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Half Year Financial Report
30 June 2023

highfieldresources.com.au
ABN 51 153 918 257

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CORPORATE DIRECTORY

Current Directors
Mr Paul Harris (Independent Non-Executive Chairman)
Mr Ignacio Salazar (CEO and Managing Director)
Ms Pauline Carr (Independent Non-Executive Director)
Mr Roger Davey (Independent Non-Executive Director)

Company Secretary
Ms. Katelyn Adams

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(Home Exchange: Perth, Western Australia)
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The Directors present their report for Highfield Resources Limited ("Highfield", or "the Company") and its subsidiaries Geoalcali S.L.U. ("Geoalcali") and KCL Resources Limited (together "the Group") for the financial half year ended 30 June 2023. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The names of Directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr Paul Harris	Independent Non-Executive Chairman
Mr Ignacio Salazar	CEO and Managing Director
Ms Pauline Carr	Independent Non-Executive Director
Mr Roger Davey	Independent Non-Executive Director

In addition, Mr Brian Jamieson was a Non-Executive Director of the Company and held office during the half year and until his passing in early August 2023.

Results

The net loss for the half year ended 30 June 2023 was $3.1m (30 June 2022: net loss of $3.3m).

REVIEW OF OPERATIONS

Highfield is a potash company listed on the Australian Securities Exchange (ASX) with three 100% owned potash projects located in Spain's potash producing Ebro Basin. The principal activity of the Group during the half year period was to advance its flagship Muga-Vipasca Potash Project.

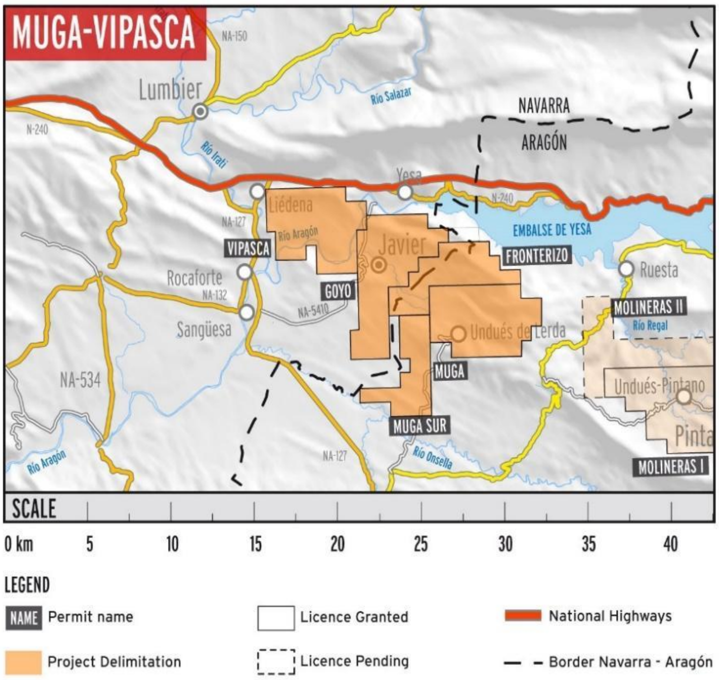
MUGA-VIPASCA PROJECT

Overview

The Muga Project ("Muga" or "the Project") is targeting the relatively shallow sylvinite beds in the Muga Project area that covers about 46km^2 located in the Regions of Navarra and Aragón. The Muga Mine is planned to commence at a depth of approximately 350 metres from surface and is, therefore, ideal for a relatively low-cost conventional mine accessed via a dual decline.

Vipasca area is located adjacent to the Muga Project and covers approximately 14km^2. Given its geological characteristics it has always been considered as a natural continuation of the Muga deposit. However, the geological data obtained in recent years has demonstrated that only the Eastern part of this area is currently economically viable and, therefore, the efforts of the Company have been focused on this sector, the closest to Muga. The eastern part of the Vipasca permit, previously categorised as an Exploration Target, is currently defined as Mineral Resource and is considered an extension to the Muga Mining Concession.

During the first quarter of 2022, the Company requested the Government of Navarra to transfer the Vipasca investigation permit into a mining concession. This is the first step in the process to incorporate the Vipasca area into the operations of the Company and will be run in parallel with the construction of the Muga mine.



Permitting Update

Following the grant of the Construction License from the townhall of Undués de Lerda that allowed the commencement of the mine gate works in Aragon, and the grant of the construction license for the electricity line by the townhall of Sangüesa in the second quarter of 2022 the only outstanding permit at the start of the half year was the construction license for the process plant. This license was granted by the townhall of Sangüesa on 29 March 2023 (refer ASX release 29 March 2023, "Construction Licence Granted for Muga Mine Process Plant"). With this license the Company now has all the required permits to begin full-scale construction of Muga comprising the civil works, the process plant and the ramps.

To expediate the Sangüesa license award, the Company requested an amendment to the licence to exclude a small parcel of public land which required a more extended licencing process. This does not impact the construction of the Muga process plant and only slightly affects the southern ponds. The Company expects that this parcel of land will be included in the licence as construction starts.

While the Project was being fully de-risked from the permitting standpoint the Company continued working on the expropriation process to ensure access to the remaining land required for the construction of Muga. On 27 June 2023 (refer ASX release "Highfield Resources secures all land for the Muga Project") the Company announced that it had successfully secured access to all land necessary to build the Project.

The expropriation process was initiated by the Company in September 2021 to secure access to the remaining areas of the Project's footprint where no private land agreements had already been signed. This extensive process reached a key milestone in December 2022 when the Government of Navarra approved and declared that Highfield was a project of public interest which provided for Highfield's access to these areas. After this the Company met with all the remaining landowners to agree a fair price. The process ran smoothly, and agreements were reached with most of the landowners. As a result, and to secure the access to the land a €1.1m deposit was made as an advance towards the final purchase price. Having made the deposit the Government notified the Company that it had fulfilled all the requirements necessary to use the lands. Shortly after this the Company commenced accessing the lands in July 2023.

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Technical Update
The detailed design for the Project was released to Geoalcali in December 2020, and the Company prepared a Hazard and Operability Analisis ("HAZOP") during the first quarter of 2021 to assess the operational risk of the final designs. Following these developments, the Company commenced bringing the long lead time equipment purchases into completion. In early 2022, Geoalcali announced that all remaining key process plant equipment purchase contracts had been signed with its suppliers, after which the Company focused on further optimization of the detailed engineering of the processing plant. Since then, some minor updates have been incorporated and the processing plant design is the same as presented in the December 2021 Muga Feasibility Study Update.

After receiving the final key license for the Project, the Company strengthened its team as part of its construction preparedness. As announced in May 2023, the Company appointed Mr Carles Aleman, former senior executive at ICL Iberia, as Head of Plant Construction & HSE for Muga (refer ASX release 10 May 2023, "Appointment of Head of Plant Construction & HSE for Muga Project").

Construction Update
Preliminary construction works at the mine gate commenced at the end of the second quarter of 2022 and were finalised by December of the same year. During the first half of 2023 maintenance and minor works such as earthmoving and fencing have taken place and the Company is currently focussing on completing the financing in order to commence full construction works.

In the meantime, the Company has undertaken a second round of tenders with suppliers to reconfirm the costs in the cost model, as well as assess the possibility of benefitting from any cost improvement. Negotiations between Highfield and Acciona continues to progress for the remainder of the construction agreement, while the two partners are running a parallel tendering process on an open book basis for the whole construction works.

Sales and Marketing Update
The sanctions imposed by the United States and the European Union on Russia and Belarus in 2022 following the invasion of Ukraine worsened the supply constraints the potash market had been suffering since 2021. However, in the first half of 2023 the market has slowly stabilised although the flow of potash products is considerably different than before the imposition of sanctions.

The ongoing geopolitical environment has encouraged interest and discussions with traders, offtake partners and logistics partners attracted in taking a potential strategic participation in the Project.

In line with these developments, the Company has been developing its transport and logistics strategy, which is key to the development and implementation of its sales and marketing plan.

Financing Update
After the signature of the principal facility with four European major banks acting as Mandated Lead Arrangers ("MLA"), (BNP Paribas S.A., ING Bank N.V., Natixis CIB and Societe Generale, London Branch) for €320.6 million Senior Secured Project Financing for Muga, the Company announced (refer ASX release 17 April 2023, "Additional Lenders join Senior Project Financing Group") that HSBC Continental Europe and Caja Rural de Navarra had joined the Senior Facilities as Lenders. This milestone is perceived as a significant endorsement to the Muga financing stack.

Shortly after this the Company announced in May 2023, (refer ASX 12 May 2023, "Credit approval for up to €25 million Equipment Operating Lease Financing") that it had received credit approval from Macquarie for an equipment operating lease facility with a total value of €27 million, with a peak exposure not expected to exceed €25 million. This key milestone was the crystallization of the non-binding indicative term sheet signed with Macquarie a year before.

In May 2023 the Company secured a key strategic investment of approximately A$25 million from EMR Capital and Tectonic and related parties under a convertible note deed, dated 22 May 2023, between the Company and the Lenders (refer ASX 23 May 2023, "Key Strategic Investment of A$25m Secured"). With this investment, EMR Capital and Tectonic demonstrated their continued commitment to Highfield, particularly in light of the receipt of the final construction licence for the Project. This capital injection will assist the Company in advancing the Project and will allow it to progress discussions with strategic and financial investors to fully finance the Project.

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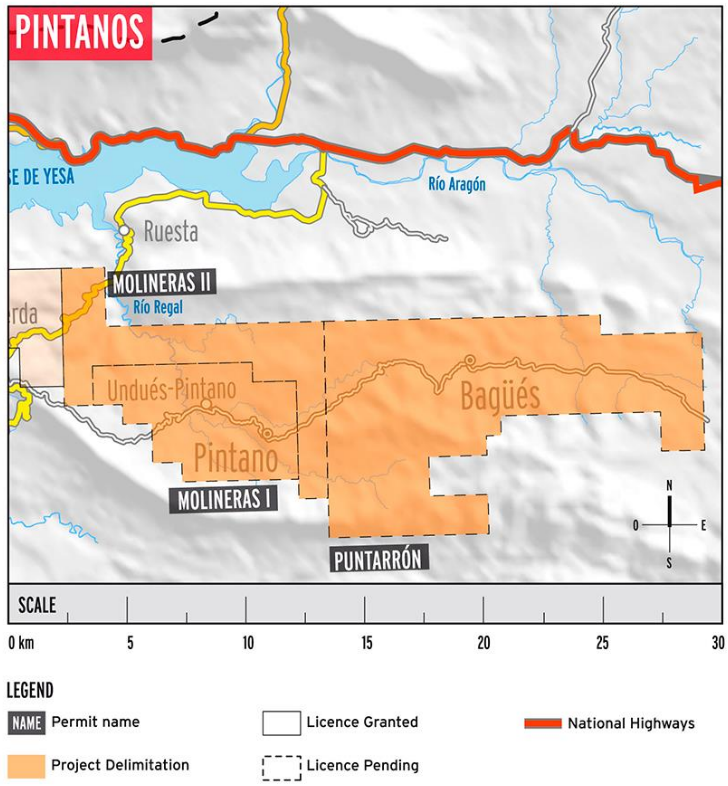
PINTANOS

The Pintanos tenement area, comprising the three permits of Molineras 1, Molineras 2 and Puntarrón covers an area of 65km^2.

Geoalcali was granted a three-year extension to the drilling permit at Molineras 1 in 2020. Shortly before its expiry the Company requested its second three-year extension. The Company continues to await the decision of the authorities regarding the drilling permit at Molineras 2 and Puntarrón where the application process was re-initiated in 2019.

As a result, no drilling activity has been carried in this tenement during the half year ended 30 June 2023.

The current priority for the Company remains the development of the Muga Mine.



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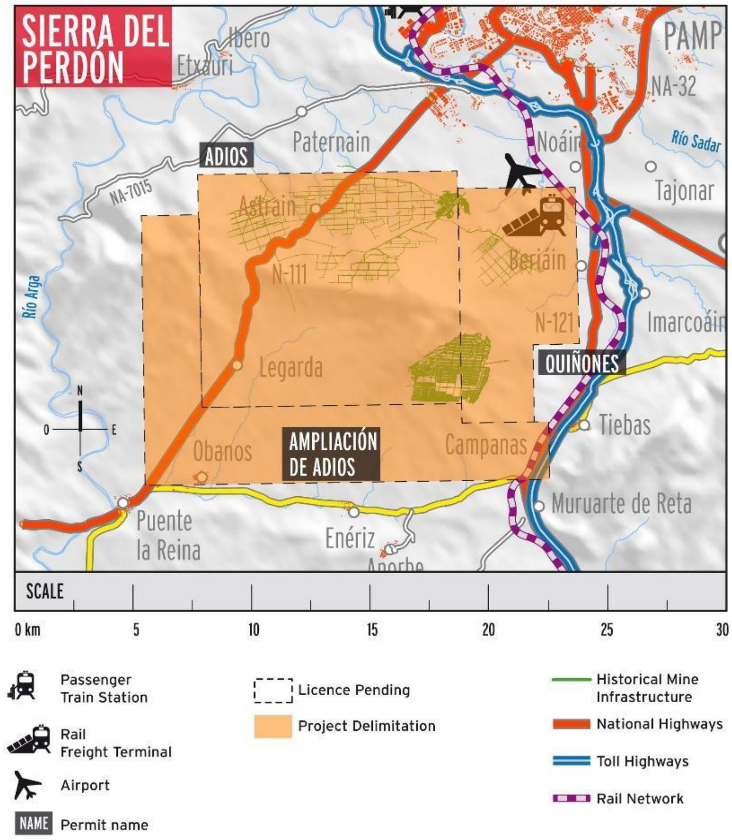
SIERRA DEL PERDÓN

Sierra del Perdón tenement area (“SdP”) is located southeast of Pamplona and compresses three permits, Quiñones, Adiós and Ampliación de Adiós with an approximate area of 120km^2. SdP is a brownfield target which previously hosted two potash mines operating from the 1960s until the late 1990s, producing nearly 500,000 tonnes of potash per annum. The Company believes that there is potential for potash exploitation in new, unmined areas in the SdP area.



The Company was advised in the fourth quarter of 2018 that the second three-year extension application for the Adiós and Quiñones permits had been rejected by the mining department of the Government of Navarra. The basis of the rejection of the Quiñones and Adiós extension application was that Geoalcali had not performed sufficient drilling and geophysics exploration when compared with what it had committed to in the three-year work plans submitted to the authorities. The Company appealed this decision in 2019 and has so far not obtained a resolution.

Similarly, in the fourth quarter of 2020, the Company was advised that the second three-year extension application for the Ampliación de Adiós permit had been rejected by the mining department of the Government of Navarra. The Company appealed this decision in the last quarter of 2020, in line with the ongoing process of the other two SdP permits. Based on local Spanish legal advice, the continued lack of a resolution to the appeal is not seen as a reflection of the merits of the appeal, nor does it represent a significant change with an adverse effect on the entity.

The current priority for the Company remains the development of the Muga Mine.

CORPORATE

Management
In line with the Company's strengthening of its technical team before moving into construction Mr Carles Aleman joined the Company as Head of Plant Construction & HSE on 15 May 2023. He is a former President of ICL Iberia and Managing Director of Iberpotash and has extensive experience in potash mining in Spain.

Directors
Mr Brian Jamieson was a Non-Executive Director of the Company until his death in early August 2023. The Company would like to acknowledge Mr Brian Jamieson's contribution during his tenure as member of the Board and once again express its condolences to his family and friends.

GEOALCALI FOUNDATION

The Geoalcali Foundation is a not-for-profit Spanish foundation, funded exclusively by the Company's wholly owned Spanish subsidiary, Geoalcali. The Foundation was established to support projects in those communities in which Geoalcali will operate its mines. Since its establishment in September 2014 the Foundation has been involved in over 180 different community projects with townhalls, social associations, foundations and scientific/agricultural organisations. The activities of the Geoalcali Foundation are well known and appreciated by the local community, with a number of its activities having received awards and recognition as sustainable initiatives.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

There have been no significant events after the reporting date requiring disclosure in this report.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires the Company's auditor to provide the Directors of the Company with an Independence Declaration in relation to the review of the half year financial report. A copy of that declaration is included on page 7 and forms part of this Directors' report for the half year ended 30 June 2023.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.

Paul Harris
Chairman

11 September 2023

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Auditor's Independence Declaration

As lead auditor for the review of Highfield Resources Limited for the half-year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Highfield Resources Limited and the entities it controlled during the period.

Julian McCarthy
Partner
PricewaterhouseCoopers

Adelaide
11 September 2023

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Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the half year ended 30 June 2023

	Note	30 June 2023	30 June 2022
Continuing operations			
Interest received/(paid)		42,296	453
Gain/(Loss) on foreign exchange		3,121	(87,748)
Listing and share registry expenses		(61,428)	(40,179)
Professional and consultants' fees	11	(1,041,158)	(881,943)
Director and employee costs		(1,051,837)	(1,065,887)
Share-based payments expense	10	(175,332)	(369,571)
Travel and accommodation		(40,265)	(95,527)
Foundation donations		(67,831)	(12,175)
Depreciation		(9,428)	(9,331)
Other expenses	12	(771,056)	(718,766)
Finance income/(costs)		25,248	-
Loss before income tax		**(3,147,670)**	**(3,280,674)**
Net loss for the period		**(3,147,670)**	**(3,280,674)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		5,507,299	(2,554,132)
Other comprehensive income for the period net of tax		**5,507,299**	**(2,554,132)**
Total comprehensive loss for the period		**2,359,629**	**(5,834,806)**
Loss per share			
Basic and diluted loss per share (cents)		(0.81)	(0.90)

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

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Condensed Consolidated Statement of Financial Position

as at 30 June 2023

	Note	30 June 2023	31 December 2022
Current Assets			
Cash and cash equivalents		21,832,726	19,446,084
Other receivables	3	22,835,887	15,932,428
Total Current Assets		44,668,613	35,378,512
Non-Current Assets			
Other receivables	3	1,527,076	1,224,574
Property, plant and equipment		5,035,676	4,783,362
Deferred exploration and evaluation expenditure	4	138,539,993	126,574,416
Total Non-Current Assets		145,102,745	132,582,352
Total Assets		189,771,358	167,960,864
Current Liabilities			
Trade and other payables	5	4,614,455	8,715,405
Short term bank debt	6	5,069,686	11,323,884
Total Current Liabilities		9,684,141	20,039,289
Loans and borrowings		18,875,701	-
Derivative financial liability		5,715,238	-
Other non-current liabilities		2,097,956	198,843
Total Non-Current Liabilities	7	26,688,895	198,843
Total Liabilities		36,373,036	20,238,132
Net Assets		**153,398,322**	**147,722,732**
Equity			
Issued capital	8	206,754,566	203,613,937
Reserves	9	35,441,525	29,758,894
Accumulated losses		(88,797,769)	(85,650,099)
Total Equity		**153,398,322**	**147,722,732**

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

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Condensed Consolidated Statement of Changes in Equity
for the half year ended 30 June 2023

	Issued capital	Accumulated losses	Share-based payments reserve	Foreign exchange translation reserve	Option premium reserve	Total
Balance at 1 January 2022	**190,014,905**	**(79,860,746)**	**25,917,403**	**2,468,168**	**1,000**	**138,540,730**
Total comprehensive loss for the period						
Loss for the period	-	(3,280,674)	-	-	-	(3,280,674)
Other comprehensive loss – foreign currency translation	-	-	-	(2,554,132)	-	(2,554,132)
Total comprehensive loss for the period	-	(3,280,674)	-	(2,554,132)	-	(5,834,806)
Transactions with owners in their capacity as owners						
Conversion of options	-	-	-	-	-	-
Cost of issue	-	-	-	-	-	-
Share-based payment	-	-	369,571	-	-	369,571
Balance at 30 June 2022	**190,014,905**	**(83,141,420)**	**26,286,974**	**(85,964)**	**1,000**	**133,075,495**
Balance at 1 January 2023	**203,613,937**	**(85,650,099)**	**26,459,354**	**3,298,540**	**1,000**	**147,722,732**
Total comprehensive income for the period						
Loss for the period	-	(3,147,670)	-	-	-	(3,147,670)
Other comprehensive income – foreign currency translation	-	-	-	5,507,299	-	5,507,299
Total comprehensive income for the period	-	(3,147,670)	-	5,507,299	-	150,082,361
Transactions with owners in their capacity as owners						
Issue of securities	3,140,629	-	-	-	-	3,140,629
Cost of issue	-	-	-	-	-	-
Share-based payment	-	-	175,332	-	-	175,332
Balance at 30 June 2023	**206,754,566**	**(88,797,769)**	**26,634,686**	**8,805,839**	**1,000**	**153,398,322**

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

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Condensed Consolidated Statement of Cash Flows

for the half year ended 30 June 2023

	30 June 2023	30 June 2022
Cash flows from operating activities		
Payments to suppliers and employees	(5,092,751)	(4,855,135)
Interest (paid)/received	42,296	453
Other receipts including GST/VAT received	548,253	824,856
Net cash used in operating activities	**(4,502,202)**	**(4,029,826)**
Cash flows from investing activities		
Purchase of plant and equipment	(903,527)	-
Payments for exploration and evaluation expenditure	(5,061,635)	(5,453,483)
Net cash used in investing activities	**(5,965,162)**	**(5,453,483)**
Cash flows from financing activities		
Payments of project finance fees	(11,566,518)	-
Proceeds from convertible note	24,616,187	-
Net cash provided by financing activities	**13,049,669**	**-**
Net decrease in cash and cash equivalents	2,582,305	(9,483,309)
Cash and cash equivalents at the beginning of the period	19,446,085	22,241,425
Effect of exchange rate fluctuations on cash	(195,664)	(92,300)
Cash and cash equivalents at the end of the period	**21,832,726**	**12,665,816**

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

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Notes to the Condensed Financial Statements

for the half year ended 30 June 2023

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1. Corporate Information

The condensed consolidated financial report of Highfield Resources Limited ("Highfield" or "the Company") and its subsidiaries (together referred to as the "Group") for the half year ended 30 June 2023 was authorised for issue in accordance with a resolution of the Directors on 10 September 2023. Highfield is a company limited by shares domiciled and 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 Material accounting Policies

(a) Basis of Preparation

These condensed consolidated financial statements for the half year reporting period ended 30 June 2023 have been prepared in accordance with applicable accounting standards including AASB 134 "Interim Financial Reporting" and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with IAS 34 "Interim Financial Reporting".

These half year condensed consolidated financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these half year condensed financial statements are to be read in conjunction with the consolidated financial statements for the year ended 31 December 2022 and any public announcements made by Highfield during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) Going Concern

These condensed financial statements for the half year ended 30 June 2023 have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

At the date of this report, the Group had cash and cash equivalents of $21,832,726 (31 December 2022: $19,446,084) and a net working capital surplus of $34,984,472 (31 December 2022: $15,339,223). In the directors' view the existing cash reserves combined with its strategic process and overall Muga financing strategy are sufficient to cover the working capital requirements of the Group for the next 12 months, continue its planned activities advancing the Muga project and be able to meet its obligations as and when they fall due.

The Company keeps planning and working on the funding strategy to have all the capital in place to commence full scale construction of Muga towards the end of the year. In this respect a few key steps have been taken so far, primarily the execution of the principal credit facilities with a group of four experienced financial institutions for a total amount of €320.6 million, the execution of an equipment operating lease financing with Macquarie Group with a total value of up to €27 million and the recent strategic investment of approximately $25 million from EMR and Tectonic Investment Management and related parties. All these demonstrates the Company is taking the necessary steps to ensure the availability of funds to move the Project forward and the continuous support from shareholders. The current strategy to address the equity gap needed to fully fund the Project is focused on securing subordinated debt and identifying a strategic investor that could underpin the final raise to be conducted in the last quarter of the year.

(c) New and amended standards adopted by the Group

No new or amended standards have been adopted by the Group during the period.

(d) Exploration and evaluation expenditure

Exploration and evaluation expenditures in relation to each area of interest are recognised as an exploration and evaluation asset in the period 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 exploitation 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 periods.

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 is reclassified to development.

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

	30 June 2023	31 December 2022
3. Other Receivables		
Current		
GST receivable	67,203	106,588
VAT receivable	49,494	151,730
Deposits	656	1,025
Prepaid expenses	22,718,534	15,673,085
	22,835,887	**15,932,428**
Non-current		
Guarantees	1,527,076	1,224,574
	1,527,076	**1,224,574**

GST/VAT receivable are non-interest bearing and generally receivable on terms between 30 and 45 days. 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.

Guarantees and deposits represent amounts provided to third parties, which are expected to be recoverable. The Company has handed over to the relevant Administrations certain amounts of cash to cover the legal obligation to dismantle and remove the works carried out to date on site.

Prepaid expenses reflect the transaction costs directly attributable to the formalisation of the Project financing for Muga, to be included as part of amortised cost of debt facility when drawn down. Prepaid expenses can be broken down as follows:

Prepaid expenses		
Banks' fees	17,436,353	11,320,266
Legal fees	1,689,084	915,893
Financial adviser success fees	3,026,468	2,896,237
Due diligence costs	566,629	540,689
	22,718,534	**15,673,085**

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	30 June 2023	31 December 2022
4. Deferred Exploration & Evaluation Expenditure		
Opening balance	126,574,416	118,384,403
Exploration and evaluation expenditure incurred during the period	6,419,087	7,679,672
Net exchange differences on translation	5,546,490	510,341
	138,539,993	**126,574,416**

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

	30 June 2023	31 December 2022
5. Trade and Other Payables		
Current		
Trade payables	2,559,359	2,519,996
Other payables	11,976	11,976
Accruals	2,043,120	6,183,433
	4,614,455	**8,715,405**

Trade payables and accruals are non-interest bearing and generally payable on terms between 30 and 45 days. Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

	30 June 2023	31 December 2022
6. Short Term Bank Debt		
Bank fees	5,069,686	11,323,884
	5,069,686	**11,323,884**

Short term bank debt refers to commitment fees payable to the banks that participate in the Project financing for Muga. As per the facility agreement these fees are computed at a certain rate of the margin applicable to the facility, calculated on the lenders' available commitment to date. Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

	30 June 2023	31 December 2022
7. Non-Current Liabilities		
Non-current		
Host debt component - Convertible Note	18,875,701	-
Derivative financial liability – Conversion Option	5,715,238	-
Restoration provision	198,843	198,843
Other non-current liabilities	1,899,113	-
	26,688,895	**198,843**

On 22 May 2023 the Group entered into a Convertible Note agreement with EMR and Tectonic Investment Management. The agreement with a maturity date of 24 months consisted in the issuance of 1,900 notes bearing an interest rate of 14% annually. The interests will be paid in kind via addition to the convertible notes amount and will mandatorily be converted into fully paid ordinary shares in the Company before the first drawdown of the €320.60 million senior loan facility secured with a group of European banks to fund the Muga Project.

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The Convertible Note has been determined to contain a host debt and a conversion option. Where borrowings include a conversion option, the portion of the proceeds that relate to the fair value of the conversion option are recognised as an embedded derivative. The embedded derivative is recognised at fair value through profit and loss.

For determining the initial fair value of the conversion option, the Black-Scholes method was used with the following assumptions:

(a) conversion option price of $0.515;
(b) share price at inception of $0.560;
(c) expected volatility of 45%;
(d) convertible note term of 2 years; and
(e) a risk free interest rate of 3.33%.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

	30 June 2023	31 December 2022
Convertible Note		
Half year ended 30 June 2023:		
Convertible note fair Value at inception	18,250,890	-
Convertible note accretion based on amortised cost	624,811	-
Conversion option fair value at inception	6,365,297	-
Conversion option fair value adjustment	(650,059)	-
	24,590,939	**-**

The Company has a legal obligation to dismantle and remove all the installations it constructs on the mining area and to restore and rehabilitate the land on which they are situated. A provision has therefore been established which reflects the estimated rehabilitation costs based on the site works undertaken as at the half year ended 30 June 2023. The rehabilitation provision represents the best estimate of the expenditure required to meet this obligation when the mine ceases to operate. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset and amortised accordingly.

Other non-current liabilities relate to the payment Macquarie Group has made on behalf of the Company in connection with the equipment operating lease financing agreed for an amount up to €27 million. As at the date of this report the Company had made use of $3 million of the funds whereas transaction costs in connection with this deal are offsetting the lease facility.

	30 June 2023	31 December 2022
8. Issued Capital		
(a) Issued and paid up capital		
Issued and fully paid	**206,754,566**	**203,613,937**

	30 June 2023	
	No.	$
(b) Movements in ordinary shares on issue		
Half year ended 30 June 2023:		
Opening balance	387,042,791	203,613,937
Issue of securities	5,140,942	3,140,629
Closing balance	**392,183,733**	**206,754,566**

	30 June 2023	31 December 2022
9. Reserves		
Share-based payment reserve[1]	26,634,686	26,459,354
Foreign currency translation reserve[2]	8,805,839	3,298,283
Option premium reserve[3]	1,000	1,000
	35,441,525	**29,758,894**

[1] The share-based payment reserve is used to record the value of equity benefits provided to Directors, executives and employees as part of their remuneration package for their goods and services.

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

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

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	Half year ended 30 June 2023	Half year ended 30 June 2022
10. Share-based Payments		
Share-based payment transactions recognised as operational expenses in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income during the period were as follows:		
Options granted during the period	361	272,246
Options granted in prior periods	174,971	97,325
	175,332	**369,571**

Employee share-based payments

The Company operates an equity incentive plan known as 'Highfield Resources Limited Employee Long Term Incentive Plan' ("ELTIP"). Subject to the attainment of performance hurdles and vesting conditions participants in this plan may receive options. The objective of this plan is to assist in the recruitment, reward, retention, and motivation of senior managers.

The fair value at grant date of options granted each period is determined using the binomial method, taking 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 half year ended 30 June 2023:

Grant Date	Expiry date	Exercise price	Granted during the half year	Exercised during the half year	Lapsed during the half year	Number at 30 June 2023	Exercisable at 30 June 2023
30/06/2023	31/12/2025	$0.79	801,667[1]	-	-	801,667	-
30/06/2023	31/12/2026	$0.79	801,667[2]	-	-	801,667	-
30/06/2023	31/12/2027	$0.79	801,667[3]	-	-	801,667	-
30/06/2023	31/12/2025	$0.79	879,765[4]	-	-	879,765	-
30/06/2023	31/12/2026	$0.79	879,765[5]	-	-	879,765	-
30/06/2023	31/12/2027	$0.79	879,765[6]	-	-	879,765	-
30/06/2023	31/12/2025	$0.79	90,000[7]	-	-	90,000	-
30/06/2023	31/12/2026	$0.79	90,000[8]	-	-	90,000	-
30/06/2023	31/12/2027	$0.79	90,000[9]	-	-	90,000	-
			5,314,296			**5,314,296**	**-**

[1] Options granted to Geoalcali employees. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2023.

[2] Options granted to Geoalcali employees. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2024.

[3] Options granted to Geoalcali employees. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2025.

[4] Options granted to the Chief Executive Officer and Managing Director Mr Ignacio Salazar. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2023.

[5] Options granted to the Chief Executive Officer and Managing Director Mr Ignacio Salazar. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2024.

[6] Options granted to the Chief Executive Officer and Managing Director Mr Ignacio Salazar. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2025.

[7] Options granted to the Chief Financial Officer Mr Javier Aguado. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2023.

[8] Options granted to the Chief Financial Officer Mr Javier Aguado. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2024.

[9] Options granted to the Chief Financial Officer Mr Javier Aguado. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2025.

The model inputs for options granted during the half year ended 30 June 2023 included:

(a) options were granted for no consideration;
(b) expected lives of the options range from 3.51 to 5.51 years;
(c) share price at grant date of $0.545;
(d) expected volatility of 45%;
(e) expected dividend yield of Nil; and
(f) a risk free interest rate of 3.98%.

	Half year ended 30 June 2023	Half year ended 30 June 2022
11. Professional and consultants' fees		
Corporate advisory fees	181,705	224,547
Legal fees	214,152	24,529
Due diligence fees	570,419	579,611
Other	74,882	53,256
	1,041,158	**881,943**

	Half year ended 30 June 2023	Half year ended 30 June 2022
12. Other expenses		
Advertising and Promotion	29,530	38,437
Computer and software expenses	76,950	70,005
Subscriptions and memberships	62,702	33,242
Investor relations	53,360	44,937
Insurances	342,392	380,401
Rents	128,356	100,081
Fundraising expenses	20,297	-
Other administration expenses	57,469	51,664
	771,056	**718,766**

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13. Capital Expenditure Commitments

At 30 June 2023, the Group had entered into a number of contracts as part of the development of its Muga Project in Spain. The expected payments in relation to these contracts will amount to approximately $97.6 million once Notices to Proceed are issued to equipment suppliers, which will only occur once enough financing has been achieved. In the meantime, the contracts are able to be terminated by the Company at any point in time. The amount payable following termination would be approximately $2.3 million.

14. Dividend

No dividend was paid or declared by the Company in the half year ended 30 June 2023 or in the period since the end of the half year financial period and up to the date of this report.

15. Contingent Assets and Liabilities

There are no known contingent assets or liabilities as at 30 June 2023 (31 December 2022: Nil).

16. Significant Events after the Reporting Period Events

There have been no significant events after the reporting period requiring disclosure in this report.

In the opinion of the Directors of Highfield Resources Limited:

1. The attached condensed financial statements and notes thereto are in accordance with the Corporations Act 2001 including:

   a. complying with Accounting Standards (including the Australian Accounting Interpretations), the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   b. giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half year then ended; and.

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.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

Paul Harris
Chairman

11 September 2023

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Independent auditor's review report to the members of Highfield Resources Limited and its controlled entities

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Highfield Resources Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises Condensed Consolidated Statement of Financial Position as at 30 June 2023, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended on that date, material accounting policy information and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Highfield Resources Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-

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year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

Julian McCarthy
Partner

Adelaide
11 September 2023

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