibilities and that remuneration is fair and competitive in attracting, retaining and motivating people with appropriate skills and experience. At the time of determining remuneration consideration is given by the Board to the Group's financial circumstances and performance.

As part of its suite of corporate governance policies and procedures, the Board has adopted a formal Remuneration and Nomination Committee Charter and Remuneration Policy. After detailed consideration, the Board approved the following remuneration guidelines effective 1 July 2015:

Level	Cash Remuneration	Short Term Incentive	Long Term Incentive
Chairman	A\$90,000	Nil	1m share options
Managing Director ¹	Up to A\$525,000	Up to 80% of cash remuneration	Up to 4m share options
Executive Director	Up to A\$400,000	Up to 60% of cash remuneration	Up to 2m share options
Non-Executive Director	A\$60,000	Nil	1m share options
Senior Executives	Up to A\$400,000	Up to 60% of cash remuneration	Up to 2m share options
Other Employees	Up to A\$300,000	Up to 40% of cash remuneration	Up to 1m share options

¹ Relates to arrangements for the former Managing Director, Mr Anthony Hall who acted in that role up to and including 31 August 2016.

Key Performance Indicators (KPIs) for Short Term Incentive

During the financial year, in addition to regular Board discussions, the number of meetings of Directors held during the year and the number of meetings attended by each Director were as follows:

The KPIs for the financial year ended 30 June 2016 were agreed and assessed under the following guidelines:

- 50% against objective deliverables;
- 30% against corporate and strategic objectives at a Company level; and
- 20% against cultural deliverables including approach to safety, value engineering and participation in mentoring programs

Short Term Incentive (STI) Award

During the 2016 financial year a number of Highfield's key management personnel received a cash bonus in respect of meeting STI KPIs agreed by the Board.

Details of Remuneration

Details of the nature and amount of each element of the remuneration of each Director and key management personnel of the Group for the year ended 30 June 2016 are as follows:

2016	Short term					Options	Post-employment		Total \$	Option related
	Base Salary \$	Directors' Fees \$	Consulting Fees \$	STI Award ⁵ \$	Other Benefits \$	Share Based Payments \$	Super \$	Prescribed Benefits \$		
Directors										
Derek Carter	-	-	90,000	-	-	594,355	-	-	684,355	87%
Pauline Carr ¹	-	40,000	-	-	-	594,355	-	-	634,355	94%
Richard Crookes	-	60,000	-	-	-	594,355 ²	-	-	654,355	91%
Jim Dietz ¹	-	36,167	-	-	-	-	-	-	36,167	-
Anthony Hall	-	-	525,000	345,834	70,059 ³	1,783,065	-	-	2,723,958	65%
Owen Hegarty	-	60,000	-	-	-	594,355 ²	-	-	654,355	91%
Pedro Rodriguez	-	-	373,330	200,108	21,504 ⁴	1,188,710	-	-	1,783,652	67%
Key Management										
Donald Stephens	-	-	127,379	-	-	297,178	-	-	424,557	70%
Mike Norris ¹	-	-	226,666	-	10,752 ⁴	1,188,710	-	-	1,426,128	83%
Mike Schlumberger	-	-	311,432	-	10,752 ⁴	310,796	-	-	632,980	49%
John Claverley	358,364	-	-	98,485	22,400 ⁴	322,416	-	-	801,665	40%
Hayden Locke	-	-	272,208	117,164	12,544 ⁴	464,424	-	-	866,340	54%
	358,364	196,167	1,926,015	761,591	148,011	7,932,719	-	-	11,322,867	70%

¹ Ms. Carr was appointed 30 October 2015 and both Mr. Dietz and Mr. Norris were appointed on 23 November 2015.

² To ensure compliance with EMR's internal governance and policies, Mr Hegarty and Mr Crookes requested that the issue of options to them for services they provide as Directors to the Company are issued to nominee entities within the EMR group.

³ Mr. Hall received a monthly allowance for living expenses for the period from 1 July to 30 September 2015 and paid private accommodation for the entire year.

⁴ Benefit relates to paid private accommodation.

⁵ The STI award relates to the achievement of 2015 KPIs that were approved by the Board and paid during the year ended 30 June 2016.

Details of Remuneration for the year ended 30 June 2015 are shown below:

2015	Short term					Options	Post-employment		Total \$	Option related
	Base Salary \$	Directors' Fees \$	Consulting Fees \$	STI Award \$	Other Benefits \$	Share Based Payments \$	Super \$	Prescribed Benefits \$		
Directors										
Derek Carter	-	-	159,993	-	-	405,957	-	-	565,950	72%
Anthony Hall	-	-	312,501	-	222,001 ²	541,277	-	-	1,075,779	50%
Pedro Rodriguez	-	-	287,445	-	20,694 ³	270,638	-	-	578,777	47%
Richard Crookes	-	60,000	-	-	-	270,638 ¹	-	-	330,638	82%
Owen Hegarty	-	60,000	-	-	-	270,638 ¹	-	-	330,638	82%
Key Management										
Donald Stephens	-	-	98,912	-	-	135,319	-	-	234,231	58%
	-	120,000	858,851	-	242,695	1,894,467	-	-	3,116,013	61%

¹ To ensure compliance with EMR's internal governance and policies, Mr Hegarty and Mr Crookes requested that the issue of options to them for services they provide as Directors to the Company are issued to nominee entities within the EMR group.

² Mr. Hall relocated to Spain and received a monthly allowance and paid private accommodation.

³ Mr. Rodriguez received paid private accommodation



Shareholdings of Directors and Key Management Personnel

The number of shares in the Company held during the financial year by Directors and key management personnel of the Group, including their personally related parties, is set out below. There were no shares granted during the reporting year as compensation.

2016	Balance at the start of the year	Granted during the year as compensation	On exercise of share options	Other changes during the year	Balance at the end of the year
Directors					
Derek Carter	8,321,504	-	-	-	8,321,504
Pauline Carr	-	-	-	-	-
Richard Crookes	-	-	-	-	-
Jim Dietz	-	-	-	-	-
Anthony Hall	40,001	-	-	-	40,001
Owen Hegarty	-	-	-	-	-
Pedro Rodriguez	7,521,504	-	-	-	7,521,504
Key Management					
Donald Stephens	4,301,076	-	-	-	4,301,076
Mike Norris	-	-	-	-	-
Mike Schlumpberger	-	-	-	-	-
John Claverley	-	-	-	-	-
Hayden Locke	-	-	-	-	-

All equity transactions with Directors and key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

Option holdings of Directors and Key Management Personnel

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Highfield Resources Limited and specified key management personnel of the Group, including their personally related parties, are set out below:

2016	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Exercisable	Un-exercisable
Directors							
Derek Carter	3,000,000	1,000,000	-	-	4,000,000	-	-
Pauline Carr	-	1,000,000	-	-	1,000,000	1,000,000	-
Richard Crookes	-	-	-	-	-	-	-
Jim Dietz	-	-	-	-	-	-	-
Anthony Hall	4,900,000	3,000,000	-	-	7,900,000	7,900,000	-
Owen Hegarty	-	-	-	-	-	-	-
Pedro Rodriguez	2,500,000	2,000,000	-	-	4,500,000	4,500,000	-
Key Management							
Donald Stephens	500,000	500,000	-	-	1,000,000	1,000,000	-
Mike Norris	-	2,000,000	-	-	2,000,000	2,000,000	-
Mike Schlumpberger	1,500,000	500,000	-	-	2,000,000	750,000	1,250,000
John Claverley	4,400,000	750,000	-	-	5,150,000	2,650,000	2,500,000
Hayden Locke	2,000,000	500,000	-	-	2,500,000	2,000,000	500,000

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Options granted as part of remuneration have been valued using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option.

Options granted under the plan carry no dividend or voting rights. For details on the valuation of options, including models and assumptions used, please refer to note 20.

Performance Share holdings of Directors and Key Management Personnel

The numbers of Performance Shares in the Company held during the financial year by each Director of Highfield Resources Limited and specified key management personnel of the Group, including their personally related parties, are set out below:

2016	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Directors				
Derek Carter	5,510,752	-	-	5,510,752
Pauline Carr	-	-	-	-
Richard Crookes	-	-	-	-
Jim Dietz	-	-	-	-
Anthony Hall	-	-	-	-
Owen Hegarty	-	-	-	-
Pedro Rodriguez	5,510,752	-	-	5,510,752
Key Management				
Donald Stephens	2,150,538	-	-	2,150,538
Mike Norris	-	-	-	-
Mike Schlumpberger	-	-	-	-
John Claverley	-	-	-	-
Hayden Locke	-	-	-	-

Other transactions with Directors and Key Management Personnel

JAWAF Enterprises Pty Ltd, a company in which Mr. Anthony Hall is a director, charged the Company consulting fees of \$525,000 (2015: \$312,501). The consulting fee is included in the Details of Remuneration above. Nil (2014: \$29,167) was outstanding at year end. Mr. Hall was reimbursed \$347,801 (2015: \$171,745) for expenses, at cost, incurred during the year on behalf of the Company. Mr. Hall received an allowance of \$49,179 for the period from 1 July 2015 to 30 September 2015 (2015: \$196,133 for the period from 1 July 2014 to 30 June 2015).

DNC Minerals Pty Ltd, a company in which Mr. Derek Carter is a director, charged the Company consulting fees of \$90,000 (2015: \$159,993) and reimbursements of expenses, at cost, paid on behalf of the Company of \$13,284 (2015: \$6,102) were paid during the year. The consulting fee is included in the Details of Remuneration above. \$7,545 was outstanding at year end (2015: nil).

Geotrex Gestion Minera SL, a company in which Mr. Pedro Rodriguez is a director, charged the Company consulting fees of \$373,330 (2015: \$287,445) and reimbursements of expenses, at cost, paid on behalf of the Company of \$25,745 (2015: \$32,397) were paid during the year. The consulting fee is included in the Details of Remuneration above. Nil (2015: nil) was outstanding at year end.

EMR Capital Pty Ltd a company in which Mr. Richard Crookes and Mr. Owen Hegarty are directors, charged the Company Directors' fees of \$120,000 (2015: \$120,000) and reimbursements of expenses, at cost, paid on behalf of the Company of \$28,787 (2015: \$59,803) were paid during the year. The directors' fees are included in the Details of Remuneration above. \$10,000 (2015: nil) was outstanding at year end.

Exact Consulting Pty Ltd a company in which Ms. Pauline Carr is a director, charged the Company consulting fees of \$40,000 (2015: nil) and reimbursements of expenses, at cost, paid on behalf of the Company of \$47 (2015: nil) were paid during the year. The consulting fee is included in the Details of Remuneration above. \$5,000 was outstanding at year end (2015: nil).

DCS Corporate Pty Ltd, a company in which Mr. Donald Stephens is a director, charged the Company consulting fees of \$127,379 (2015: \$98,912). The consulting fee is included in the Details of Remuneration above. \$23,353 (2015: nil) was outstanding at year end.

ANFA Minotaur SLU., a company in which Mr. Mike Norris is a director, charged the Company consulting fees of \$226,666 (2015: nil). The consulting fee is included in the Details of Remuneration above. Nil (2015: nil) was outstanding at year end.

Schlumpberger Inc. a company in which Mr. Mike Schlumpberger is a director, charged the Company consulting fees of \$311,432 (2015: \$64,450) and reimbursements of expenses, at cost, paid on behalf of the Company of \$86,870 (2015: \$32,086) were paid during the year. The consulting fee is included in the Details of Remuneration above. \$31,414 was outstanding at year end (2015: nil).

Bentley Capital Ltd a company in which Mr. Hayden Locke is a director, charged the Company consulting fees of \$249,311 (2015: \$125,028). The consulting fee is included in the Details of Remuneration above. Nil (2015: nil) was outstanding at year end. Mr. Locke was reimbursed \$102,808 (2015: \$15,662) for expenses, at cost, incurred during the year on behalf of the Company.

Bentley Capital Marshall Islands a company in which Mr. Hayden Locke is a director, charged the Company consulting fees of \$22,897 (2015: nil). The consulting fee is included in the Details of Remuneration above. Nil (2015: nil) was outstanding at year end.

Transactions with key management personnel were made at arm's length at normal market prices and normal commercial terms. There were no other transactions with key management personnel for the year ended 30 June 2016.

Options Affecting Remuneration

The terms and conditions of options affecting remuneration in the current or future reporting years are as follows:

	Grant Date	Grant Number	Expiry date/last exercise date	Fair Value per option at grant date	Exercise price per option	Value of options at grant date ¹	Number of options vested	Vested	Max value yet to vest
Directors									
Derek Carter	30/10/15	1,000,000	30/06/19	\$0.594	\$2.00	\$594,355	1,000,000	100%	-
Pauline Carr	30/10/15	1,000,000	30/06/19	\$0.594	\$2.00	\$594,355	1,000,000	100%	-
Richard Crookes	30/10/15	1,000,000	30/06/19	\$0.594	\$2.00	\$594,355 ⁵	1,000,000	100%	-
Jim Dietz	-	-	-	-	-	-	-	-	-
Anthony Hall	30/10/15	3,000,000	30/06/19	\$0.594	\$2.00	\$1,783,065	3,000,000	100%	-
Owen Hegarty	30/10/15	1,000,000	30/06/19	\$0.594	\$2.00	\$594,355 ⁵	1,000,000	100%	-
Pedro Rodriguez	30/10/15	2,000,000	30/06/19	\$0.594	\$2.00	\$1,188,710	2,000,000	100%	-
Key Management									
Donald Stephens	30/10/15	500,000	30/06/19	\$0.594	\$2.00	\$297,178	500,000	100%	-
Mike Norris	30/10/15	2,000,000	30/06/19	\$0.594	\$2.00	\$1,188,710	2,000,000	100%	-
Mike Schlumpberger	11/03/15	1,500,000	30/06/18	\$0.420	\$1.25	\$630,534	750,000 ²	50%	-
	22/02/16	500,000	30/06/19	\$0.523	\$2.50	\$261,487	- ³	-	\$168,355
John Claverley	11/08/15	750,000	30/06/19	\$0.430	\$2.00	\$322,416	750,000	100%	-
Hayden Locke	11/03/15	1,000,000	30/06/18	\$0.420	\$1.25	\$420,356	500,000 ⁴	50%	\$72,931
	11/08/15	500,000	30/06/19	\$0.430	\$2.00	\$214,944	500,000	100%	-
		15,750,000				\$8,684,820	14,000,000		\$241,286

¹ The value at grant date has been calculated in accordance with AASB 2 Share based payments.

² 750,000 options issued to Mike Schlumpberger, exercisable at \$1.25 on or before 30 June 2019, vest on completion of the first phase of construction works (issue of Final Certificate).

³ The options issued to Mike Schlumpberger, exercisable at \$2.50 on or before 30 June 2019, vest on 22 February 2017.

⁴ 50% of the options issued to Hayden Locke vested on 11 March 2016 and the remaining 50% vest on 11 March 2017.

⁵ To ensure compliance with EMR's internal governance and policies, Mr Hegarty and Mr Crookes requested that the issue of options to them for services they provide as Directors are issued to nominee entities within the EMR group.

Service Agreements

Executive Directors

The former Managing Director, Mr. Anthony Hall was engaged under a consulting services agreement. Under the agreement Mr. Hall was paid an annual fee of A\$525,000 for consultancy services with effect from 1 July 2015. Mr. Hall resigned as a Director effective 1 September 2016 and agreed to be retained on an Independent Contractor Agreement commencing in September 2016 for a period of ten months.

The former Development Director, Mr. Pedro Rodriguez was employed under a consulting services agreement during the year, which commenced on 1 October 2014 for a period of 24 months. Under the agreement Mr. Rodriguez was paid an annual fee of €200,000. Mr. Rodriguez resigned as a Director on 1 August 2016 and agreed to be retained on an Independent Contractor Agreement commencing in August 2016 for a period of five months.

Non-Executive Directors

On appointment to the Board, all non-executive directors enter into a service agreement with the Group in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the Director. The aggregate remuneration for Non-Executive Directors has been set at an amount not to exceed \$500,000 per annum. This amount may only be increased with the approval of Shareholders at a general meeting.

Key Management Personnel

The Chief Financial Officer, Mr. Mike Norris is engaged under a consulting services agreement, which commenced in November 2015 with no fixed term. Under the agreement Mr. Norris is to be paid an annual fee of €250,000 for consultancy services. Mr. Norris is also entitled to a fully paid residence whilst located in Pamplona, Spain (including utilities).

The Executive General Manager – Operations, Mr. Mike Schlumpberger, was initially engaged under a consulting services agreement, which commenced in September 2015 for a period of six months. This agreement was extended by both parties on 1 March 2016 with no fixed term. Under the agreement Mr. Schlumpberger is to be paid an annual fee of €250,000 for consultancy services.

The Head of Corporate Development, Mr. Hayden Locke is engaged under a consulting services agreement, which commenced in December 2015 with no fixed term. Under the agreement Mr. Locke was to be paid an annual fee of €180,000 for consultancy services. The Board resolved to increase Mr. Locke's annual consulting fee effective 1 July 2016 to €250,000.

Non-Executive Directors

On appointment to the Board, all non-executive directors enter into a service agreement with the Group in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the Director.

The aggregate remuneration for Non-Executive Directors has been set at an amount not to exceed \$500,000 per annum. This amount may only be increased with the approval of Shareholders at a general meeting.

Post Balance Date

Mr. Anthony Hall resigned as Managing Director effective 31 August 2016. On 1 September 2016 Mr. Peter Albert commenced as the Company's new Managing Director. Details of Mr. Albert's remuneration arrangements were released to the ASX on 20 June 2016 and are as follows:

a) Fixed Remuneration

Mr. Albert will be entitled to a salary of A\$600,000 (inclusive of government charges, social security and taxes) per annum. This will be subject to annual review, with no guaranteed increases.

b) Short-Term Incentive

Mr. Albert will be entitled to a maximum potential short-term incentive of A\$480,000 (i.e. 80% of his total fixed remuneration) each year in cash, subject to financial and non-financial performance of Highfield Resources Limited and its related bodies corporate (the Group). Mr. Albert's performance targets and priorities will be set by the Board of Highfield Resources Limited in consultation with Mr. Albert. Unless otherwise agreed in writing by the Chairman of the Board, and subject to applicable laws, Mr. Albert is only entitled to receive a Short-Term Incentive award and payment if he is employed as at 30 June each year.

c) Long-Term Incentive

Subject to any approval Highfield Resources Limited considers necessary or appropriate, Mr. Albert will be eligible to participate in the Highfield Resources Limited executive share-based long-term incentive plan in accordance with the rules of the plan and any applicable Highfield policy. Mr. Albert will be entitled to a maximum potential long-term incentive of A\$600,000 (i.e. 100% of total fixed remuneration paid as Performance Rights to ordinary shares in the Company). Unless otherwise agreed in writing by the Chairman of the Board, Mr Albert is only entitled to receive a benefit under the plan if he is employed as at 30 June each year.

Loans to Directors and Executives

There were no loans to Directors and key management personnel during the financial year ended 30 June 2016 (2015: nil).

Voting and comments made at the Company's 2015 Annual General Meeting

Highfield Resources Limited received more than 96.7% of "yes" votes on its remuneration report for the 2015 financial year.

The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

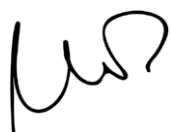
Performance measured by loss per share

The table below shows the performance of the Company as measured by loss per share:

	2016	2015	2014	2013	2012
Loss per share (cents) for the year ended 30 June	(3.42)	(4.38)	(4.12)	(4.22)	(1.11)
Share Price (at 30 June)	\$1.38	\$1.48	\$0.58	\$0.36	\$0.19
Share Price High for the year ended 30 June	\$2.04	\$2.08	\$0.68	\$0.36	\$0.30
Share Price Low for the year ended 30 June	\$1.03	\$0.52	\$0.33	\$0.13	\$0.19

End of audited remuneration report

Signed on behalf of the Board in accordance with a resolution of the Directors.



Peter Albert
Managing Director

Adelaide, South Australia
30 September 2016

Note: This Directors' Report should be read in conjunction with the Important Information and Disclaimers on page 106 of this document.







Sustainability Report

A message from our CEO

Pursuing our strategy

This year's highlights

Goals, targets and progress

What is planned: strategic goals and objectives

Our people

Our community

Our Foundation

Industry and academic engagement

The environment

Continuous improvement

A message from our CEO*



I am pleased to present the Company's second Sustainability Report analysing our performance from July 2015 to June 2016. This report is a presentation of the sustainable activities of Highfield Resources Limited and its subsidiary, Geocalci SL ("the Group").

We are committed to demonstrate to all our stakeholders how we are integrating transparent reporting on sustainability matters into all of our projects and operations. Currently our focus remains on the Muga mine, our flagship potash project. The Group's overriding focus for all of our activities remain the four pillars of safety; best environmental performance; social development of our neighbouring communities; and spreading the economic benefits to the greater region.

In an increasingly integrated global world, the international community faces major challenges. As described in the Vision 2050 Report by the World Business Council for Sustainable Development, companies must seek solutions to common problems, such as improvements in bio capacity and ecosystem management. It is largely accepted that energy through biofuels production must increase to meet the demands of a growing population, which according to the FAO (The Food and Agriculture Organization) will exceed 9 billion in 2050. To achieve this there needs to be a focus on the optimisation of agriculture output to support biofuel generation. Therefore, appropriate management of land is crucial to our sustainable development. Potash as a fertiliser, is a key element to address this imminent reality.

Fertilisers play a vital role as they contribute to improving the efficiency of land, thus reducing the consumption of water required, enhancing resistance to pests and other diseases and can be framed within the agricultural techniques necessary to meet these new challenges. It is forecast that net investment in agriculture will double by 2050 to reach USD 83 Billion a year.

From a local perspective, it should be noted that Spain, France and Portugal all import potash. Within the Horizon 2020 Plan, the European Union seeks to promote projects that encourage the use of own resources in exchange for export, thus contributing to the concept of a circular economy to minimise costs and impacts associated with transportation of local resources.

Another challenge is to address unemployment rates, a global problem that many countries face. The critical situation reflected in the WESO 2016 report by the ILO (International Labour Organization) indicates that organisations should focus their efforts on creating quality work, as dictated by the United Nations sustainable development goals. It should be noted that Spain, where our projects are located, has one of the highest unemployment rates compared to other countries in the European Union, reaching 21% in 2015.

It is anticipated that our flagship potash project Muga Mine will generate approximately 800 direct jobs and 3,500 indirect jobs during the 47 years of the mine life.

The development of the Muga project will benefit the population in a recognized depressed area where young people transit to metropolises because of the lack of job opportunities. In addition there is an aging population that has increasingly high levels of unemployment. One of our important stakeholders, Mr Felix Bariain the President of the farmers union of Navarra (UAGN), recently asked at a public forum, "What policy is more social than fixing the population in towns?" alluding to the importance of sustainability (environmental, social and economic) investment in the primary sector and always complying with environmental legal requirements.

The Company is working to develop a project that not only complies with current legislation in Spain and Europe, but serves as a benchmark for a sustainable development. This is why, the Company, since its inception, has focused on integrating a balanced combination of best practice social, environmental and economic principles. The Geocalci Foundation ("Foundation"), created in 2014, has contributed to various initiatives in a respectful way, in order to contribute to the social and economic development of the region.

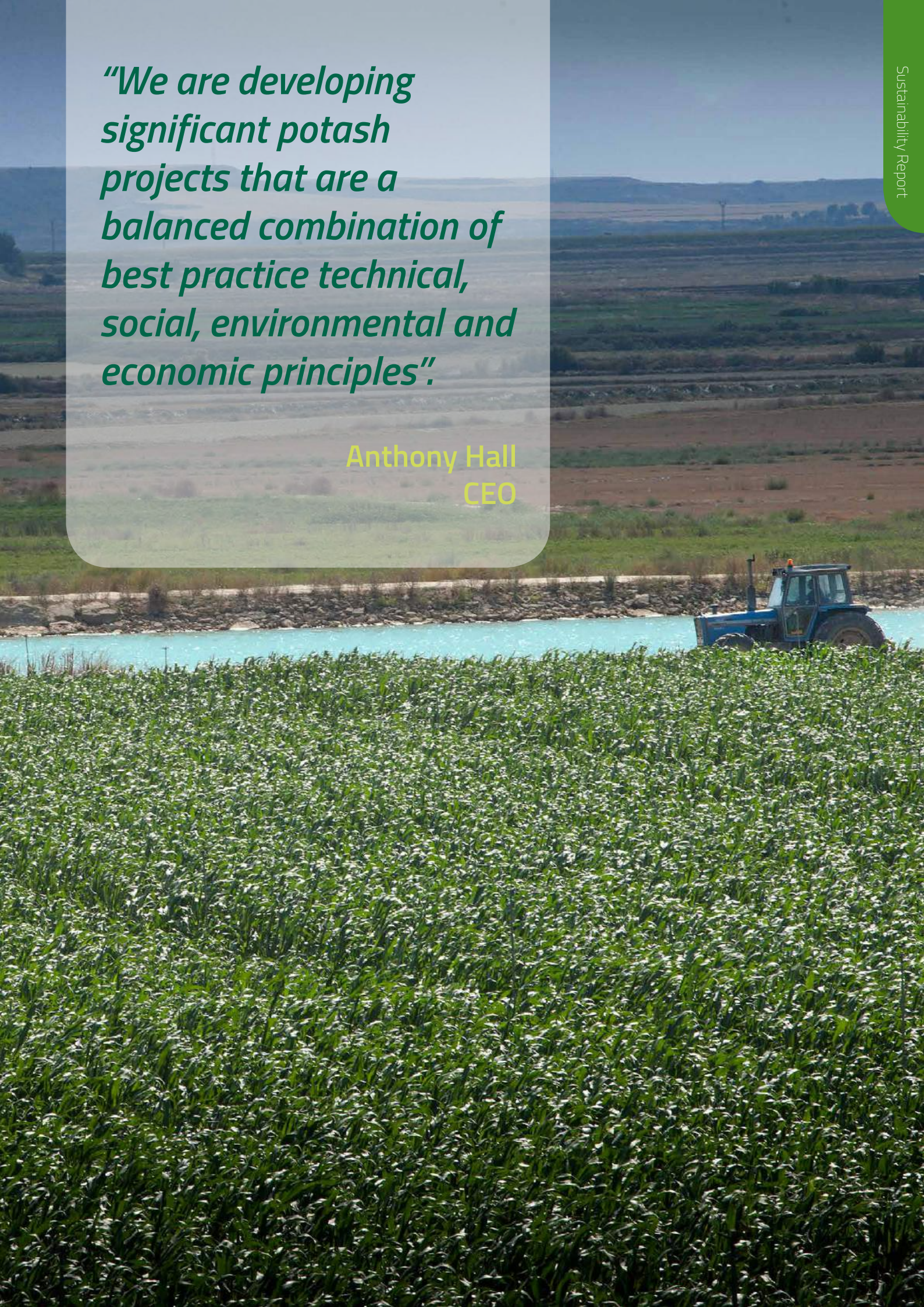
A handwritten signature in black ink, appearing to read 'Anthony Hall', written over a light grey horizontal line.

Anthony Hall
Chief Executive Officer

**Mr Anthony Hall resigned as CEO on 31 August 2016*

“We are developing significant potash projects that are a balanced combination of best practice technical, social, environmental and economic principles”.

Anthony Hall
CEO



Pursuing our strategy

The Group has always focused on integrating sustainability at all stages. This focus includes the implementation of a wide range of assessments, studies and monitoring procedures to guarantee best environmental outcomes .

Our plan is to become a long term good neighbour in the communities where our projects will be established, and so we also have a focus on spreading the benefits to the community over many years.



This year's highlights

Zero accidents

7x Increase in H&S awareness programs with our employees

Investment in R&D projects for full rehabilitation

**Gender Equality.
66% of new employees are women**

Significant increase in social projects within the community. Now > 80 initiatives

Investment in R&D through fertiliser programs for the community

Zero grievances from the community

Innovative voluntary Participation Process to engage with the community

Increased staff awareness of our Code of Business Ethics and Conduct

Strong community engagement

Successful audit of our quality, management, environmental and safety certifications

Finalising project finance facility for Muga Mine. Significantly advanced towards securing Project Finance



Committed to safety



Committed to the environment



Committed to the social development of the Region



Committed to economic growth

Goals, targets and progress

Our strategic and specific goals for FY2016 cover our environmental, social and economic performance . To achieve these targets we continue to actively educate employees on how their work impacts our progress.

Social

Health and Safety:

To create a culture of Health and Safety and become an industry leader by creating and maintaining a zero harm environment for our workplaces and all of our employees. To achieve this we will work towards:

- 1. Increasing Health and Safety awareness programs across the organisation **Achieved**
- 2. Continuing to enhance and refine our procedure and practices and monitoring our performance **Achieved**
- 3. Implementing basic Health and Safety induction programs for all employees and a Crisis Management Plan **On Plan**

Our People:

To create a healthy workplace environment for the well-being of our current and future employees. To achieve this goal we will,

- 1. Conduct employee surveys on work place satisfaction **On Plan**
- 2. Train all employees on our Code of Business Ethics and Conduct **Achieved**
- 3. Continue with the implementation of ISO 26000 guidelines in our Integrated Management System for 2016 which improves upon the previous period **On Plan**

Local Communities:

Integrate our business in the community by understanding needs and listening to concerns, while spreading the economic benefit by:

- 1. Maintaining our priority of hiring locally **On Plan**
- 2. Establishing contact information points in the regions of our projects for feedback suggestions and grievances. **On Plan**
- 3. Increasing social initiatives through the Geocali Foundation **Achieved**

Environment and Permits

Continue to comply with all legal requirements regarding environmental issues in our industry and go beyond by measuring our performance and setting future goals. We will achieve this by obtaining:

- 1. Government approval of the Muga Mine Environmental Impact Assessment **On Plan**
- 2. Construction and Operating Permits for Muga Mine **On Plan**
- 3. monitoring of our operations to reduce our GHE (Green House Gas Emissions) where possible **On Plan**

Economic

We are creating a sustainable and profitable business by conducting it safely through our risk management process and financing that will result in:

- 1. Securing project finance for Muga Mine **On Plan**
- 2. Completing Preliminary Economic and environmental assessments for Pintanos, Vipasca, Sierra del Perdón and Izaga Projects. **On Plan**

Reporting

We are committed to being transparent and communicating our sustainability performance and will:

- 1. Broaden the scope of our Sustainability Report **Achieved**
- 2. Develop a Sustainability Report for next period **Achieved**

What is planned: strategic goals and objectives

For the following reporting period our sustainable goals will be focused on

Dimension	Areas	Goals
Social	Continue working with a positive Health and Safety culture	Zero Accidents
		Maintain awareness programs for Health and Safety
		Monitor performance to adjust our processes
		Monitor the impact of noise in regards to the employees and the local communities during the construction phase and to establish measures to ensure noise reduction and compliance.
	Our People: Proactive and positive workplace environment	Train our staff on our Integrated Management System
		Implement measures to ensure a work-life balance
		Create awareness of our Code of Business Conduct and Ethics.
		Continue with the implementation of the ISO 26000 guidelines.
	Local Communities: Integrating our business in the community	Establish ways to Support our Suppliers Policy, in particular with regards to the “buy local” commitment.
		Increase participation and information sharing for the local community.
		Continue with the local initiatives sponsored by the Foundation with particular focus towards the initiatives that promote the well being of people within the region.
Environment	Comply and exceed, where practical, legal requirements	Government approval of Muga Environmental Impact Assessment.
		Construction Permits for the Muga Mine
		Achieve at least the minimum required level of Health, Safety and Environmental compliance.
		Increase environmental awareness to reduce water, paper and electricity consumption.
Economic	Create a sustainable and profitable business	Secure Project Finance for the Muga Mine
		Complete preliminary studies of other company projects.
Overall	Reporting: Be transparent	Increase our external communication activities



*Major milestones,
for sustainable development*

Sowing for the future

Our people

ZERO ACCIDENTS

Safety always comes first

The priority of the Group is the Health and Safety (“H&S”) of its workforce. This is the reason that the Group undertakes all necessary efforts to provide a H&S culture involving every employee, contractor and consultant (personnel) at work.

The Group’s main objective is that all our personnel adopt a “zero accidents” target and minimise incidents by ensuring everyone works together everyday to achieve a better Health and Safety environment in the workplace.

The effective implementation of our Prevention of Risk at Work Management System, shows improvement in our Health and Safety conditions whilst increasing productivity and competitiveness. With this preventative measure in place, the Group minimises accidents and occupational hazards therefore gaining a better integration for the Company in the social and economic environment in which it is located.

AWARENESS PROGRAMS

Strengthening our Health and Safety Culture

To help achieve our goal, the Group organises a monthly training session for our personnel with events and talks on different topics.

This year’s International Health and Safety Day was celebrated on the 28 April, and focused on “stress in the workplace” and coincided with the International Day of Fallen and Injured colleagues.

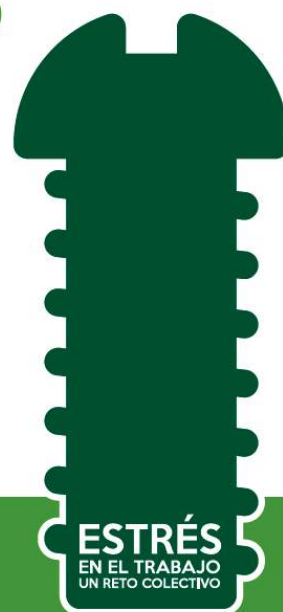
To mark the day we invited two people to speak to staff. Mercedes Lezaun (LEFER Training) who presented strategies to handle stressful situations and Jesus Jiménez (former potash miner in Navarra) who discussed the importance of Health and Safety at work.



Significant increase in Health and Safety training with a total of 1,490 man hours of training this year. We increased from 5 hours per staff member, to more than 37 hours of training per person.

7X Increase in our H&S training

Geocalci
a Highfield Resources
Company



NO PIERDAS LOS TORNILLOS

DÍA MUNDIAL DE LA SEGURIDAD Y LA SALUD EN EL TRABAJO
28 DE ABRIL 2016



Poster of our internal H&S event

WORKING TOWARDS INTEGRATION

We believe diversity is key for business

The Group believes that personal achievements stimulate equal opportunities and combat against intolerant attitudes. The final objective is to build an encompassing brand which identifies diversity as its principal value.

It should be emphasised that the statistics for the Group in reference to employment stability are especially high with a large proportion of the workforce on permanent contract.

Furthermore the Group commits to personal and professional growth of our workforce by training programmes, measures to help with supporting work-life balance, aligned with the strategic direction that stimulates the motivation and understanding of the work force, so contributing to a healthy working environment.

The implementation of the Equality Plan:

One of this year's developments has been the design of an equality plan in order to help to promote more inclusive programs. The Group wants to adopt a voluntary system that forms part of our commitment to the international fight against gender inequality and takes measures that prevent possible infringements of Human Rights.

Thus the Group is going one step further in regards to the integration measures promoting gender equality, origin, ethnicity etc. creating a respectful and equal work environment.

What is an Equality Plan?

"An organised set of measures, adopted after an analysis of the situation, aimed at achieving equal treatment and opportunities for men and women throughout the business, and eliminating gender discrimination." (Art. 46 Organic Law 3/2007).

This plan is mandatory in Spain for business of more than 250 employees.

66.6% of new employees are women

Average number of employee complaints: 0.02 per employee including confidential channel



Our community

Voluntary Public Participation Process: Listening to opinions and suggestions from the community

The Group is committed to transparency and has voluntarily carried out a Public Participation Plan, following the recommendations issued by the OECD (The Organisation for Economic Co-operation and Development) on public participation processes as well as legal recommendations of public policy processes developed by the governments of Navarra and Aragon.

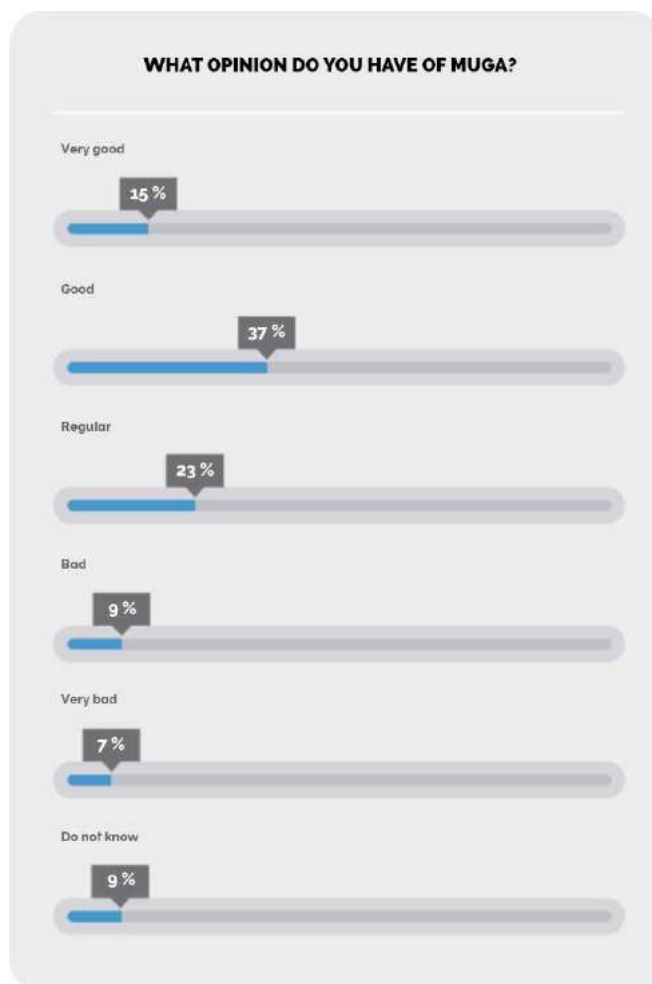
Geoalcali has shown its commitment to the community and confirms its eagerness to be a good corporate citizen. A pioneer in this sector, we are the first private business in Navarra or Aragon with an industrial project in development, which has voluntarily submitted to this methodology.

These open processes are useful in order to listen, collect and take into account the opinions of the residents through talks and workshops. The methodology allows us to collect via community surveys, those suggestions that can be adopted in order to improve the project.

Geoalcali held workshops with the residents of Aragon (Sos del Rey) and Navarra (Sangüesa) on 7th and 8th June 2016 respectively.

"I have had the opportunity to learn about the Public Participation Process carried out by Geoalcali and from my point of view this is a sound practice of transparency, discussion and management of the stakeholders. This initiative will allow the creation of a more sustainable Project with better economic, social and environmental results, therefore I would like to express my congratulations to Geoalcali!"

Ricardo Trujillo
Project Manager, Forética



Sample of survey results from Social Study Muga Mine by Reder Statistics and Dédalo Projects

Information brochures, participation inserts and public talks as part of our Public Participation Plan

MINA DE POTASA MUGA Mitos, dudas y Preguntas Frecuentes

Queremos escuchar tu opinión

¿Qué se hará con los residuos de la extracción de potasa? La extracción generará residuos que serán reutilizados en la industria.

¿Qué opinión del Proyecto de la Mina de Potasa Muga? Estoy de acuerdo No estoy de acuerdo Me gustaría conocer más sobre el Proyecto

¿Cómo ha conocido el Proyecto de la Mina de Potasa Muga? Medios: Prensa, Internet, radio Amigo Ayuntamiento Web de la empresa Otro

Estamos abiertos a escuchar sus opiniones y sugerencias:

¿Puede puntuar las siguientes declaraciones? totalmente de acuerdo de acuerdo ni de acuerdo ni en desacuerdo en desacuerdo totalmente en desacuerdo

El proyecto traerá riqueza a la zona. El proyecto ayudará a poblar y fijar la población en las localidades. La empresa está realizando los esfuerzos necesarios para minimizar los impactos en el medio ambiente para los proyectos sociales de la zona. Estoy de acuerdo con los proyectos sociales de la Fundación Geocalcal. La web de la empresa tiene suficiente información. En caso contrario indique qué tipo de información incluye.

Datos de contacto
Nombre: _____ Teléfono: _____
E-mail: _____

de conformidad con lo dispuesto en la Ley Orgánica 15/1999 de 13 de diciembre de Protección de Datos de carácter personal, consiento que mis datos sean incorporados a sus ficheros de titularidad de GEOCALCAL S.L. y que sean tratados con la finalidad de promover sus canales de comunicación con los usuarios.

Acepto No Acepto

Acepto haber sido informado sobre la posibilidad de ejercer los derechos de acceso, rectificación, cancelación y oposición dirigiéndome a GEOCALCAL S.L. Avenida Carlos III, Nº 14, 1.º B, 31002, Pamplona, Navarra, o bien enviándome un mensaje a la dirección de correo electrónico info@geocalcal.com

Más información: www.geocalcal.com / info@geocalcal.com

¿Qué afectaciones puede tener en la zona el transporte del material?

La intensidad de tráfico medio generada por la mina variará entre los 350 y los 950 vehículos diarios. En el periodo de máxima intensidad, esto supone un aumento del 20% más del tráfico habitual en la carretera N-127, en el tramo que comunica el polígono industrial Rocaforte y la autopista A-21. En cuanto a las posibles molestias a los vecinos, hay que señalar que las carreteras que comunican a la planta y la planta con la red de carreteras transcurren a distancia de los núcleos urbanos más cercanos e con la variante de Sangüesa para evitar el trazado actual de la carretera entre viviendas.

¿Por qué es competencia de los Ministerios de Industria y de Medioambiente del Gobierno Central el otorgamiento del permiso de explotación?

Debido a la ubicación del proyecto entre dos Comunidades Autónomas corresponde al Gobierno Central su gestión administrativa. No obstante se ha requerido del entendimiento y continua colaboración de las dos comunidades en el proceso con el Gobierno Central, plasmado en un acuerdo escrito. Durante todo el proceso administrativo están por supuesto involucrados los departamentos de minas y medio ambiente de ambas comunidades.

¿Se afectará la mina al Pantano de Yesa?

No tendrá ningún impacto en el pantano de Yesa, ya que se sitúan producciones en la mina que se pueden trasladar al pantano, ni unido más cercano al que llegaremos del pantano sería de unos 2 kilómetros, dentro de unos 15 años. Es importante que a la A-21 y ya hay galerías, construidas en los montes que para desague. Por tanto, si estas galerías no afectan al pantano, las de la mina tampoco.

La presa se encuentra a 2 km de distancia y a una distancia entre 75 y 140 metros, no afectan a la estabilidad de la presa

¿Cuáles son los beneficios sociales del proyecto?

Una de nuestras prioridades es el fomento del empleo dentro de las áreas cercanas.

Además la empresa ha suscrito voluntariamente una Política de Compra Dañada a los proveedores de la zona siempre y cuando sea posible comprarlos.

Según las últimas estimaciones calcula que el proyecto generará más de 800 empleos nuevos a los que hay que añadir más de 3.500 puestos de trabajo indirectos.

Una actividad industrial de esta magnitud traerá importantes beneficios para la sociedad en general debido al valor añadido que genera, lo que contribuye al desarrollo social y económico de la región a través de su inversión con la innovación y la creación de riqueza. Para Geocalcal, estos valores forman parte de nuestro espíritu.

La aprobación del proyecto Muga supondrá un enriquecimiento de la región no sólo por el incremento en los puestos de trabajo sino también porque la inversión que se estima realizará directamente en impuestos para la comunidad.

El montante global de inversión y gasto que se aplicará localmente para la construcción y explotación de la mina en los próximos 4,7 años puede alcanzar los 8.000 M€



Our Foundation

We have now supported more than 80 social projects, including initiatives described below

Creation and launching of the OrganiK Project (October 2015)



OrganiK is an educational vegetable garden which teaches about the use of potash (K) in crops, with emphasis on plants native to the region. This project has been carried out in collaboration with the “Josenea” Association. The project includes helping with the expansion of Josenea’s activities through the reopening of a nursery earmarked for reforestation.

The launch of this project has allowed employment of people at risk of social exclusion and is designed to give them the necessary skills to be able to carry out new when they finish the three years of training with Josenea.

The Geoalcali Foundation introduced the “Crecer Juntos + Sanos” (Growing Healthy Together) programme (October 2015)



Launch of a school program in which students at schools in Navarra and Aragon are made aware of the importance of caring for the environment and maintaining a healthy and nutritious diet.

Collaboration with the Varazdin Foundation (October 2015)




The Geoalcali Foundation signed an agreement with Varazdin to work together towards an education that raises awareness of the importance of a healthier and more sustainable diet. The program “Crecer Juntos + Sanos” (Growing Healthy Together) consists of theoretical and practical parts, one of which was a school trip to the Park of the Senses in Noain, organised by the Varazdin Foundation.

Participation in Accessibility Campaign (September 2015)



The Geoalcali Foundation participated in the partnership agreement that Gure Sustraiak had signed with Aspace Navarra, which allowed the development of respite care and holiday programs for people with disabilities or cerebral palsy and their families at its facilities in Olo.



A person wearing a red t-shirt with a logo is shown from the side, holding a large, full green bag filled with harvested leafy greens. The background is a bright, sunny outdoor setting with green foliage and trees. The text is overlaid on a semi-transparent white box on the left side of the image.

“The importance of these agreements firstly favours the schools, but then also the workers. Thanks to these arrangements they can train with us and perhaps one day work at the collaborating companies such as Geoalcali”

Varazdin Foundation



Support of the Brotherhood of Santa Barbara (Berain) (October 2014 and November 2015)



The Geocalci Foundation and the brotherhood of Santa Barbara of Berain came to an agreement to organize events in Berain to honour the Patron Saint of miners.

Support of the Parents Association, of Luis Gil Public School, Sangüesa (November 2015)



Geocalci Foundation collaborated in developing the education of children and young people of the region by donating computing equipment.

Nature trails and tours in Javier (November 2015)



Aiming to promote tourism, the municipality of Javier put six nature trails and tours in operation. The Geocalci Foundation participated in the distribution and promotion of information of this activity in the area.

E-learning for Cinco Villas (October 2015)



The association of Altas Cinco Villas and the Geocalci Foundation signed a collaboration agreement to provide new technologies to all the residents within the region through a program of e-learning.

Remodelling of the Social Club in Urriés (October 2015)



Geocalci Foundation signed an agreement with the Town Council of Urriés to revive the Social club in the area.

Financial support for Festivities in Undués sponsorship of Lerda (August 2015)



The Geocalci Foundation participated in sponsoring various events organized by Undués de Lerda in order to celebrate the Patron Saint.

Sponsorship for local festivals in Sos del Rey Católico (August 2015 and May 2016)



The Geoalcali Foundation participated through the sponsorship of various events organized by the Town Council of Sos del Rey Católico with the purpose of celebrating their local festivals.

Institute "I.E.S. Sierra de Leyre" in Sangüesa (February 2016)



The Geoalcali Foundation came together with the Institute I.E.S. Sierra de Leyre to provide students with new facilities through the financing of computing equipment and a projector.

Sport in Navarra (February 2016)



The Geoalcali Foundation contributed to promoting sport in rural areas and the Navarra culture by means of sponsoring sport activities, whilst celebrating the diversity and wealth of the Navarra region.

Restoration of the old landfill in Liédena (February 2016)



The Geoalcali Foundation sponsored the Plan to restore the old landfill site by helping with the cleaning, remodelling and planting of trees with the end result of making the area more attractive.

Consortium lands of Javier-Xabierren Lurrak (February 2016)



The Geoalcali Foundation sponsored the production of information brochures on the area of the Consortium. They will be illustrated with different photographs of the landscape, people, scenes of the area to promote tourism in the region.

Association of Retailers of Sangüesa to support the local trade (March 2016)



The Geoalcali Foundation donated 5,000 re-usable bags to the Traders of Sangüesa Association, to support the promotion of local purchases and help small businesses in the area.

History, culture and tourism in Sos del Rey Católico (March 2015 and 2016)



In order to promote cultural heritage, the Geoalcali Foundation sponsored events and conferences, including the Fernandinas Conference in honour of Fernando el Católico, a celebration announced in 2015 as a tourist celebration in Aragón.

Supporting the PETÖ method, Aspace (April 2016)



Petö is a comprehensive and international neuro-rehabilitation and re-education system that combines pedagogical principles with the bases of neuro-rehabilitation. The Geoalcali Foundation collaborated so that these patients can receive the appropriate attention, through an improvement in facilities.

Tourism Promotion in Sos Del Rey Católico (March 2016)



The Geoalcali Foundation collaborated with the City Council of Sos del Rey Católico in promoting tourism in the town and the enhancement of its history through the installation of signage, information and tourist points at places of interest.

History, culture y tourism in Castiliscar (February 2016)

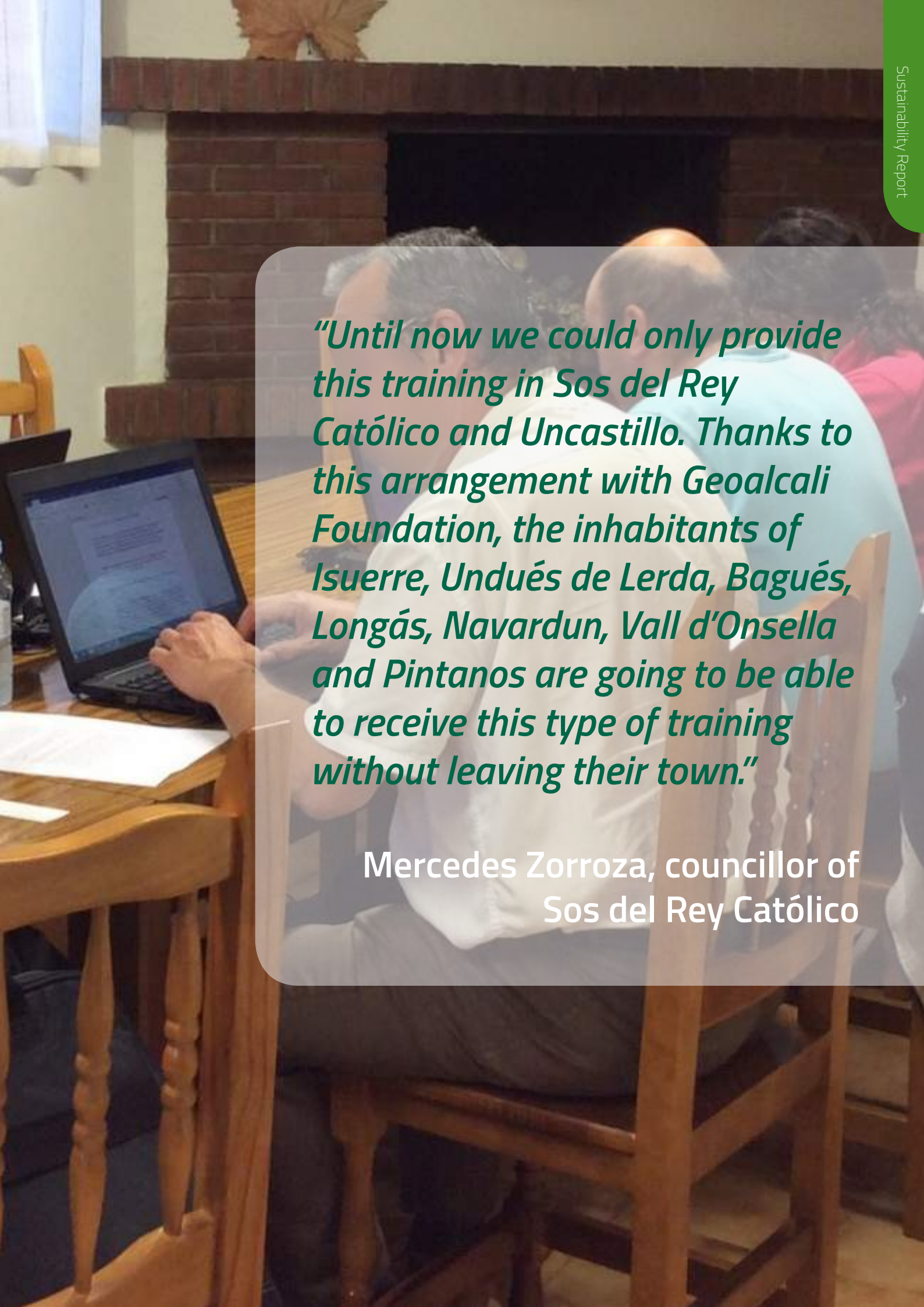


In order to promote their cultural heritage, the Geoalcali Foundation sponsored the recreation of the Hospital (la Casa de la Orden de San Juan de Jerusalén), which together with the Church and the chapel of Christ, forms a tourist package that introduces Castiliscar on the Romanesque route of the Cinco Villas.

Improvements on the Camino de Santiago in Undués de Lerda (February 2016)



Improvements and investment in the pilgrim hostel in Undués of Lerda to provide a suitable hostel which is comfortable and adequately equipped.



“Until now we could only provide this training in Sos del Rey Católico and Uncastillo. Thanks to this arrangement with Geoalcali Foundation, the inhabitants of Isuerre, Undués de Lerda, Bagués, Longás, Navardun, Vall d’Onsella and Pintanos are going to be able to receive this type of training without leaving their town.”

Mercedes Zorroza, councillor of
Sos del Rey Católico

Access to educational areas for children is key to sustainable development. We are committed to invest in these areas and help with the improvement of the work-life balance of the families in the region.





Region of the Cinco Villas - Social Services (March 2016)



The Geocalci Foundation is supporting the Social Services Department of the Region of Cinco Villas by providing more resources to meet certain needs of the population.

Launch of a Babyteca in Sos Del Rey Católico (April 2016)



The Geocalci Foundation has provided support for the opening and launch of a babyteca for pre-school children (0-3 years), helping parents reconcile childcare with work.

Improvement of General services in Liédena (April 2016)



The Geocalci Foundation provided support to the town council of Liédena to help fulfil the plan to improve general services in the town. This included the acquisition of sound equipment to improve events, performances and other organised activities.

Collaboration with The Navarra Newspaper Foundation (Diario de Navarra) in the Solidarity Challenge (Reto Solidario) (April 2016)



Employees from Geocalci joined together with other organisations including the Navarra Newspaper Foundation to raise money for various social associations, by walking and 'collecting km' which were then exchanged into money. The Geocalci Foundation raised the second highest amount.

Improving equipment in Sos del Rey Católico (May 2016)



The Geocalci Foundation and the Town Council of Sos del Rey Católico began a plan to improve equipment in the town. This contribution helped to improve events, performances and other organised activities at the current convention centre of Palacio Español de Niño.

Juan Migueliz Leyre Trail race (May 2016)



The Geocalci Foundation collaborated with the Troteclub Mountain Club to organise a mountain run in honour of Juan Migueliz, a mountaineer from Sangüesa who died in a climbing accident in December 2015, we specifically helped in planning and signage of the paths, the web page, medical assistance, amongst other things.

XXVI Grand Prix in the City of Sangüesa (May 2016)



The Geoalcali Foundation sponsored the XXVI edition of the Cycling Grand Prix, in the city of Sangüesa in the “Junior Category” promoting the practise of sport along the 80km route in the towns of Javier, Sangüesa and Liédena.

Institute of Lumbier (May 2016)



The Geoalcali Foundation facilitated computing students from the Institute of Lumbier with updates to their current apparatus, with the donation of IT equipment.

Handball Club of Sangüesa (May 2016)



The Geoalcali Foundation continues to support sporting events, specifically with the renovation of sporting equipment and materials for the Handball Club Cantolagua de Sangüesa.

Cultural Days through the Middle Ages in Urriés (May 2016)



The Geoalcali Foundation together with the Urriés Town Council, the Recovery of Aragon Castles Association (ARK) and representatives from Aragon of the Spanish Friends of the Castles Association (EACA), organized the start of cultural experience days through the Middle Ages. It is an event for cultural study, learning and entertainment on the importance of this area in our history.

Intelligent fertiliser project in collaboration with CITA (May 2016)



Collaboration agreements with different entities in projects that search for competitiveness and the sustainability of the agricultural industry such as CITA (Centre of Research and Agro Food Industry Technology in Aragon) and the Cinco Villas Centre of Agricultural Technology.

The Geoalcali Foundation together with the technological Centre in Cinco Villas and CITA conducted a study about the behaviour of corn handling in different quantities, forms and types.





ENSAYO:
CONVENCIONAL:
600 KILOS DE 15-15-15
DURAMON 460 Kg/Ha

Industry and academic engagement

Increasing our participation in organised events for universities that highlight knowledge on the mining sector.



ETSÍ MINAS Y ENERGÍA @minasenergiapm · 19 may
#Conferencia @Geokal #Proyecto Muga #Boles Polidicas en @minasenergiapm @La_UPM Organizado por #GERRM #Madrid

The Company was proud to be invited to the New Mining in Spain Forum (La Nueva Minería Española) organized by the specialized Group of Resources and Reserves of the National Association of Mines and the Technical School of Mining Engineers in Madrid.



University visits

We were pleased to receive students from the Geology Institute of the UPM (Universidad Politécnica de Madrid) to show them our drilling activity and explain our potash project.



Sponsored the International Symposium of Mining and Metals (*IX Simposio Internacional sobre Minería y Metalurgia históricas en el SW europeo: Nuestras raíces mineras*) organised by the Geology and Mining Heritage Institute (Sociedad Española para la Defensa del Patrimonio Geológico y Minero).



Active participation in Corporate Responsibility Industry gatherings.

The environment

During this year one of the more important milestones has been the signing of a collaboration agreement between SEO-BirdLife and promoted by the Geocalcali environmental department.

Both entities have united in order to undertake a collaboration project with the outcome of spreading awareness, knowledge and protection of bio diversity. This agreement with this renowned NGO is very important for the conservation of the area and includes the installation of monitored bird nests, the installation of bat nesting boxes, monitoring of bird population through the life of the project and training measures in rural sectors in order to manage the environmental issues related to manure slurry handling, rodent contamination and, small game habitat management.

Other Highlights include:

Collaboration agreements with Agringes, a waste management company, in order to find and promote circular economy and organic residue recycling for the agriculture through collaboration formulas.

"Without this type of agreement, the influence of conscientious businesses reduces dramatically. For us it is fundamental that we can arrive at an agreement with these business and private entities like Geocalcali, so that, with their support and backing, these measures that range in dominance throughout the landscape, have a multiplier effect, which is essential for us to achieve our goals.

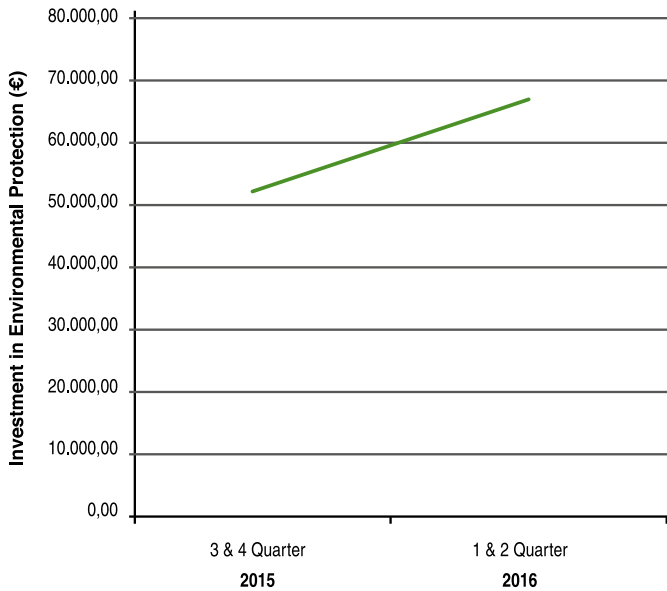
Until today this was a forgotten area. Without us, nobody would have done this work."

Ramón Martí
Representative of SEO/BirdLife Aragon



More investment in the protection of the environment through additional, voluntary assessment studies.

Environmental Protection

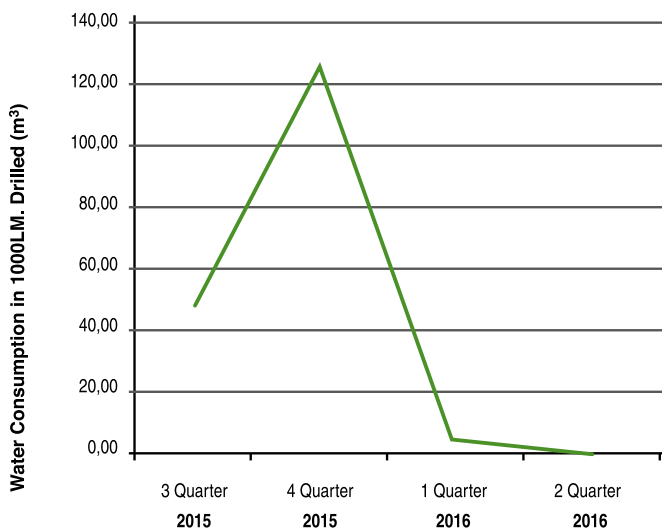


Investment in R&D projects for full reclamation of the area

The Group has invested through a collaboration with the Universidad de Santiago de Compostela to analyse all alternatives and apply special formulas for land. The investigation is focused on two investigation lines: on the treatment of salty lands and on how potash can contribute to the restoration of other industrial or mining restorations plans.

Minimal water consumption during the period of reporting due to reduced drilling activity in Q1 and Q2 of 2016.

Water Consumption



Continuous improvement

In order to ensure these outcomes we recognize we must continue to improve our practices where possible. This involves reviewing our performance and monitoring global practices to ensure we continue to deliver best possible outcomes.

We continue to improve our Integrated Management System which includes:

1. Adaptation to the new 2015 versions of UNE 22480 and UNE 22470 for management and sustainable mining.
2. Renewal of the four certifications that make up our Integrated Management system:
 - **ISO 9001 Quality Management**
 - **ISO 14001 Environmental Management**
 - **UNE 22480 Sustainable Mining Management**
 - **OSHAS 18001 Occupational Health and Safety Management**
3. Integrating ISO 26000 on Stakeholder Engagement







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Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2016

	Note	30 June 2016 \$	30 June 2015 \$
Continuing Operations			
Interest received		2,382,674	859,699
Gain on foreign exchange		1,119,173	534,773
Listing and share registry expenses		(113,509)	(142,366)
Professional and consultants' fees	3	(2,224,512)	(1,351,244)
Employee costs		(395,681)	(568,321)
Other expenses		(730,152)	(1,093,376)
Share based payments expense	20	(9,649,348)	(4,719,040)
Travel and accommodation		(608,583)	(678,294)
Donations	24	(479,256)	(213,523)
Depreciation		(44,066)	(26,489)
Realised loss on derivative financial instrument	11	(1,235,772)	-
Unrealised gain / (loss) on derivative financial instrument	11	1,355,909	(2,038,144)
Loss before income tax		(10,623,123)	(9,436,325)
Income tax expense	4	-	-
Net loss for the year		(10,623,123)	(9,436,325)
Other comprehensive income			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		242,078	181,798
Other comprehensive income for the year net of tax		242,078	181,798
Total comprehensive loss for the year		(10,381,045)	(9,254,527)
Loss per share			
Basic loss per share (cents)	18	(3.42)	(4.38)
Diluted loss per share (cents)	18	(3.42)	(4.38)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

as at 30 June 2016

	Note	30 June 2016 \$	30 June 2015 \$
Current Assets			
Cash and cash equivalents	5	93,931,744	118,776,438
Other receivables	6	585,872	1,042,038
Total Current Assets		94,517,616	119,818,476
Non-Current Assets			
Other receivables	7	592,087	550,879
Property, plant and equipment	8	326,009	309,030
Deferred exploration & evaluation expenditure	9	63,022,168	48,686,230
Total Non-Current Assets		63,940,264	49,546,139
Total Assets		158,457,880	169,364,615
Current Liabilities			
Trade and other payables	10	3,291,726	981,727
Derivative financial instruments	11	682,235	2,038,144
Total Current Liabilities		3,973,961	3,019,871
Total Liabilities		3,973,961	3,019,871
Net Assets		154,483,919	166,344,744
Equity			
Issued capital	12	166,353,807	165,982,935
Reserves	13	17,593,100	19,201,674
Accumulated losses	14	(29,462,988)	(18,839,865)
Total Equity		154,483,919	166,344,744

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2016

	Issued capital \$	Accumulated losses \$	Share based payments reserve \$	Foreign exchange translation reserve \$	Option premium reserve \$	Performance share reserve \$	Total \$
Balance at 1 July 2014	34,797,688	(9,403,540)	2,722,227	(222,391)	-	23,000,000	50,893,984
Total comprehensive loss for the year							
Loss for the year	-	(9,436,325)	-	-	-	-	(9,436,325)
Foreign currency translation	-	-	-	181,798	-	-	181,798
Total comprehensive loss for the year	-	(9,436,325)	-	181,798	-	-	(9,254,527)
Transactions with owners in their capacity as owners							
Shares issued during the year	123,719,000	-	-	-	-	-	123,719,000
Options issued during the year	-	-	-	-	1,000	-	1,000
Conversion of performance shares	11,500,000	-	-	-	-	(11,500,000)	-
Cost of issue	(4,333,753)	-	-	-	-	-	(4,333,753)
Shares issued to corporate advisor	300,000	-	300,000	-	-	-	600,000
Share based payment	-	-	4,719,040	-	-	-	4,719,040
Balance at 30 June 2015	165,982,935	(18,839,865)	7,741,267	(40,593)	1,000	11,500,000	166,344,744
Balance at 1 July 2015	165,982,935	(18,839,865)	7,741,267	(40,593)	1,000	11,500,000	166,344,744
Total comprehensive loss for the year							
Loss for the year	-	(10,623,123)	-	-	-	-	(10,623,123)
Foreign currency translation	-	-	-	242,078	-	-	242,078
Total comprehensive loss for the year	-	(10,623,123)	-	242,078	-	-	(10,381,045)
Transactions with owners in their capacity as owners							
Conversion of options	375,000	-	-	-	-	-	375,000
Reversal of Class B Performance Shares	-	-	-	-	-	(11,500,000)	(11,500,000)
Cost of issue	(4,128)	-	-	-	-	-	(4,128)
Share based payment	-	-	9,649,348	-	-	-	9,649,348
Balance at 30 June 2016	166,353,807	(29,462,988)	17,390,615	201,485	1,000	-	154,483,919

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the year ended 30 June 2016

	Note	30 June 2016 \$	30 June 2015 \$
Cash flows from operating activities			
Payments to suppliers and employees		(4,278,515)	(6,421,186)
Interest received		2,374,841	520,199
Other receipts – VAT received		846,802	1,747,372
Net cash used in operating activities	5	(1,056,872)	(4,153,615)
Cash flows from investing activities			
Purchase of plant and equipment		(51,074)	(259,524)
Payments for exploration expenditure		(23,991,020)	(8,594,556)
Net cash used in investing activities		(24,042,094)	(8,854,080)
Cash flows from financing activities			
Proceeds from issue of shares		-	123,719,000
Proceeds from conversion of options		375,000	-
Proceeds from issue of options		-	1,000
Payments for share issue costs		(4,128)	(4,035,901)
Net cash provided by financing activities		370,872	119,684,099
Net (decrease) / increase in cash and cash equivalents		(24,728,094)	106,676,404
Cash and cash equivalents at the beginning of the year		118,776,438	11,565,261
Effect of exchange rate fluctuations on cash		(116,600)	534,773
Cash and cash equivalents at the end of the year	5	93,931,744	118,776,438

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

1. Corporate Information

The financial report of Highfield Resources Limited (“Highfield Resources”, “Highfield” or “the Company”) for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 27 September 2016. Highfield is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and the principal activities of the Company are described in the Directors’ Report.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements are general-purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements have also been prepared on a historical cost basis. The presentation currency is Australian dollars.

(b) Compliance Statement

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Highfield Resources Limited (‘the Company’) and its subsidiaries as at 30 June each year (‘the Group’).

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Company controls another entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-company transactions have been eliminated in full. Unrealised losses are also eliminated unless costs cannot be recovered.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position respectively.

(d) Foreign Currency Translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Company’s controlled entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The functional and presentation currency of Highfield Resources Limited is Australian dollars. The functional currency of the Spanish subsidiary is the Euro.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

(iii) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to shareholders’ equity.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of profit or loss and other comprehensive income, as part of the gain or loss on sale where applicable.

(e) Segment Reporting

For management purposes, the Group is organised into one main operating segment, which involves development of potash mines in Spain. All of the Group’s activities are interrelated, and discrete financial information is reported

to the Managing Director (Chief Operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

(f) Changes in accounting policies and disclosures

The Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company's operations and effective for future reporting periods. It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Company and therefore, no change will be necessary to Company accounting policies.

(g) Exploration and evaluation expenditure

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
 - (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
 - (b) exploration and evaluation activities in the area of interest have not at the balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been

determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

Where an area of interest is abandoned, any expenditure carried forward in respect of that area is written off.

(h) Income Tax

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when:

- the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except when:

- the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be recognised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be recognised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is recognised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(i) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST/VAT, except where the amount of GST/VAT incurred is not recoverable from the Government. In these circumstances the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST/VAT.

The net amount of GST/VAT recoverable from, or payable to, the Government is included as part of receivables or payables in the statement of financial position. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST/VAT component of investing and financing activities, which is receivable from or payable to the Government, are disclosed as operating cash flows.

(j) Impairment of non-financial assets other than goodwill

The Company assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company of assets and the asset's value in use cannot be estimated

to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(k) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(l) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(m) Derivative financial instruments and hedging

The Company uses derivative financial instruments to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised

at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to net profit or loss for the year.

(n) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

(o) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

(p) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(q) Earnings per share

Basic earnings/loss per share is calculated as net profit/loss attributable to members, adjusted to exclude any costs of servicing equity (other than dividends) and preference

share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/loss attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(r) Share based payment transactions

(i) Equity settled transactions

The Company provides benefits to individuals acting as, and providing services similar to employees (including Directors) of the Company in the form of share based payment transactions, whereby individuals render services in exchange for shares or rights over shares ('equity settled transactions'). There is currently an Employee Share Option Plan (ESOP) in place, which provides benefits to Directors and individuals providing services similar to those provided by an employee.

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in note 20. The expected price volatility is based on the historic volatility of the Company's share price on the ASX.

In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Highfield Resources Limited ('market conditions').

The cost of the equity settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting year has expired and (ii) the number of awards that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of the market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a year represents the movement in cumulative expense recognised at the beginning and end of the year.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of the modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the award is recognised immediately. However if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The cost of equity-settled transactions with non-employees is measured by reference to the fair value of goods and services received unless this cannot be measured reliably, in which case the cost is measured by reference to the fair value of the equity instruments granted. The dilutive effect, if any, of outstanding options is reflected in the computation of loss per share (see note 18).

(ii) Cash settled transactions

The Company may also provide benefits to employees in the form of cash-settled share-based payments, whereby employees render services in exchange for cash, the amounts of which are determined by reference to movements in the price of the shares of the Company.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the year until vesting with recognition of a corresponding liability. The liability is remeasured to fair value at each balance date up to and including the settlement date with changes in fair value recognised in profit or loss.

(s) Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the year in which the estimate is revised if it affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Share-based payment transactions

The Company measures the cost of equity-settled transactions and cash-settled share-based payments with employees and third parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value at the grant date is determined using the

Black and Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted and the assumptions detailed in note 20. The fair value of Performance Shares issued by the Company is based on the directors' assessment of those shares that are likely to convert to ordinary shares. Refer to notes 9, 12(f) and 13.

Fair value measurements

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes. Information about the inputs used in determining the fair value of various assets and liabilities are disclosed in note 11.

(t) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 affected any of the amounts recognised in the current period or any prior period, although it caused minor changes to the Group's disclosures.

(u) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations issued by the AASB which are not yet mandatorily applicable to the Group have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- AASB 9 Financial Instruments and associated Amending Standards (applicable for annual reporting period commencing 1 January 2018)

The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting. Key changes made to this standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. The directors anticipate that the adoption of AASB 9 will not have a material impact on the Group's financial instruments.

- AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods commencing on or after 1 January 2018).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue. The directors anticipate that the adoption of AASB 15 will not have a

material impact on the Group's revenue recognition and disclosures.

- *AASB 16: Leases (applicable to annual reporting periods commencing on or after 1 January 2019).*

AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of a low value are exempt from the lease accounting requirements. Lessor accounting remains similar to current practice. The directors anticipate that the adoption of AASB 16 will not have a material impact on the Group's financial instruments.

- *Other standards not yet applicable*

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2016
\$2015
\$

3. Expenses

Professional and consultants' fees		
Consulting and directors' fees	(1,381,999)	(1,087,380)
Corporate advisory fees	(200,000)	-
Legal fees	(599,148)	(151,558)
Other	(43,365)	(112,306)
	(2,224,512)	(1,351,244)

4. Income Tax

(a) Income tax expense

Major component of tax expense for the year:		
Current tax	-	-
Deferred tax	-	-
	-	-

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of profit or loss and other comprehensive income and tax expense calculated per the statutory income tax rate.

A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Company's applicable tax rate is as follows:

Loss from continuing operations before income tax expense	(10,623,123)	(9,436,325)
Tax at the Australian rate of 30%	(3,186,937)	(2,830,898)
Share based payments	2,894,804	1,415,712
Non-deductible legal expenses	124,730	-
Income tax benefit not brought to account	167,403	1,415,186
Income tax expense	-	-

(c) Deferred tax

The following deferred tax balances have not been brought to account:

Liabilities		
Total exploration and evaluation expenditure	-	-
Offset by deferred tax assets	-	-
Deferred tax liability recognised	-	-
Assets		
Losses available to offset against future taxable income	1,696,336	1,815,260
Share issue costs deductible over five years	15,818	39,775
Accrued expenses	(6,300)	(6,000)
Deferred tax assets offset against deferred tax liabilities	-	-
Net deferred tax asset not recognised	1,705,854	1,849,035

(d) Unused tax losses

Unused tax losses	5,654,455	6,050,868
Potential tax benefit not recognised at 30%	1,696,366	1,815,260

The benefit for tax losses will only be obtained if:

- i. the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and
- ii. the Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- iii. no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

2016
\$2015
\$

5. Cash and Cash Equivalents

Reconciliation of cash

Cash comprises:

Cash at bank	93,931,744	118,776,438
Reconciliation of operating loss after tax to net cash flow from operations		
Loss after tax	(10,623,123)	(9,436,325)
<i>Non-cash and non-operating items</i>		
Share based payments	9,649,348	4,719,040
Unrealised (loss) / gain on derivative financial instrument	(1,355,909)	2,038,144
Gain on foreign exchange	(40,362)	(355,163)
Depreciation	44,066	26,489
Costs of Issue	-	(297,852)
<i>Change in assets and liabilities</i>		
Decrease / (increase) in trade and other receivables	993,717	(112,385)
Increase / (decrease) in trade and other payables	275,391	(735,563)
Net cash flow used in operating activities	(1,056,872)	(4,153,615)

6. Other Receivables – Current

GST receivable	81,013	258,659
VAT receivable	497,026	443,879
Other	7,833	339,500
	585,872	1,042,038

Debtors, other debtors and GST/VAT receivable are non-interest bearing and generally receivable on 30 day terms. They are neither past due nor impaired. The amount is fully collectible. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

7. Other Receivables – Non-Current

Guarantees	592,087	550,879
	592,087	550,879

2016
\$2015
\$

8. Property, Plant and Equipment

Cost	423,931	362,080
Accumulated depreciation and impairment	(97,922)	(53,050)
Net carrying amount	326,009	309,030
Movements in Plant & Equipment:		
Opening balance	309,030	74,333
Additions	51,074	259,524
Net exchange differences on translation	9,971	1,662
Depreciation charge for the year	(44,066)	(26,489)
Closing balance	326,009	309,030

9. Deferred Exploration and Evaluation Expenditure

Exploration and Evaluation phase - at cost		
Opening balance	48,686,230	39,726,633
Acquisition of exploration tenements	-	600,000 ¹
Exploration and evaluation expenditure incurred during the year	25,447,785	8,271,549
Reversal of Class B Performance Shares	(11,500,000) ²	-
Net exchange differences on translation	388,153	88,048
Closing balance	63,022,168	48,686,230

The ultimate recoupment of costs carried forward for exploration expenditure is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

¹ Fair value at grant date of an equity benefit issued to Taylor Collison Limited pursuant to a corporate and financial services agreement relating to the acquisition by the Company of the four Spanish potash projects.

² At 30 June 2015 the deferred exploration and evaluation balance included an amount of AU\$11,500,000 being the value of 50,000,000 Class B performance shares issued to KCL Shareholders for the acquisition of the Company's Spanish potash projects at \$0.23 per share, based on the directors' assessment in the previous year of the likelihood of the performance shares being converted to ordinary shares. As set out in note 13, the directors' current assessment is that the performance shares are unlikely to be converted. As a result, a fair value adjustment in respect of performance shares has been made in the accounts for the year ended 30 June 2016, which reduces the performance share reserve balance by AU\$11,500,000 to nil. A corresponding adjustment has been made to reduce deferred exploration and evaluation expenditure at 30 June 2016.

10. Trade and Other Payables

Trade payables	1,819,522	937,129
Other payables	18,471	17,497
Accruals	1,453,733	27,101
	3,291,726	981,727

Trade creditors and other creditors are non-interest bearing and generally payable on 30 day terms. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

11. Derivative Financial Instruments

Recognition

This note summarises the impact of the derivative financial instruments on the Statement of Financial Position, Statement of Changes in Equity and Statement of Profit or Loss and Other Comprehensive Income. Derivatives are required to be recognised in the Statement of Financial Position at their fair market value, with subsequent changes in fair value being recognised through earnings.

Purpose

Derivatives are used by the Company to hedge against the risks associated with foreign currency fluctuations. The functional currency of the Company's Spanish subsidiary, Geoalcali SL, is the Euro. As part of the Company's Treasury management program a Foreign Exchange Contract ("FEC") was entered into to reduce its financial exposure to the Euro.

Pursuant to the terms of the FEC an AU/EU exchange rate has been set at a minimum rate of 0.66 called the Protection Rate. The Protection Rate protects the Company against unfavourable movements in the exchange rate. It is the least favourable exchange rate that will apply under the FEC transaction. In addition to providing protection, the FEC also allows the Company to gain from a favourable movement in the AUD above the Participation Rate of 0.7075.

As at 30 June 2016 Stages 1 and 2 of the FEC had expired resulting in realised losses of AU\$553,537 and AU\$682,235 respectively for a total of AU\$1,235,772. Stage 3 will mature on 30 September 2016. An unrealised loss of AU\$682,235 has been recorded as at 30 June 2016 in respect of stage 3.

The key terms of each stage are detailed below:

Stage 1

Currency Option	
Call Currency and Call Currency Amount	AUD 22,727,273
Put Currency and Put Currency Amount	EUR 15,000,000
Protection Rate	0.6600
Exchange Rate on expiration	0.6765
Expiration Date	31 March 2016

Stage 2

Currency Option	
Call Currency and Call Currency Amount	AUD 42,402,827
Put Currency and Put Currency Amount	EUR 30,000,000
Participation Rate	0.7075
Protection Rate	0.6600
Exchange Rate on expiration	0.6701
Expiration Date	30 June 2016

Stage 3

Currency Option	
Call Currency and Call Currency Amount	AUD 42,402,827
Put Currency and Put Currency Amount	EUR 30,000,000
Participation Rate	0.7075
Protection Rate	0.6600
Expiration Date	30 September 2016

	2016 \$	2015 \$
Movements in Derivative Financial Instruments:		
Opening balance - unrealised liability	2,038,144	-
Movement in fair value of the derivative financial liability	(1,355,909)	2,038,144
Closing balance - unrealised liability	682,235	2,038,144

12. Issued Capital

(a) Issued and paid up capital

Issued and fully paid	166,353,807	165,982,935
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(b) Movements in ordinary shares on issue

	2016		2015	
	Number of shares	\$	Number of shares	\$
Opening Balance	310,325,003	165,982,935	155,825,003	34,797,688
Shares issued by investment offering ¹	-	-	25,000,000	12,750,000
Shares issued by Placement ²	-	-	19,675,000	9,444,000
Shares issued by Placement ³	-	-	56,125,000	101,025,000
Shares issued to Corporate advisor ⁴	-	-	1,500,000	300,000
Conversion of Class A Performance Shares	-	-	50,000,000	11,500,000
Shares issued upon conversion of unlisted options ⁵	500,000	375,000	2,200,000	500,000
Transaction costs on share issue	-	(4,128)	-	(4,333,753)
	310,825,003	166,353,807	310,325,003	165,982,935

¹ On 22 September 2014, 25,000,000 shares were issued to EMR Capital Pty Ltd for funds of \$12,750,000 at \$0.51 per share.

² On 22 September 2014 the Company issued 19,675,000 Tranche 2 shares to Australian and Overseas investors at \$0.48 per share to raise \$9,444,000.

³ On 15 May 2015, the Company issued 56,125,000 shares to EMR Capital Pty Ltd and Australian and Overseas investors at \$1.80 per share to raise \$101,025,000.

⁴ On 24 February 2015, 1,500,000 shares were issued under the terms of a corporate advisory agreement relating to the acquisition by the Company of the four Spanish potash projects.

⁵ 500,000 shares were issued upon conversion of unlisted options exercisable at \$0.75, expiring on 30 June 2018.

(c) Ordinary shares

The Company does not have authorised capital nor par value in respect of its issued capital. Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or proxy, at a meeting of the Company.

(d) Capital risk management

The Company's capital comprises share capital, reserves less accumulated losses amounting to a net equity of \$154,483,919 at 30 June 2016. The Company manages its capital to ensure its ability to continue as a going concern and to optimise returns to its shareholders. The Company was ungeared at year end and not subject to any externally imposed capital requirements. Refer to note 19 for further information on the Company's financial risk management policies.

(e) Share Options

As at the date of this report there were 56,721,667 unissued ordinary shares under options. The details of the options are as follows:

Number	Exercise Price \$	Expiry Date
4,400,000	\$0.20	01-Nov-16
4,000,000	\$0.20	19-Oct-16
2,400,000	\$0.30	31-Jan-17
7,000,000	\$0.40	31-May-17
500,000	\$0.60	30-Jun-17
500,000	\$0.60	31-Jan-17
3,846,667	\$0.75	30-Jun-18
9,500,000	\$0.75	11-Sep-18
750,000	\$1.00	30-Jun-18
4,000,000	\$1.25	30-Jun-18
15,225,000	\$2.00	30-Jun-19
4,600,000	\$2.50	30-Jun-19
56,721,667		

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

500,000 options with an exercise price of \$0.75, expiring on 30 June 2018 were exercised during the financial year.

(f) Performance Shares

As at 30 June 2016 there were 50,000,000 performance shares on issue. For the full details relating to the Company's Performance Shares on issue refer to note 13.

	2016 \$	2015 \$
Share based payments reserve	17,390,615	7,741,267
Foreign exchange translation reserve	201,485	(40,593)
Option premium reserve	1,000	1,000
Performance share reserve	-	11,500,000
	17,593,100	19,201,674

Movements in Reserves

Share based payments reserve

Opening balance	7,741,267	2,722,227
Shares to be issued to corporate advisor	-	300,000
Share based payments expense	9,649,348	4,719,040
Closing balance	17,390,615	7,741,267

The share based payment reserve is used to record the value of equity benefits provided to Directors and executives as part of their remuneration and non-employees for their goods and services. Refer to note 20 for further details of the securities issued during the financial year ended 30 June 2016.

Foreign exchange translation reserve

Opening balance	(40,593)	(222,391)
Foreign exchange translation difference	242,078	181,798
Closing balance	201,485	(40,593)

The foreign exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve.

Option premium reserve

Opening balance	1,000	-
Issue of unlisted options	-	1,000
Closing balance	1,000	1,000

The option premium reserve is used to record the amount received on the issue of unlisted options.

	2016 \$	2015 \$
Performance share reserve		
Opening balance	11,500,000	23,000,000
Conversion of performance shares – Class A	-	(11,500,000)
Reversal of performance shares – Class B	(11,500,000)	-
Closing balance	-	11,500,000

The performance share reserve is used to record the value of performance shares issued to KCL Shareholders for the acquisition of the Company's Spanish potash projects at \$0.23 per share based on the directors' assessment of the likelihood of the performance shares being converted to ordinary shares. All Class A performance shares were converted in 2015. The remaining balance at 30 June 2015 represented 50,000,000 Class B performance shares. Class B are to be converted to ordinary shares upon the receipt, to the reasonable satisfaction of Highfield of all referral approvals required to construct and operate a 500,000 tonne per annum potash mine on the Project (including all required Government approvals, water and energy contracts necessary to operate the mine) prior to 18 October 2017, being the expiry date of the performance shares.

As a matter of course during the preparation of the Company's annual accounts for the year ended 30 June 2016, the directors have performed an assessment of the likelihood of the performance shares being converted to ordinary shares. Based on legal advice from Australian counsel of two separate, globally recognised, tier 1 law firms, it is the view of the directors that the requirement for receipt of all approvals required to enter operations – a number of which are typically only received upon completion of construction – is unlikely to be satisfied by the expiry date of the performance shares, due to the expected two-year construction timeline at Muga. Accordingly, a fair value adjustment in respect of performance shares has been made in the accounts for the year ended 30 June 2016, which reduces the performance share reserve balance by AU\$11,500,000 to nil, with a corresponding reduction in deferred exploration and evaluation balance (see note 9).

In reaching this assessment, the directors continue to expect that all relevant approvals required to commence construction of the Muga mine, including a positive Environmental Declaration ("DIA") and the Mining Concession, will be issued by the relevant Government departments. In addition, the directors expect all approvals necessary to commence operations will be received in a timely manner during or on completion of construction.

14. Accumulated Losses

Movements in accumulated losses were as follows:		
Opening balance	(18,839,865)	(9,403,540)
Loss for the year	(10,623,123)	(9,436,325)
Closing balance	(29,462,988)	(18,839,865)

15. Auditor's Remuneration

The auditor of Highfield Resources Limited is HLB Mann Judd (WA Partnership)

Amounts received or due and receivable by the parent auditor for:

- an audit or review of the financial report	34,500	32,000
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The auditor of Geoalcali SL is Bové Montero Y Asociados which is within the same international network as HLB Mann Judd

Amounts received or due and receivable by the subsidiary auditor for:

- an audit or review of the financial report	24,795	8,695
	59,295	40,695

16. Directors and Key Management Personnel Disclosures

(a) Remuneration of Directors and Key Management Personnel

Details of the nature and amount of each element of the emolument of each Director and key management personnel of the Company for the financial year are as follows:

Short term employee benefits	3,390,148	1,221,546
Share based payments	7,932,719	1,894,467
Total remuneration	11,322,867	3,116,013

(b) Other transactions with key management personnel

JAWAF Enterprises Pty Ltd company in which Mr. Anthony Hall is a director, charged the Company consulting fees of \$525,000 (2015: \$312,501). The consulting fee is included in Note 16(a) "Compensation of key management personnel". Nil (2014: \$29,167) was outstanding at year end. Mr. Hall was reimbursed \$347,801 (2015: \$171,745) for expenses incurred during the year on behalf of the Company. Mr. Hall also received an allowance of \$49,179 for the period from 1 July 2015 to 30 September 2015 (2015: \$196,133 (period from 1 July 2014 to 30 June 2015)).

DNC Minerals Pty Ltd, a company in which Mr. Derek Carter is a director, charged the Company consulting fees of \$90,000 (2015: \$159,993) and reimbursements of expenses, at cost, paid on behalf of the Company of \$13,284 (2015: \$6,102) were paid during the year. The consulting fee is included in Note 16(a) "Compensation of key management personnel". \$7,545 was outstanding at year end (2015: nil).

Geotrex Gestion Minera SL, a company in which Mr. Pedro Rodriguez is a director, charged the Company consulting fees of \$373,330 (2015: \$287,445) and reimbursements of expenses, at cost, paid on behalf of the Company of \$25,745 (2015: \$32,397) were paid during the year. The consulting fee is included in Note 16(a) "Compensation of key management personnel". Nil (2015: nil) was outstanding at year end.

EMR Capital Pty Ltd a company in which Mr. Richard Crookes and Mr. Owen Hegarty are directors, charged the Company Director's fees of \$120,000 (2015: \$120,000) and reimbursements of expenses, at cost, paid on behalf of the Company of \$28,787 (2015: \$59,803) were paid during the year. The director's fees are included in Note 16(a) "Compensation of key management personnel". \$10,000 (2015: nil) was outstanding at year end.

Exact Consulting Pty Ltd a company in which Ms. Pauline Carr is a director, charged the Company consulting fees of \$40,000 (2015: nil) and reimbursements of expenses, at cost, paid on behalf of the Company of \$47 (2015: nil) were paid during the year. The consulting fee is included in Note 16(a) "Compensation of key management personnel". \$5,000 was outstanding at year end (2015: nil).

DCS Corporate Pty Ltd, a company in which Mr. Donald Stephens is a director, charged the Company consulting fees of \$127,379 (2015: \$98,912). The consulting fee is included in Note 16(a) "Compensation of key management personnel". \$23,353 (2015: nil) was outstanding at year end.

ANFA Minotaur SLU., a company in which Mr. Mike Norris is a director, charged the Company consulting fees of \$226,666 (2015: nil). The consulting fee is included in Note 16(a) "Compensation of key management personnel". Nil (2015: nil) was outstanding at year end.

Schlumpberger Inc. a company in which Mr. Mike Schlumpberger is a director, charged the Company consulting fees of \$311,432 (2015: \$64,450) and reimbursements of expenses, at cost, paid on behalf of the Company of \$86,870 (2015: \$32,086) were paid during the year. The consulting fee is included in Note 16(a) "Compensation of key management personnel". \$31,414 was outstanding at year end (2015: nil).

Bentley Capital Ltd a company in which Mr. Hayden Locke is a director, charged the Company consulting fees of \$249,311 (2015: \$125,028). The consulting fee is included in Note 16(a) "Compensation of key management personnel". Nil (2015: nil) was outstanding at year end. Mr. Locke was reimbursed \$102,808 (2015: \$15,662) for expenses incurred during the year on behalf of the Company.

Bentley Capital Marshall Islands a company in which Mr. Hayden Locke is a director, charged the Company consulting fees of \$22,897 (2015: nil). The consulting fee is included in Note 16(a) "Compensation of key management personnel". Nil (2015: nil) was outstanding at year end.

Transactions with key management personnel were made at arm's length at normal market prices and normal commercial terms. There were no other transactions with key management personnel for the year ended 30 June 2016.

17. Related Party Disclosures

(a) Key management personnel

For Director related party transactions please refer to Note 16 "Directors and Key Management Personnel Disclosures".

(b) Subsidiaries

The consolidated financial statements include the financial statements of Highfield Resources Limited and the subsidiaries listed in the following table:

Name of Entity	Country of Incorporation	Equity Holding	
		2016	2015
KCL Resources Limited	Australia	100%	100%
Geoalcali SL	Spain	100%	100%

	2016 \$	2015 \$
--	------------	------------

18. Loss per Share

Loss used in calculating basic and dilutive EPS	(10,623,123)	(9,436,325)
	Number of Shares	
Weighted average number of ordinary shares used in calculating basic loss per share:	310,594,181	215,347,263
Effect of dilution:		
Share options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share:	310,594,181	215,347,263

There is no impact from 53,275,000 options outstanding at 30 June 2016 (2015: 37,800,000) on the earnings per share calculation because they are anti-dilutive. These options could potentially dilute basic EPS in the future. There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

19. Financial Risk Management

Exposure to foreign currency risk, credit risk, liquidity risk and interest rate risk arises in the normal course of the Company's business. The Company uses different methods as discussed below to manage risks that arise from these financial instruments. The objective is to support the delivery of the financial targets while protecting future financial security.

(a) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash facilities to meet the operating requirements of the business and investing excess funds in highly liquid short term investments. The responsibility for liquidity risk management rests with the Board of Directors.

Alternatives for sourcing our future capital needs include our cash position and the issue of equity instruments. These alternatives are evaluated to determine the optimal mix of capital resources for our capital needs. The Directors expect that present levels of liquidity along with future capital raising will be adequate to meet expected capital needs.

Maturity analysis for financial liabilities

Financial liabilities of the Company comprise trade and other payables and derivative financial instruments.

(b) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Company's exposure to market risk for changes to interest rate risk relates primarily to its earnings on cash and term deposits. The Company manages the risk by investing in short term deposits.

	2016 \$	2015 \$
Cash and cash equivalents	93,931,744	118,776,438

Interest rate sensitivity

The following table demonstrates the sensitivity of the Company's statement of profit or loss and other comprehensive income to a reasonably possible change in interest rates, with all other variables constant.

Change in Basis Points	Effect on Post Tax Loss (\$) Increase/(Decrease)		Effect on Equity including retained earnings (\$) Increase/(Decrease)	
	2016	2015	2016	2015
Increase 75 basis points	704,488	890,823	704,488	890,823
Decrease 75 basis points	(704,488)	(890,823)	(704,488)	(890,823)

A sensitivity of 75 basis points has been used as this is considered reasonable given the current level of both short term and long term Australian Dollar interest rates. The change in basis points is derived from a review of historical movements and management's judgement of future trends.

(c) Credit Risk Exposures

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. The Company's maximum credit exposure is the carrying amounts on the statement of financial position. The Company holds financial instruments with credit worthy third parties. At 30 June 2016, the Company held cash at bank. 99% of the Company's cash was held in financial institutions with a rating from Standard & Poors of AA or above (long term). The Company has no past due or impaired debtors as at 30 June 2016.

(d) Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts (refer note 11). The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance date expressed in Australian dollars are as follows:

	Liabilities		Assets	
	2016	2015	2016	2015
Euro	682,235	2,038,144	71,644,320	22,713,438

Foreign currency sensitivity analysis

The Company is exposed to Euro currency fluctuations. The following table details the Group's sensitivity to a 10% increase and decrease in the Euro against the Australian dollar.

	Euro Movement (in AUD)	
	Increase	Decrease
2016		
Profit or loss	9,890,553	(5,091,257)
Other equity	9,890,553	(5,091,257)
2015		
Profit or loss	12,366,986	(689,901)
Other equity	12,366,986	(689,901)

(e) Fair Value

The Company's derivative financial instrument has been measured at fair value at 30 June 2016 (refer to note 11).

20. Share Based Payments

(a) Recognised share based payment transactions

Share based payment transactions recognised either as operational expenses in the statement of profit or loss and other comprehensive income or as capital raising costs in the equity during the year were as follows:

	2016 \$	2015 \$
Employee and Director share based payments	9,276,265	4,420,931
Share based payments to suppliers (Note 20(c))	373,083	298,109
	9,649,348	4,719,040
Shares issued to a corporate advisor ¹	-	300,000
	9,649,348	5,019,040

¹ On 24 February 2015, 1,500,000 shares were issued under the terms of a corporate advisory agreement relating to the acquisition by the Company of the four Spanish potash projects.

(b) Employee share based payments

The Company has established an employee share option plan (ESOP). The objective of the ESOP was to assist in the recruitment, reward, retention and motivation of employees and contractors of Highfield Resources Limited. An individual may receive the options or nominate a relative or associate to receive the options. The plan is open to executive officers, employees and eligible contractors of Highfield Resources Limited.

The fair value at grant date of options granted during the reporting half-year was determined using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, the expected price volatility of the underlying share and the risk free interest rate for the term of the option. The table below summarises options granted during the year ended 30 June 2016:

Grant Date	Expiry date	Exercise price per option	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
11/08/2015	30/06/2019	\$2.00	-	2,500,000	-	-	2,500,000	2,500,000
30/10/2015	30/06/2019	\$2.00	-	11,500,000	-	-	11,500,000	11,500,000
17/11/2015	30/06/2019	\$2.00	-	725,000	-	-	725,000	425,000 ¹
22/02/2016	30/06/2019	\$2.50	-	750,000	-	-	750,000	- ²
				15,475,000	-	-	15,475,000	14,425,000

¹ Employees were granted 725,000 options exercisable at \$2.00 each on or before 30 June 2019. The options will vest on the earlier of:

- (a) achievement of 12 months employment with Geocalcali SL; and
- (b) the occurrence of a change of control event.

² Employees and consultants were granted 750,000 options exercisable at \$2.50 each on or before 30 June 2019. The options will vest on the earlier of:

- (a) 22 February 2017; and
- (b) the occurrence of a change of control event.

The expense recognised in respect of the above options granted during year was \$8,440,387. The expense recognised during the year on options granted in prior periods was \$835,878.

The model inputs, not included in the table above, for options granted during the year ended 30 June 2016 included:

- a) options were granted for no consideration;
- b) expected lives of the options range from 3.4 to 3.9 years;
- c) share price at grant date ranged from \$1.26 to \$1.83;
- d) expected volatility ranging from 51% to 60%;
- e) expected dividend yield of Nil; and
- f) a risk free interest rate of 2.00%

The table below summarises options granted during the year ended 30 June 2015:

Grant Date	Expiry date	Exercise price per option	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
15/07/2014	30/06/2018	\$0.75	-	2,300,000	-	-	2,300,000	300,000 ¹
12/09/2014	11/09/2018	\$0.75	-	13,000,000	-	(3,500,000)	9,500,000	8,000,000 ²
30/10/2014	30/06/2018	\$0.75	-	750,000	-	(500,000)	250,000	- ³
13/02/2015	30/06/2018	\$1.00	-	450,000	-	-	450,000	- ⁴
11/03/2015	30/06/2018	\$1.25	-	3,000,000	-	-	3,000,000	- ⁵
				19,500,000		(4,000,000)	15,500,000	8,300,000

¹ Employees were granted 2,300,000 options exercisable at \$0.75 each on or before 30 June 2018 in three tranches:

- 200,000 options are exercisable immediately;
- 1,200,000 vest and are exercisable on 1 July 2015; and
- 900,000 options vest and are exercisable on approval of mining concession licence (concesion de explotacion) by the provinces of Aragón and Navarra (if required) for the proposed Javier potash mine (renamed Muga Potash Project).

² Directors and employees were granted 13,000,000 options exercisable at \$0.75 each on or before 11 September 2018 in three tranches:

- 8,000,000 options are exercisable immediately;
- 1,500,000 options vest and are exercisable on approval of mining concession licence (concesion de explotacion) by the provinces of Aragón and Navarra (if required) for the proposed Javier potash mine (renamed Muga Potash Project); and
- 3,500,000 options vest and are exercisable on approval of mining concession licence (concesion de explotacion) by the provinces of Aragón and Navarra (if required) for the proposed Javier potash mine (renamed Muga Potash Project) on or before 30 June 2015. This vesting condition was not met and as a result the options lapsed.

³ Employees were granted 750,000 options exercisable at \$0.75 each on or before 30 June 2018 in four tranches:

- 100,000 options vest and are exercisable on 1 September 2015 provided that the optionholder remains in their capacity as an employee of the Company on this date. This vesting condition was not met and as a result the options lapsed;
- 250,000 options vest and are exercisable on 30 September 2015;
- 150,000 options vest and are exercisable on approval of mining concession licence (concesion de explotacion) by the provinces of Aragón and Navarra (if required) for the proposed Javier potash mine (renamed Muga Potash Project) on or before 30 June 2015 provided that the optionholder remains in their capacity as an employee of the Company on this date. This vesting condition was not met and as a result the options lapsed; and
- 250,000 options vest and are exercisable completion of the first phase of construction works (issue of Final Certificate) provided that the optionholder remains in their capacity as an employee of the Company on this date. This vesting condition was not met and as a result the options lapsed.

⁴ Employees were granted 450,000 options exercisable at \$1.00 each on or before 30 June 2018. The options vest and are exercisable on 31 December 2015.

⁵ Employees were granted 3,000,000 options exercisable at \$1.25 each on or before 30 June 2018 in two tranches:

- 1,500,000 options vest and are exercisable on 11 March 2016; and
- 1,500,000 options vest and are exercisable on completion of the first phase of construction works (issue of Final Certificate).

The expense recognised in respect of the above options granted during the year ended 30 June 2015 was \$3,879,654.

The model inputs, not included in the table above, for options granted during the year ended 30 June 2015 included:

- a) options were granted for no consideration;
- b) expected life of options ranging from 3.3 to 4 years;
- c) share price at grant date ranging from \$0.62 to \$1.02
- d) expected volatility ranging from 55% to 65%;
- e) expected dividend yield of nil; and
- f) a risk free interest rate ranging from 2.50 to 3.00%.

(c) Share-based payment to suppliers

During the financial year ended 30 June 2016 the Company issued unlisted options to a consultant for services rendered during the financial period and over the coming 12 months. These options have been valued using the Black-Scholes option pricing model.

Grant Date	Expiry date	Exercise price per option	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
11/08/2015	30/06/2019	\$2.00	-	500,000	-	-	500,000	500,000
				500,000			500,000	500,000

The expense recognised in respect of the above options granted during the year was \$214,944. The expense recognised during the year on options granted in prior periods was \$158,139.

The model inputs, not included in the table above, for options granted during the year ended 30 June 2016 included:

- a) options were granted for no consideration;
- b) expected life of options is 3.9 years;
- c) share price at grant date of \$1.26
- d) expected volatility of 60%;
- e) expected dividend yield of Nil; and
- f) a risk free interest rate of 2.00%.

During the financial year ended 30 June 2015 the Company issued 3,500,000 options to consultants for corporate, financial and other services rendered during the financial year and over the coming 12 months. These options have been valued using the Black-Scholes option pricing model.

Grant Date	Expiry date	Exercise price per option	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
12/09/2014	30/06/2018	\$0.75	-	200,000	-	-	200,000	100,000 ¹
30/10/2014	30/06/2018	\$0.75	-	2,000,000	-	-	2,000,000	- ²
13/02/2015	30/06/2018	\$1.00	-	300,000	-	-	300,000	- ²
11/03/2015	30/06/2018	\$1.25	-	1,000,000	-	-	1,000,000	- ³
				3,500,000			3,500,000	100,000

¹ 100,000 options granted vest and are exercisable on 1 July 2015.

² Options granted vest and are exercisable on 30 September 2015.

³ 500,000 options granted vest and are exercisable on 11 March 2016 and 500,000 options granted vest and are exercisable on 11 March 2017.

The model inputs, not included in the table above, for options granted during the year ended 30 June 2015 included:

- options were granted for consideration ranging from nil to \$0.001 per option;
- expected life of options ranging from 3.3 to 4 years;
- share price at grant date ranging from \$0.62 to \$1.02
- expected volatility ranging from 55% to 65%;
- expected dividend yield of nil; and
- a risk free interest rate ranging from 2.50 to 3.00%.

21. Subsequent Events

Mr. Pedro Rodriguez resigned as a Director of the Company on 1 August 2016.

On 15 August 2016, the Company issued 3,850,000 unlisted options to staff and consultants pursuant to the Company's Employee Share Option Scheme. The options are exercisable at \$2.50 each on or before 30 June 2019.

153,333 unlisted options with an exercise price of \$0.75 and expiring on 30 June 2018, were exercised on 17 August 2016. The Company received funds totalling \$115,000 upon conversion.

Mr. Peter Albert was appointed as Managing Director effective 1 September 2016 following the resignation of Mr. Anthony Hall on 31 August 2016.

250,000 unlisted options with an exercise price of \$0.75 and expiring on 30 June 2018, were exercised on 7 September 2016. The Company received funds totalling \$187,500 upon conversion.

22. Contingent Assets and Liabilities

There are no known contingent assets or liabilities as at 30 June 2016 (2015: Nil).

23. Dividends

No dividend was paid or declared by the Company in the year ended 30 June 2016 or the period since the end of the financial year and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend for the financial year ended 30 June 2016.

24. Geoalcali Foundation - Corporate Responsibility Program

As part of its Community Engagement Program, the Company established a not-for-profit Spanish foundation called the Geoalcali Foundation ("Foundation"). The Foundation is supported exclusively by the Company and since its inauguration in September 2014 has been involved in over 70 community projects.

25. Commitments

The Directors are not aware of any commitments as at 30 June 2016. There has been no change in commitments since the last annual reporting date.

26. Parent Entity Information

The following details information related to the parent entity, Highfield Resources Limited, at 30 June 2016. The information presented here has been prepared using consistent accounting policies with those presented in note 2.

	2016 \$	2015 \$
Current assets	93,241,014	117,611,676
Total assets	155,669,964	167,861,953
Current liabilities	(1,278,942)	(2,301,305)
Total liabilities	(1,278,942)	(2,301,305)
Net assets	154,391,022	165,560,648
Issued capital	166,353,807	165,982,935
Reserves	17,391,615	19,242,267
Accumulated losses	(29,354,400)	(19,664,554)
	154,391,022	165,560,648
Loss of the parent entity	(9,689,846)	(10,020,547)
Other comprehensive income for the year	-	-
Total comprehensive loss of the parent entity	(9,689,846)	(10,020,547)

Directors' Declaration

In accordance with a resolution of the Directors of Highfield Resources Limited, I state that:

1. In the opinion of the Directors:
 - a) the financial statements and notes of Highfield Resources Limited for the year ended 30 June 2016 are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the consolidated financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii. complying with Accounting Standards (including the Australian Accounting Interpretations), the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b).
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. This declaration has been made after receiving the declarations required to be made by the Directors in accordance with sections of 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

On behalf of the Board



Peter Albert
Managing Director

Adelaide, South Australia

30 September 2016

Auditor's Independence Declaration



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Highfield Resources Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'L Di Giallonardo'.

Perth, Western Australia
30 September 2016

L Di Giallonardo
Partner

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Independent Auditor's Report



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Highfield Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Highfield Resources Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's and its controlled entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of HLB International, a worldwide organisation of accounting firms and business advisers.



Auditor's opinion

In our opinion:

- (a) the financial report of Highfield Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b).

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Highfield Resources Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants


L Di Giallonardo

L Di Giallonardo
Partner

Perth, Western Australia
30 September 2016







ASX Additional Information

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current at 1 September 2016.

Distribution of Share Holders

			Ordinary Shares	
			Number of Holders	Number of Shares
1	-	1,000	189	108,737
1,001	-	5,000	460	1,415,740
5,001	-	10,000	414	3,417,836
10,001	-	100,000	815	26,784,483
100,001	-	and over	186	279,251,540
TOTAL			2,064	310,978,336

There were 54 holders of ordinary shares holding less than a marketable parcel.

Top Twenty Share Holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Number of shares	%
J P MORGAN NOMINEES AUSTRALIA LIMITED	133,926,943	43.07
MR WARREN WILLIAM BROWN + MRS MARILYN HELENA BROWN	17,271,550	5.55
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,962,014	5.13
DEREK CARTER + CARLSA CARTER <THE SALAMANCA SUPER FUND>	8,321,504	2.68
WWB INVESTMENTS PTY LTD	5,950,000	1.91
BRING ON RETIREMENT LTD	5,350,000	1.72
CITICORP NOMINEES PTY LIMITED	5,087,196	1.64
NATIONAL NOMINEES LIMITED	4,125,359	1.33
CELTIC CAPITAL PTE LTD <INVESTMENT 1 A/C>	3,600,000	1.16
MR CRAIG PETER BALL + MRS SUZANNE KATHERINE BALL <CPB SUPER FUND A/C>	3,292,384	1.06
BNP PARIBAS NOMINEES PTY LTD	2,850,774	0.92
MR DANIEL EDDINGTON + MRS JULIE EDDINGTON <DJ HOLDINGS A/C>	2,825,000	0.91
MR MICHAEL ANDREW WHITING + MRS TRACEY ANNE WHITING <WHITING FAMILY S/F A/C>	2,715,718	0.87
JONERIC PTY LTD <D STEPHENS FAMILY A/C NO 2>	2,701,076	0.87
HGT INVESTMENTS PTY LTD	2,500,000	0.8
WOOTOONA INVESTMENTS PTY LIMITED	2,150,538	0.69
DORICA NOMINEES PTY LTD <SUPER FUND A/C>	2,050,000	0.66
SAPPHIRE CHIP PTY LTD	1,750,000	0.56
GREENSLADE HOLDINGS PTY LTD	1,650,076	0.53
DR SIMON PAUL HOLFORD	1,597,076	0.51
	225,677,208	72.57

Substantial Shareholders

Name	Number of shares	%
J P MORGAN NOMINEES AUSTRALIA LIMITED	133,926,943	43.07
MR WARREN WILLIAM BROWN + MRS MARILYN HELENA BROWN	17,271,550	5.55
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,962,014	5.13
	167,160,507	53.75

CLASS B PERFORMANCE SHARES

Distribution of Class B Performance Share Holders

			Number of Holders	Class B Performance Shares	Number of Shares
1	-	1,000	-	-	-
1,001	-	5,000	-	-	-
5,001	-	10,000	-	-	-
10,001	-	100,000	-	-	-
100,001	-	and over	19	-	50,000,000
TOTAL			19		50,000,000

Class B Performance Share Holders

The names of the holders of Class B Performance Shares are listed below:

Name	Number of shares	%
DEREK & CARLSA CARTER ATF THE SALAMANCA SUPER FUND	5,510,752	11.02
RAUL HIDALGO FERNANDEZ	5,510,752	11.02
JOSE MANUEL PRADA FERNANDEZ	5,510,752	11.02
PEDRO ANTONIO FERNANDEZ	5,510,752	11.02
RICHARD HILLIS ATF THE BM HILLIS FAMILY TRUST	2,150,538	4.30
DONALD STEPHENS ATF DONALD STEPHENS FAMILY TRUST NO 2	2,150,538	4.30
DORICA NOMINEES P/L <SUPER FUND>	2,150,538	4.30
GREENSLADE HOLDINGS P/L	2,150,538	4.30
WOOTOONA INVESTMENTS P/L	2,150,538	4.30
SAPPHIRE CHIP P/L	2,150,538	4.30
TERRY KALLIS ATF KALLIS FAMILY TRUST	2,150,538	4.30
SIMON HOLFORD	2,150,538	4.30
GRAHAM ASCOUGH ATF ASCOUGH FAMILY TRUST	2,150,537	4.30
JIMBAL P/L ATF THE TAYLOR FAMILY TRUST	2,150,537	4.30
CRAIG & SUZANNE BALL ATF CPB SUPER	1,433,692	2.87
MICHAEL & TRACEY WHITING ATF WHITING FAMILY SUPER FUND	1,433,692	2.87
CALAMA HOLDINGS P/L ATF MAMBAT SUPER FUND A/C	1,433,692	2.87
LUCILLE O'LOUGHLIN <LUCILLE O'LOUGHLIN INVESTMENT TRUST>	1,075,269	2.15
YOIX PTY LTD <S T O'LOUGHLIN FAMILY TRUST>	1,075,269	2.15
	50,000,000	100%

Unlisted Options

Class	Number	Holders with more than 20%
Options over ordinary shares exercisable at \$0.20 on or before 1 November 2016	4,400,000	- Taycol Nominees Pty Ltd 2,000,000 options - Anthony Hall 2,400,000 options
Options over ordinary shares exercisable at \$0.20 on or before 19 October 2016	4,000,000	- Taylor Collison 4,000,000 options
Options over ordinary shares exercisable at \$0.40 on or before 31 May 2017	7,000,000	- Anthony David Hall 2,500,000 options - Pedro Rodriguez 1,500,000 options - Derek Carter and Carlsa Carter <The Salamanca Super Fund A/C> 1,500,000 options
Options over ordinary shares exercisable at \$0.30 on or before 31 January 2017	2,400,000	- John Claverley 1,500,000 options - Gonzalo Mayoral Fernandez 500,000 options
Options over ordinary shares exercisable at \$0.60 on or before 30 June 2017	500,000	N/A
Options over ordinary shares exercisable at \$0.60 on or before 31 January 2017	500,000	- Helena Mazo 300,000 options - Fernando Palero 200,000 options
Options over ordinary shares exercisable at \$0.75 on or before 30 June 2018	4,096,667	- Bentley Capital Limited 1,000,000 options
Options over ordinary shares exercisable at \$0.75 on or before 11 September 2018	9,500,000	- John Claverley 2,500,000 options - Ernest Hall 2,000,000 options
Options over ordinary shares exercisable at \$1.00 on or before 30 June 2018	750,000	- Kien Huynh 300,000 options
Options over ordinary shares exercisable at \$1.25 on or before 30 June 2018	4,000,000	- Bentley Capital Limited 1,000,000 options - Michael Schlumpberger 1,500,000 options - Alfredo L. Menéndez Diaz 800,000 options
Options over ordinary shares exercisable at \$2.00 on or before 30 June 2019	15,225,000	N/A
Options over ordinary shares exercisable at \$2.50 on or before 30 June 2019	4,600,000	- Bentley Capital Limited 1,000,000 options

On-Market Buy Back

There is no current on-market buy back.

Voting Rights

All ordinary shares carry one vote per share without restriction. Options have no voting rights.

Use of Proceeds

In accordance with listing rule 4.10.19, the Company confirms that it has used cash and assets in a form readily convertible to cash in a way consistent with its business objectives during the financial year ended 30 June 2016.



Schedule of Tenements



Schedule of Tenements

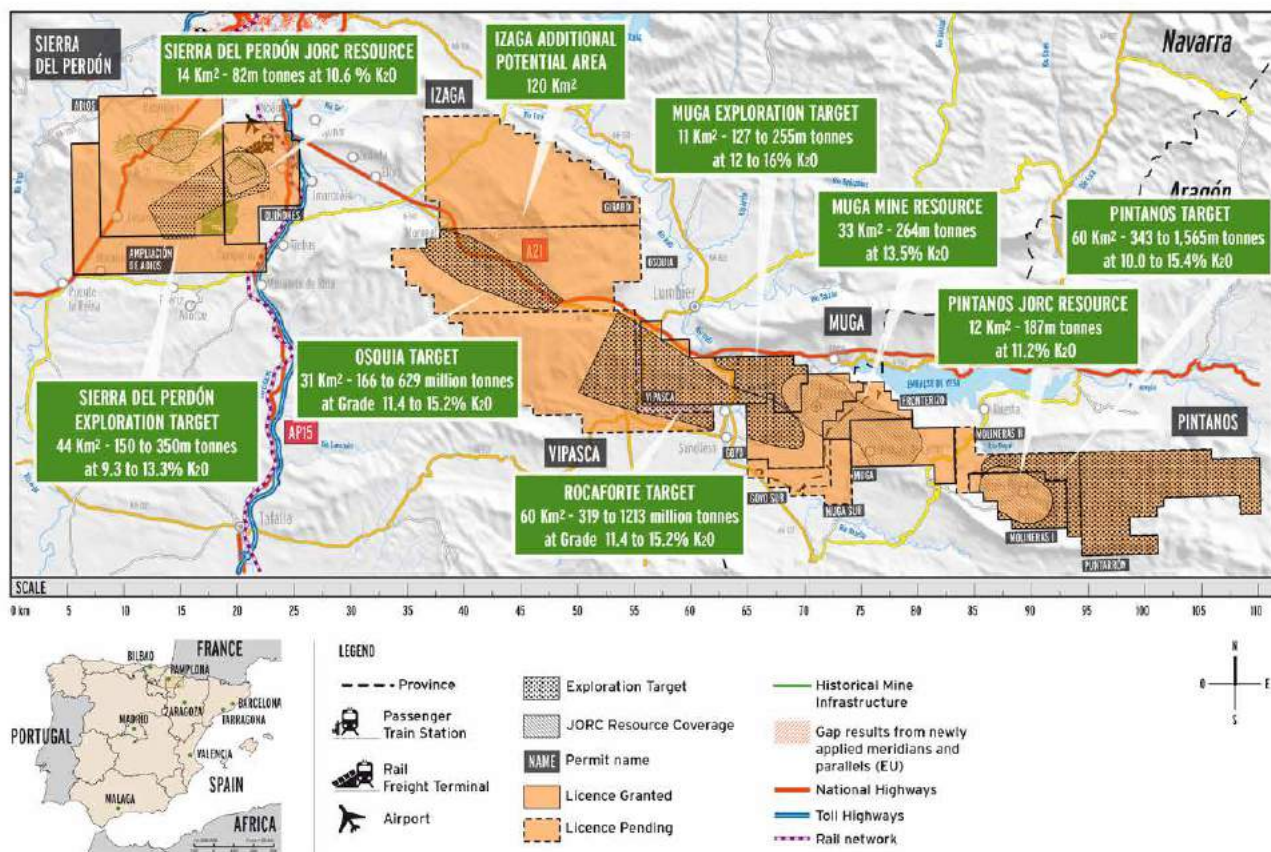
SPAIN - Muga, Vipasca, Pintos, Izaga and Sierra del Perdón Projects

Highfield's Spanish potash projects are located in the Ebro potash producing basin in Northern Spain.

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	
Sierra del Perdón	Navarra	Adiós	Investigation	19/07/2011	7/08/2012	35770	75.60	Geoalcali SL	100%
Sierra del Perdón	Navarra	Ampliación de Adiós	Investigation	26/10/2012	14/02/2014	35880	40.90	Geoalcali SL	100%
							148.98		100%
Muga	Navarra	Goyo	Investigation	19/07/2011	24/12/2012	35780	27.72	Geoalcali SL	
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		100%
Vipasca (Muga)*	Navarra	Vipasca	Investigation	6/11/2013	11/12/2014	35900	38.92	Geoalcali SL	
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		100%
Pintano	Aragón	Molineras 10	Investigation	20/11/2012	6/03/2014	3495/10	18.20	Geoalcali SL	
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		100%
Izaga	Navarra	Girardi	Investigation	28/04/2015	Pending	35950	79.17	Geoalcali SL	
							79.17		100%
						Total	568.00		

* Permit includes areas in two Projects

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



Important Information and Disclaimers



Important Information and Disclaimers

Forward Looking Statements

This Report includes certain 'forward looking statements'. All statements, other than statements of historical fact, are forward looking statements that involve various risks and uncertainties. There can be no assurances that such statements will prove accurate, and actual results and future events could differ materially from those anticipated in such statements. Such information contained herein represents management's best judgment as of the date hereof based on information currently available. The company does not assume any obligation to update any forward looking statement.

Competent Persons Statement

The Review of Operations contained within this annual report was prepared by Mr. Anthony Hall, former Managing Director of Highfield Resources. The information in this document that relates to Ore Reserves, Mineral Resources, Exploration Results and Exploration Targets is based on information prepared by Mr. José Antonio Zuazo Osinaga, Technical Director of CRN, S.A.; Mr. Jesús Fernández Carrasco, Managing Director of CRN, S.A. and Mr Manuel Jesus Gonzalez Roldan, Geologist of CRN, S.A. Mr. José Antonio Zuazo and Mr. Jesús Fernández are licensed professional geologists in Spain, and are registered members of the European Federation of Geologists, an accredited organisation to which the Competent Person (CP) under JORC Code Reporting Standards must belong in order to report Exploration Results, Mineral Resources, Ore Reserves or Exploration Targets through the ASX. Mr. José Antonio Zuazo-Osinaga has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a CP as defined in the 2012 Edition of the JORC Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves