Half Year Financial Report
30 June 2020

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ABN 51 153 918 257

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CORPORATE DIRECTORY

Directors

Mr. Richard Crookes (Non-Executive Chairman)
Ms. Pauline Carr (Independent Non-Executive Director)
Mr. Roger Davey (Independent Non-Executive Director)
Mr. Jim Dietz (Independent Non-Executive Director)
Mr. Brian Jamieson (Non-Executive Director)
Mr. Isaac Querub (Independent Non-Executive Director)

Company Secretary

Mr. Donald Stephens

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Auditor

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Stock Exchange

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

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 ("the Group") for the financial half year ended 30 June 2020. 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. Richard Crookes	Non-Executive Chairman (and Acting CEO 1 February 2020 to 20 July 2020)
Mr. Peter Albert	Managing Director & CEO (resigned 31 January 2020)
Ms. Pauline Carr	Independent Non-Executive Director
Mr. Roger Davey	Independent Non-Executive Director
Mr. Jim Dietz	Independent Non-Executive Director
Mr. Brian Jamieson	Non-Executive Director
Mr. Isaac Querub	Independent Non-Executive Director

Results

The net loss for the half year ended 30 June 2020 was $20.7m (30 June 2019: net loss of $2.8m), which includes an impairment of $18.7m of deferred exploration and evaluation expenditure relating to the Sierra del Perdón and Pintanos projects. Whilst these projects have the potential to produce potash, the Group's main focus is increasingly on the development of the Muga Project as it nears construction and management has therefore taken the decision to impair both projects. The $18.7m impairment comprises $8.3m related to exploration activities and a non-cash acquisition cost of $10.4m, being the amount of equity settled consideration allocated to the Sierra del Perdón and Pintanos projects following the acquisition of the Company's Spanish potash projects in 2012. Excluding this impairment the net loss for the half year was $2.0m.

REVIEW OF OPERATIONS

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

MUGA PROJECT AND VIPASCA PERMIT

Overview

Geoalcali's flagship Muga Project ("Muga" or "the Project") is targeting the relatively shallow sylvinite beds in the Muga Project area that covers about 60km². Mining is planned to commence at a depth of approximately 350 metres from surface and is therefore ideal for a relatively low-cost conventional mine.

The Vipasca permit area (see Figure 1) is located adjacent to the Muga Project and covers approximately 27km². The Vipasca permit is highly prospective for economic potash mineralisation, with a primary focus on the deeper, higher grade, P1 and P2 potash horizons.

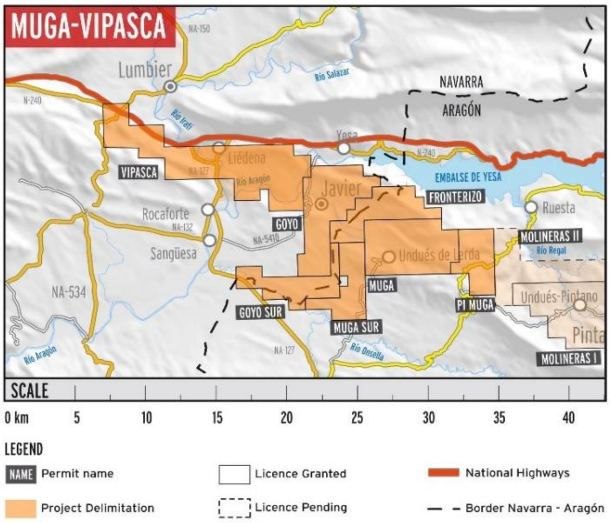

Figure 1: Map of Muga Project and Vipasca Permit

Muga Project Approvals Process

As reported on 6 June 2019 Geoalcali received a positive Declaración de Impacto Ambiental ("DIA") in respect of the Muga Project, meaning it has received the key environmental permit required to move its Muga Project forward. The granting of the positive DIA was then subsequently published in the official Spanish public bulletin on 21 June 2019.

Following the DIA award, Geoalcali has focused on securing the Mining Concession and the construction permits necessary to take the Project into the construction phase. Following extensive engagement with the relevant mining authorities in Madrid, Aragón and Navarra, the necessary Mining Concession documentation was submitted on 13 March 2020.

Following the submission of the Mining Concession documentation, the Spanish Government initiated a country wide confinement programme due to the impact of Covid-19, with both the Group's employees and government officials working from home. After the submission Geoalcali maintained constant dialogue with the relevant authorities in order to expedite the Mining Concession process with the result that shortly after 22 June 2020 when the nationwide Covid-19 State of Alarm was lifted, the start of the public exposition period with respect to the Mining Concession documentation was gazetted in the National Bulletin on 4 July 2020. The public exposition period of 30 working days was concluded as scheduled on 29 August 2020, following which Geoalcali will have an opportunity to respond to any queries that are brought forward.

Geoalcali estimates that the Mining Concession will be awarded during the fourth quarter of 2020.

Muga Project and Vipasca Permit Exploration Update

The Muga Project Update released on 15 October 2018 confirmed the strategic importance of Vipasca as a potential extension of the Muga Project. Since then Geoalcali has been focusing on the more prospective areas in the east of the Vipasca permit. In the first half of 2020 Geoalcali completed its drilling programme at the Vipasca permit area, releasing assay results for holes V18-03 and V18-05.

Drill-hole V18-03 confirmed the continuity of the Vipasca ore deposit which remains open towards the west. Specifically, V18-03 intersected a total of 30.2 metres of potash mineralisation including:

- 1.5 metres at an average grade of 11.98% K_2O from 1022 metres;
- 1.8 metres at an average grade of 11.29% K_2O from 1060 metres; and
- 1.5 metres at an average grade of 12.79% K_2O from 1070 metres.

Drill-hole V18-05 confirmed the extension and continuity of the potash mineralisation between the Muga Project and Vipasca thereby linking these two projects.

On 30 June 2020 Geoalcali received the exploration permit for the Muga Sur Permit Area. This area abuts the south part of the Muga Project area as per Figure 1 above.

Muga Project and Vipasca Permit Technical Update

During the half year design development continued to progress in line with the project programme timetable and engineering submissions were made by the principal equipment suppliers and engineering consultants. As a result, basic design of the process plant is advancing well and detailed design is ongoing. Value engineering reviews will continue throughout the development of the engineering design to help ensure that costs are optimised.

As part of this work, K-Utec AG Salt Technologies has completed the test work that will be used to detail the systems and components necessary for the dewatering and backfilling system and continues to progress the basic design work for the backfilling storage and placement systems. Geoalcali is also carrying out additional lab work to further optimise the salt quality specification that will be produced from the Muga Mine.

Negotiations with Komatsu Mining Corporation for the acquisition of two bolter miners continued during the half year and Geoalcali expects to sign an equipment purchase contract once negotiations are satisfactorily completed. The bolter miners will be used to complete the twin declines as part of the mine construction and are essential to provide underground access to the Muga deposit. The signing of the bolter miners purchase contract will represent a significant contract award and a critical step in developing the Muga Project towards production.

Muga Project and Vipasca Permit Sales and Marketing Update

During the half year Geoalcali continued the successful implementation of the Group's sales and marketing strategy by signing two more non-binding offtake MOUs, the first of which was with Keytrade AG ("Keytrade") to provide up to 300,000 metric tonnes per annum of muriate of potash ("MOP"). Keytrade is a large Swiss based agri-trader that was established in 1997. Keytrade has significant experience working with all types of suppliers, distributors, retailers and end-users across all fertiliser products and is active in more than 115 countries, with key offices in Zurich, Madrid, Tampa, São Paulo, New Delhi and Beijing. The future potential partnership with Keytrade will provide enhanced insights into the MOP market, especially invaluable during the first years of production.

The second MOU signed was with Maxisalt whereby Geoalcali will provide up to 500,000 metric tonnes per annum of salt to Maxisalt, comprising 400,000 tonnes of vacuum salt, a higher value product, and 100,000 tonnes of de-icing salt. Salt is produced as a by-product of the processing of potash. Maxisalt is an international salt distribution company located in Barcelona and a global distributor of rock salt, solar salt and vacuum salt, which is used for water treatment, industrial applications and animal feed. Maxisalt has a diversified network of international clients, with a particular focus on markets located in Spain and France.

The sale of salt contributes economically, providing a by-product credit that benefits the Muga Project's financials. In addition, salt sales will help maintain the low environmental footprint of the Muga Mine and will assist in ensuring full compliance with environmental conditions, including the removal of all salt from surface as part of rehabilitation of the mine site following the end of potash production. The partnership with Maxisalt will provide Geoalcali with significant insights into the local and international salt markets as well as invaluable access to these markets during the first years of production.

Geoalcali continues to engage in ongoing offtake discussions with other potential wholesale customers, distributors and global traders for the entire production capacity of MOP and salt from the Muga Mine.

Muga Project Financing

Highfield remains confident of securing the necessary debt and equity financing for Muga, which will support a final investment decision and the commencement of construction at the Group's flagship project.

SIERRA DEL PERDÓN

Geoalcali's 100% owned Sierra del Perdón tenement area ("SdP") comprising the three permits of Quiñones, Adiós and Ampliación de Adiós is located south east of Pamplona and covers approximately 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. There is potential for potash exploitation in new, unmined areas in the SdP area.

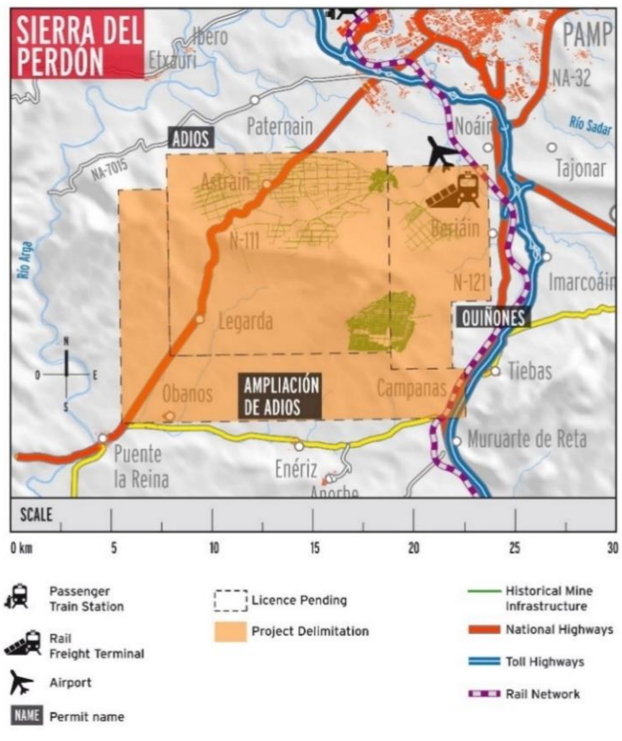

Figure 2: Map of Sierra del Perdón tenement area

Geoalcali 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. Geoalcali has obtained legal advice and is continuing an appeal process with regards to this decision. The timing of the appeal process continues to remain uncertain, nonetheless, given the reasons for not being able to perform the work outlined were due to factors outside the Geoalcali's control, Geoalcali remains confident of a positive resolution in due course.

The drill hole AA-01 carried out during the fourth quarter of 2019 at Ampliación de Adiós Investigation Permit reached 422 meters. The assay results for drill hole AA-01 were published in May 2020. The drill-hole confirmed the presence of potash mineralisation at shallow depths and the extension of the mineralisation to the south of the former potash operation Potasas de Subiza. This is encouraging in terms of the exploration potential of the southern area of the Sierra del Perdón Project. Specifically, AA-01 intersected a total of 9 metres of potash mineralisation including:

- 1.2 metres at an average grade of 9.05% K_2O from 390.8 metres; and
- 1.5 metres at an average grade of 14.50% K_2O from 394.1 metres.

Drill hole AA-02 that was planned for the second quarter of 2020 has been delayed with Geoalcali focuses efforts on the Muga Project public exposition.

Notwithstanding its confidence in a positive resolution to the extension application for the Adiós and Quiñones permits, and the Group's intention to continue developing the Sierra del Perdón project, the Company believes, taking into account the increasing focus on the Muga Project, that it is prudent at this time to impair the Sierra del Perdón project. Details in relation to this impairment are disclosed in note 4.

PINTANOS

Geoalcali's 100% owned Pintanos tenement area, comprising the three permits of Molineras 1, Molineras 2 and Puntarrón (see Figure 3) abuts the Muga Project and covers an area of $65km^2$. Depths from surface to mineralisation commence at around 500 metres. Geoalcali is building on substantial historical potash exploration information which includes seven drill holes and ten seismic profiles completed in the late 1980s.

Geoalcali was granted a three year extension to the drilling permit at Molineras 1 during the half year. However, it continues to await the award of permits at Molineras 2. In 2019 Geoalcali re-initiated the application process for this permit following the conclusion of the public consultation period and responded to all comments received during the consultation period. Geoalcali's application for the Puntarrón permit also remains outstanding.

Notwithstanding its confidence that the Molineras 2 and Puntarrón permits will be obtained, and the Group's intention to continue developing its Pintanos project, the Company believes, taking into account the increasing focus on the Muga Project, that it is prudent at this time to impair the Pintanos project. Details in relation to this impairment are disclosed in note 4.

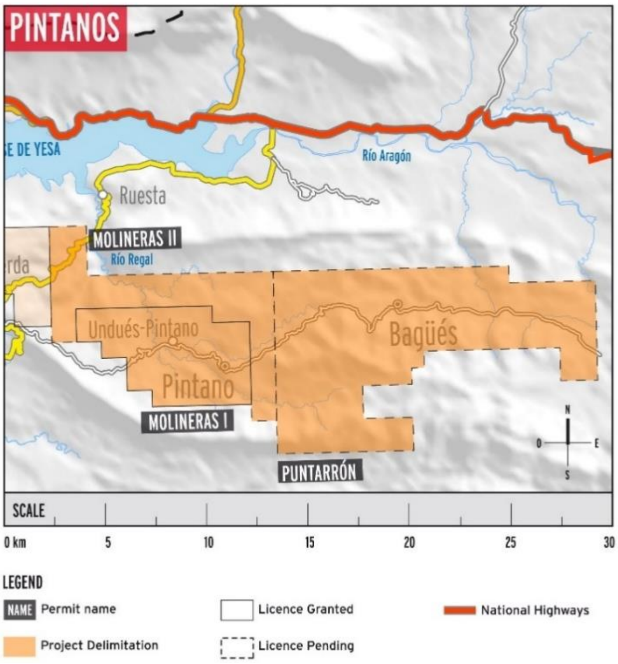

Figure 3: Map of Pintanos tenement area

CORPORATE

Appointment of new Chief Executive Officer

The Company's international search for a new CEO was completed during the half year with the appointment of Mr Ignacio Salazar to the role, based in Pamplona with effect from 20 July 2020.

Spanish born Mr Salazar is an international executive with an extensive career in the natural resources industry encompassing both multinational companies and junior miners. He has worked in many countries throughout Europe as well as several countries in South America. Mr Salazar is a proven CEO and leader with extensive line management experience, most recently with the AIM and TSX listed Orosur Mining, where he enjoyed an 11-year career.

Covid-19

As the Covid-19 situation has evolved, the Group has been monitoring closely the guidance from the World Health Organization and the Spanish Government. The Company's primary aim is the safety and wellbeing of all employees and stakeholders.

The Group acted quickly and implemented a business continuity plan in mid-March 2020, shortly before the Government of Spain declared a State of Alarm. As a result, from that date all staff members successfully worked from home and conducted all meetings online. With the State of Alarm easing in Spain Geoalcali started a gradual return to office working during July and will continue to monitor the situation.

The Company does not believe that Covid-19 will have a material impact on the Group's operations during 2020, including the process to secure the Mining Concession for the Muga Project.

UN Global Compact Initiative

During the half year Geoalcali was admitted as a signatory to the United Nations ("UN") Global Compact initiative which is the largest corporate sustainability movement in the world, bringing together more than 13,500 signatory entities from in over 165 countries. The initiative, based on Ten Principles of the UN, operates in Spain throughout its local network, the Global Compact Spanish Network "Pacto Mundial", which has the largest number of participants globally. Geoalcali commits to align its operations with the Ten Principles, and to adopt measures that support the UN's Sustainable Development Goals (SDG).

GEOALCALI FOUNDATION

Overview

The Geoalcali Foundation is a not-for-profit Spanish foundation, funded exclusively by Geoalcali. It was established to support projects in the communities in which Geoalcali will operate its mines.

Projects

Geoalcali's community engagement programme continues to be well received. The Geoalcali Foundation supports and finances projects related to its four pillars: Quality Education, Social Integration, Sustainability, and Environmental Commitment.

The Geoalcali Foundation currently provides ongoing support to over 10 community projects and since its establishment in September 2014 has been involved in more than 154 different projects with town halls, social associations, foundations and scientific/agricultural organizations. Activities of the Geoalcali Foundation are well known and appreciated by the local community. Ongoing initiatives include the support of both kindergarten education in the Cinco Villas area and transport assistance for school children in Undués de Lerda, social welfare programmes and cultural initiatives throughout the region, as well as initiatives to promote sustainability.

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 2020.

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.

R.A. Crookes

Richard Crookes
Chairman

9 September 2020

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Auditor's Independence Declaration

As lead auditor for the audit of Highfield Resources Limited for the year ended 30 June 2020, 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 audit; and

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

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

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
9 September 2020

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Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the half year ended 30 June 2020

	Note	30 June 2020	30 June 2019
Continuing operations			
Interest received		53	479
Gain on foreign exchange		1,294,153	6,260
Listing and share registry expenses		(26,606)	(23,444)
Professional and consultants' fees		(368,906)	(166,910)
Director and employee costs		(1,197,264)	(1,220,373)
Share-based payments expense	8	(1,104,000)	(814,374)
Travel and accommodation		(34,587)	(39,505)
Donations		(104,633)	(32,053)
Depreciation		(18,997)	(34,249)
Impairment of deferred exploration and evaluation expenditure	4	(18,721,810)	-
Interest paid		-	(60,019)
Other Expenses		(454,717)	(408,314)
Loss before income tax		**(20,737,314)**	**(2,792,502)**
Income tax expense		-	-
Net loss for the period		**(20,737,314)**	**(2,792,502)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		1,954,843	271,738
Other comprehensive income for the period net of tax		**1,954,843**	**271,738**
Total comprehensive loss for the period		**(18,782,471)**	**(2,520,764)**
Loss per share			
Basic and diluted loss per share (cents)		(6.29)	(0.85)

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

Condensed Consolidated Statement of Financial Position
as at 30 June 2020

	Note	30 June 2020	31 December 2019
Current Assets			
Cash and cash equivalents		28,718,895	39,980,018
Other receivables	3	569,398	738,552
Total Current Assets		29,288,293	40,718,570
Non-Current Assets			
Other receivables	3	693,890	516,733
Property, plant and equipment		105,529	116,726
Deferred exploration and evaluation expenditure	4	107,423,353	116,966,324
Total Non-Current Assets		108,222,772	117,599,783
Total Assets		137,511,065	158,318,353
Current Liabilities			
Trade and other payables	5	2,210,834	5,339,651
Total Current Liabilities		2,210,834	5,339,651
Total Liabilities		2,210,834	5,339,651
Net Assets		**135,300,231**	**152,978,702**
Equity			
Issued capital	6	172,618,930	172,618,930
Reserves	7	32,189,064	29,130,221
Accumulated losses		(69,507,763)	(48,770,449)
Total Equity		**135,300,231**	**152,978,702**

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

Condensed Consolidated Statement of Changes in Equity

for the half year ended 30 June 2020

	Issued capital	Accumulated losses	Share-based payments reserve	Foreign exchange translation reserve	Option premium reserve	Performance share reserve	Total
Balance at 1 January 2019	**172,618,930**	**(41,244,365)**	**21,010,270**	**6,772,715**	**1,000**	**-**	**159,158,550**
Total comprehensive loss for the period							
Loss for the period	-	(2,792,502)	-	-	-	-	(2,792,502)
Other comprehensive income – foreign currency translation	-	-	-	271,738	-	-	271,738
Total comprehensive loss for the period	-	(2,792,502)	-	271,738	-	-	(2,520,764)
Transactions with owners in their capacity as owners							
Conversion of options	-	-	-	-	-	-	-
Cost of issue	-	-	-	-	-	-	-
Share-based payment	-	-	814,374	-	-	-	814,374
Balance at 30 June 2019	**172,618,930**	**(44,036,867)**	**21,824,644**	**7,044,453**	**1,000**	**-**	**157,452,160**
Balance at 1 January 2020	**172,618,930**	**(48,770,449)**	**23,345,124**	**5,784,097**	**1,000**	**-**	**152,978,702**
Total comprehensive income for the period							
Loss for the period	-	(20,737,314)	-	-	-	-	(20,737,314)
Other comprehensive income – foreign currency translation	-	-	-	1,954,843	-	-	1,954,843
Total comprehensive income for the period	-	(20,737,314)	-	1,954,843	-	-	(18,782,471)
Transactions with owners in their capacity as owners							
Conversion of options	-	-	-	-	-	-	-
Cost of issue	-	-	-	-	-	-	-
Share-based payment	-	-	1,104,000	-	-	-	1,104,000
Balance at 30 June 2020	**172,618,930**	**(69,507,763)**	**24,449,124**	**7,738,940**	**1,000**	**-**	**135,300,231**

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

Condensed Consolidated Statement of Cash Flows

for the half year ended 30 June 2020

	30 June 2020	30 June 2019
Cash flows from operating activities		
Payments to suppliers and employees	(3,724,115)	(1,967,205)
Interest received/(paid)	53	(59,539)
Other receipts including GST/VAT received	1,423,609	774,069
Net cash used in operating activities	**(2,300,453)**	**(1,252,675)**
Cash flows from investing activities		
Purchase of plant and equipment	(8,378)	-
Payments for exploration and evaluation expenditure	(10,081,533)	(5,109,495)
Net cash used in investing activities	**(10,089,911)**	**(5,109,495)**
Cash flows from financing activities		
Proceeds from conversion of options	-	-
Payments for share issue costs	-	-
Net cash provided by financing activities	**-**	**-**
Net decrease in cash and cash equivalents	(12,390,364)	(6,362,170)
Cash and cash equivalents at the beginning of the period	39,980,019	55,157,707
Effect of exchange rate fluctuations on cash	1,129,240	17,601
Cash and cash equivalents at the end of the period	**28,718,895**	**48,813,138**

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

Notes to the Condensed Financial Statements

for the half year ended 30 June 2020

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 2020 was authorised for issue in accordance with a resolution of the Directors on 9 September 2020. 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 Significant Accounting Policies

(a) Basis of Preparation

These condensed consolidated financial statements for the half year reporting period ended 30 June 2020 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 2019 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) New and amended standards adopted by the Group

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

(c) 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 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 2020	31 December 2019
3. Other Receivables		
Current		
GST receivable	47,443	47,443
VAT receivable	456,278	653,338
Deposits	65,677	37,771
	569,398	**738,552**
Non-current		
Guarantees	693,890	516,733
	693,890	**516,733**

GST/VAT receivable and other receivables 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.

4. Deferred Exploration & Evaluation Expenditure

Opening balance	116,966,324	105,421,745
Exploration and evaluation expenditure incurred during the period	6,867,182	13,115,579
Net exchange differences on translation	2,311,657	(1,077,497)
Impairments	(18,721,810)	(493,503)
Closing balance	**107,423,353**	**116,966,324**

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.

The Company does not believe that Covid-19 will have a material impact on the Group's operations during 2020, including the process to secure the Mining Concession for the Muga Project, nor has there been any impact on its accounting estimates.

The Company was advised in the fourth quarter of 2018 that the second three year extension application for the Adiós and Quiñones permits within the Sierra del Perdón tenement area had been rejected by the mining department of the Government of Navarra. The Company has obtained legal advice and is progressing an appeal process with regards to this decision. The timing of the appeal process continues to remain uncertain, nonetheless, the Company remains confident of a positive resolution in due course. During ongoing discussions, the authorities have confirmed that they are continuing to consider the appeal, but no conclusion has yet been reached. The Company has carefully considered the facts and circumstances pertaining to the rejection, its discussions with the authorities, and the legal advice received. It has concluded that the continued lack of a resolution to the appeal is not a reflection on the merits of the appeal. The Company continues to believe that the Adiós and Quiñones permits are expected to be renewed, in the form of an extension, on the basis that it has strong arguments that will result in a positive outcome to the appeal lodged on 16 November 2018.

With regard to the Pintanos tenement area, although a three year extension to the drilling permit at Molineras 1 was granted during the half year, the award of the permits at Molineras 2 and Puntarrón remain outstanding, more than six years since the original applications were submitted.

The Company believes the outstanding permits will be awarded for both projects in due course. Nonetheless it recognises that under AASB 6 Exploration for and Evaluation of Mineral Resources, the extended period of permit applications brings into question Geoalcali's right of tenure and increases uncertainty as to the likelihood that the carrying value of $13,109,629 for Sierra del Perdón and $5,612,181 for Pintanos will be recovered in full from successful development or by sale. In view of this, and taking into account the increasing focus on the Muga Project, the Company believes it is prudent at this time to impair the total carrying value of $18,721,810. The impairment has no impact on the consolidated cash flow in the half year ended 30 June 2020.

For those permits at Sierra del Perdón and Pintanos that remain in force, the Company intends to expense future exploration expenditure as a cost in the Consolidated Statement of Profit and Loss until there is a high degree of certainty regarding the successful development and commercial exploitation or sale of the respective mining area, at which time it will also consider an impairment reversal.

An impairment expense of $493,503 was recorded in the year ended 31 December 2019 in relation to the Izaga tenement area, which has been relinquished, and represented expenses previously deferred in relation to this project.

	30 June 2020	31 December 2019
5. Trade and Other Payables		
Trade payables	1,313,610	2,046,145
Other payables	29,402	27,196
Accruals	867,822	3,266,310
	2,210,834	**5,339,651**

Trade payables, other 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 2020	31 December 2019
6. Issued Capital		
(a) Issued and paid up capital		
Issued and fully paid	**172,618,930**	**172,618,930**

	30 June 2020	
	No.	$
(b) Movements in ordinary shares on issue		
Half year ended 30 June 2020:		
Opening balance	329,525,003	172,618,930
Shares issued upon conversion of unlisted options	-	-
Transaction costs on share issue	-	-
Closing balance	**329,525,003**	**172,618,930**

	30 June 2020	31 December 2019
7. Reserves		
Share based payments reserve[1]	24,449,124	23,345,124
Foreign currency translation reserve[2]	7,738,940	5,784,097
Option premium reserve[3]	1,000	1,000
	32,189,064	**29,130,221**

[1] 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 8 for further details of the securities issued during the half year ended 30 June 2020.

[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.

	Half year ended 30 June 2020	Half year ended 30 June 2019
8. 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:

	Half year ended 30 June 2020	Half year ended 30 June 2019
Options granted during the period	461,841	477,840
Options granted in prior periods	642,159	336,534
	1,104,000	**814,374**

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 during the period was 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 2020:

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 2020	Exercisable at 30 June 2020
27/05/2020	30/06/2023	$0.81	6,000,000[1]	-	-	6,000,000	6,000,000
25/06/2020	30/06/2023	$0.81	1,000,000[2]	-	-	1,000,000	1,000,000
25/06/2020	31/12/2023	$0.81	1,546,855[3]	-	-	1,546,855	-
25/06/2020	31/12/2024	$0.81	1,368,757[4]	-	-	1,368,757	-
25/06/2020	31/12/2025	$0.81	1,243,186[5]	-	-	1,243,186	-
			11,158,798			**11,158,798**	**7,000,000**

[1] Options granted to the Non-Executive Directors. There are no service vesting or performance vesting conditions in respect of these options.

[2] Options granted to an adviser to the Board. There are no service vesting or performance vesting conditions in respect of these options.

[3] Options granted to the Chief Financial Officer and other employees. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2020.

[4] Options granted to the Chief Financial Officer and other employees. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2021.

[5] Options granted to the Chief Financial Officer and other employees. The options will vest on satisfaction of the recipient's continued employment vesting condition at 31 December 2022.

The expense recognised in respect of the above options granted during the half year was $461,841. The expense recognised during the half year on options granted in prior periods was $641,159.

The model inputs, not included in the table above, for options granted during the half year ended 30 June 2019 included:

(a) options were granted for no consideration;
(b) expected lives of the options range from 3.01 to 5.52 years;
(c) share price at grant date of $0.42 (27 May 2020) and $0.45 (25 June 2020);
(d) expected volatility of 49.60%;
(e) expected dividend yield of Nil; and
(f) a risk free interest rate of 0.26%.

9. Capital Expenditure Commitments

At 30 June 2020, 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 which were not required to be recognised as liabilities at 30 June 2020 amounted to approximately $85m. Of this amount approximately $80m will only become commitments once Notices to Proceed are issued to equipment suppliers, which will only occur once sufficient permitting and 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 $1m.

10. Dividends

No dividend was paid or declared by the Company in the half year ended 30 June 2020 or in the period since the end of the half year financial period and up to the date of this report.

11. Contingent Assets and Liabilities

There are no known contingent assets or liabilities as at 30 June 2020 (31 December 2019: Nil).

12. 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 2020 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.

R.A. Crookes

Richard Crookes
Chairman

9 September 2020

Independent auditor's review report to the members of Highfield Resources Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Highfield Resources Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility 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 responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Highfield Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Independence

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

Conclusion

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

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1. giving a true and fair view of the Group's financial position as at 30 June 2020 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*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
9 September 2020